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China Accounting Alert

February 2021

This edition of *China Accounting Alert* provides news and updates about IFRS, financial reporting in Mainland China and EY publications.

IASB news and updates

► Supplementary IASB Update for February 2021

The Board held a [supplementary meeting](#) on 4 February 2021 to consider whether to extend the time period over which the practical expedient in paragraph 46A of IFRS 16 *Leases* is available for use.

► IASB Update for January 2021

The [January 2021](#) issue of the *IASB Update* contains the IASB staff summary of the IASB meeting held remotely on 26 January 2021 when the board discussed:

- Board work plan update
- Maintenance and consistent application
- Disclosure Initiative - Subsidiaries that are SMEs
- Primary Financial Statements

► IFRIC Update for February 2021

At its February 2021 meeting, the IFRS Interpretations Committee (IFRIC) discussed:

- IFRS 10 *Consolidated Financial Statements* and IFRS 16 *Leases* - Sale and Leaseback of an Asset in a Single-Asset Entity
- IAS 2 *Inventories* - Costs Necessary to Sell Inventories
- IAS 10 *Events after the Reporting Period* - Preparation of Financial Statements when an Entity is no longer a Going Concern

The [February 2021](#) issue of the *IFRIC Update* summarizes what you need to know about these and other issues discussed at the IFRIC's February 2021 meeting.

Mainland news and updates

► MOF releases *Accounting Standard for Business Enterprises Interpretation No.14*

In order to resolve issues arising from the implementation of Accounting Standards for Business Enterprises and maintain ongoing convergence with International Financial Reporting Standards, the MOF has recently issued [Accounting Standard for Business Enterprises Interpretation No.14](#) (Cai Kuai [2021] No.1, "Interpretation No.14"). Interpretation No.14 covers:

- Private entities' accounting treatment for Public-Private Partnership ("PPP") contracts
- Accounting treatment for changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform

Interpretation No.14 became effective upon release on 26 January 2021. For those businesses subject to the requirements of Interpretation No.14 and newly launched during the period from 1 January 2020 to the effective date of the interpretation, adjustments shall be made by these businesses in accordance with Interpretation No.14. The requirements under "V. Accounting method to be adopted by an enterprise that participates in infrastructure construction under a Build-Operate-Transfer ("BOT") contract" in *Accounting Standard for Business Enterprises Interpretation No.2* (Cai Kuai [2008] No.11, "Interpretation No.2") will be repealed simultaneously.

For further details about Interpretation No.14, please refer to EY WeChat: [MOF issues Accounting Standard for Business Enterprises Interpretation No.14](#).

► MOF, State-owned Assets Supervision and Administration Commission of the State Council ("SASAC"), China Banking and Insurance Regulatory Commission ("CBIRC") and China Securities Regulatory Commission ("CSRC") jointly issue *Notice on 2020 Annual Reports*

Recently, the MOF, SASAC, CBIRC and CSRC have jointly issued [Notice on Strict Implementation of Accounting Standards for Business Enterprises and Practical Guidance for Better Preparation of 2020 Annual Reports of Enterprises](#) (Cai Kuai [2021] No.2, the "Notice"). According to the Notice, enterprises are required to fully understand the significance of improving the preparation of 2020 annual reports and key technical issues on standard implementation of the following three aspects when preparing 2020 annual reports have been addressed:

- Accounting treatments of related businesses during COVID-19 pandemic
- Accounting treatments related to the implementation of new standards
- Accounting treatments related to other standards

For further details about the Notice, please refer to EY WeChat: [MOF, SASAC, CBIRC and CSRC jointly issue Notice on Strict Implementation of Accounting Standards for Business Enterprises and Practical Guidance for Better Preparation of 2020 Annual Reports of Enterprises](#).

► **CSRC issues *Guideline for the Application of Regulatory Rules – Valuation No. 1***

The China Appraisal Society (the “CAS”) has issued [Specialists' Guideline for Asset Valuation Specialists No.12 - Discount Rate Calculation in Business Valuation under the Income Approach](#) to standardize the discount rate calculation in valuation under the income approach. With reference to the nature and professional requirements of securities valuation, the CSRC has issued [Guideline for the Application of Regulatory Rules – Valuation No.1](#) (the “Guideline”) to standardize key parameters used in discount rate calculation.

The Guideline is only designed to provide guidance on the determination of parameters involved in the discount rate calculation applying the Capital Asset Pricing Model (“CAPM”) and the Weighted Average Cost of Capital (“WACC”). The parameters include risk-free rates, market risk premium, Beta coefficient, capital structure, return rate on specific risk and expected return rate on debt investment. The Guideline is also applicable when calculating the discount rate using other methods such as risk accumulation.

For valuation for financial reporting purposes, such as goodwill impairment testing, as well as securities services provided by accounting firms and other institutions, for which the discount rate is calculated using the income approach, entities shall comply with the requirements of relevant practice standards and refer to the Guideline.

The Guideline became effective upon release on 22 January 2021.

► **CSRC issues *Provisions on On-site Inspection of Enterprises Applying for Initial Public Offerings***

In order to standardize the on-site inspection of enterprises applying for initial public offerings (“IPOs”), enhance the regulation over their information disclosure and encourage intermediaries to fulfil their responsibilities, the CSRC has formulated [Provisions on On-site Inspection of Enterprises Applying for Initial Public Offerings](#) (CSRC Announcement [2021] No.4, the “Provisions”). The Provisions consist of 23 articles, which stipulate the scope of application, inspection objects, inspection procedures, supervision and management measures, as well as other aspects of on-site inspection. It is clearly stated that the Provisions are applicable to enterprises applying for IPOs on all boards of a stock exchange and that the inspection will focus on the information disclosure quality of such enterprises and the practicing quality of intermediaries.

The Provisions became effective upon release on 29 January 2021. *Notice on Organizing Sample Checks on Information Disclosure Quality of Enterprises Applying for Initial Public Offerings* (Public Offering Supervision Letter [2014] No.147) has been repealed simultaneously.

► **Shanghai Stock Exchange (the “SSE”) issues Supporting Business Rules for the Publicly Offered Infrastructure REITs**

In order to standardize business activities such as listing and information disclosure of the publicly offered infrastructure Real Estate Investment Trusts (“publicly offered infrastructure REITs”), the SSE has formulated the following supporting business rules:

- [Shanghai Stock Exchange - Business Measures for the Publicly Offered Infrastructure Real Estate Investment Trusts \(REITs\) \(for Trial Implementation\)](#) (Shang Zheng Fa [2021] No.9)
- [Shanghai Stock Exchange - Guideline No. 1 for the Application of the Rules for the Publicly Offered Infrastructure Real Estate Investment Trusts \(REITs\) - Review Concerns \(for Trial Implementation\)](#) (Shang Zheng Fa [2021] No.10)
- [Shanghai Stock Exchange - Guideline No. 2 for the Application of the Rules for the Publicly Offered Infrastructure Real Estate Investment Trusts \(REITs\) - Offering Business \(for Trial Implementation\)](#) (Shang Zheng Fa [2021] No.11)

The above supporting business rules became effective upon release on 29 January 2021, and documents related to auditors therein mainly include:

- Financial reports and auditor’s reports for the last three years and the latest financial period of infrastructure projects. If they are not available, financial reports and auditor’s reports for the last year and the latest financial period shall be provided. If the relevant materials are still not available, at least the audited proforma financial statements for the last year and the latest financial period shall be provided
- Explanation on accounting treatment opinions related to the special plan (if any)
- Measurement report on the amount available for distribution reviewed by accounting firms
- Capital verification reports issued by accounting firms after verifying the subscription and fund raised

► **SSE issues *Self-Check Forms* for common issues identified during review of issuance and listing on the Sci-Tech Innovation Board**

Recently, the SSE has assessed the common issues in the application documents for IPOs on the Sci-Tech Innovation Board (the “STAR Market”) and formulated [Business Guideline No.2 of Shanghai Stock Exchange for Review of Issuance and Listing on the Sci-Tech Innovation Board - Self-Check Forms for Common Issues Concerning Requirements for Information Disclosure and Verification \(Shang Zheng Han](#) [2021] No.230, the “Self-Check Forms”).

Self-check items covered in the *Self-Check Forms* can be divided into two categories, i.e., the implementation of the Q&As on the review for the STAR Market, and the implementation of several Q&As about the IPO business and the common review issues. The *Self-Check Forms* also set out review and disclosure requirements in the filling requirements.

Intermediaries such as the sponsor, accounting firm and law firm, by referring to the filling requirements in the *Self-Check Forms*, may submit the forms and related special reports at the same time as the submission of the application documents for issuance and listing or within 3 working days after acceptance of the submission. The *Self-Check Forms* shall be signed by the person in charge of the sponsor business, the person in charge of internal audit, the person in charge of quality control at the investment bank, the representative of the sponsor, the signing lawyer, and the signing accountant, and stamped with official seals of the sponsor, the law firm and the accounting firm with the date of signing indicated. The special verification report issued by the accountant shall be signed by the signing accountant, affixed with the official seal of the accounting firm and the date of signature.

► **Shenzhen Stock Exchange (the “SZSE”) issues Supporting Business Rules for the Publicly Offered Infrastructure REITs**

In order to standardize the listing review, continuous supervision and trading operations of the publicly offered infrastructure REITs, the SZSE has issued [Notice on Issuing Supporting Business Rules for the Publicly Offered Infrastructure Real Estate Investment Trusts \(REITs\)](#) (Shen Zheng Shang [2021] No.144). The Notice covers the following three supporting business rules:

- *Shenzhen Stock Exchange - Business Measures for the Publicly Offered Infrastructure Real Estate Investment Trusts (REITs) (for Trial Implementation)*
- *Shenzhen Stock Exchange - Guideline No. 1 for the Application of the Rules for the Publicly Offered Infrastructure Real Estate Investment Trusts (REITs) - Review Concerns (for Trial Implementation)*
- *Shenzhen Stock Exchange - Guideline No. 2 for the Application of the Rules for the Publicly Offered Infrastructure Real Estate Investment Trusts (REITs) - Offering Business (for Trial Implementation)*

The above supporting business rules became effective upon release on 29 January 2021, and documents related to auditors therein mainly include:

- Financial reports and auditor’s reports for the last three years and the latest financial period of infrastructure projects. If they are not available, financial reports and auditor’s reports for the last year and the latest financial period shall be provided. If the relevant materials are still not available, at least the audited proforma financial statements for the last year and the latest financial period shall be provided
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EY publications

► **Applying IFRS: Impairment for lessees that plan to reduce the use of real estate**

[This edition](#) of *Applying IFRS* addresses some common issues lessees may encounter if they plan to reduce the amount of space they use. That is, lessees should understand the interaction between the guidance in IAS 36 *Impairment of Assets* and IFRS 16 *Leases*. For owner-occupied real estate, an expected change in use will often give rise to similar issues and considerations.

► **IFRS Developments Issue 184: IASB issues Exposure Draft on regulatory assets and regulatory liabilities**

The IASB issued an Exposure Draft that sets out proposals for the recognition, measurement, presentation and disclosure of regulatory assets, regulatory liabilities, regulatory income and regulatory expense. When adopted, these proposals would replace IFRS 14 *Regulatory Deferral Accounts*. EY *IFRS Developments* [Issue 184](#) discusses these areas in more detail.

► **IFRS Developments Issue 185: IASB proposes extension of relief for COVID-19 related rent concessions**

The IASB is proposing to extend the amendment to IFRS 16 *Leases*, which provides relief to lessees from applying lease modification accounting to COVID-19 related rent concessions. The proposed update to the amendment would allow it to be applied to a change in lease payments arising from COVID-19 originally due on or before 30 June 2022.

The proposed update to the amendment, if finalized, will apply to annual reporting periods beginning on or after 1 April 2021 and may be applied early. Learn more in EY *IFRS Developments* [Issue 185](#).

► **Good Petroleum (International) Limited (December 2020)**

[Good Petroleum \(International\) Limited](#) contains the illustrative annual consolidated financial statements of Good Petroleum (International) Limited and its subsidiaries for the year ended 31 December 2020. This publication is prepared in accordance with IFRS issued as at 30 September 2020 and effective for annual periods beginning on or after 1 January 2020.

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