

China Accounting Alert

December 2022

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

Mainland news and updates

- ▶ Ministry of Finance (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 a Notice on 2022 Annual Reports

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 2022 Annual Reports of Enterprises](#) (Cai Kuai [2022] No.32, the "Notice"). According to the Notice, enterprises are required to fully understand the significance of better preparation of 2022 annual reports and 27 key technical issues have been addressed regarding the implementation of accounting standards when preparing the 2022 annual reports.

For further details about the Notice, please refer to EY WeChat: [Recently Released Notice on Strict Implementation of Accounting Standards for Business Enterprises and Practical Guidance for Better Preparation of 2022 Annual Reports of Enterprises](#).

► **MOF issues Notice on Issuing the Revised Presentation of Financial Statements for Insurers for 2023**

The MOF has issued [Notice on Issuing the Revised Presentation of Financial Statements for Insurers for 2023](#) (Cai Kuai [2022] No.37) (the “Notice”) to provide further guidance on the presentation of financial statements for insurers in accordance with the new changes in the *Accounting Standard for Business Enterprises No.25 - Insurance Contracts* (Cai Kuai [2020] No.20, the “new insurance contract standard”) and the implementation of Accounting Standards for Business Enterprises. The revision is based on the *Accounting Standards for Business Enterprises - Application Guidance* (Cai Kuai [2006] No.18) and the Notice on Issuing the Revised Presentation of Financial Statements for Financial Institutions for 2018 (Cai Kuai [2018] No.36).

Insurers applying the new insurance contract standard should prepare their financial statements in accordance with the Accounting Standards for Business Enterprises and the Notice. Items that do not correspond to the businesses of the insurers can be removed based on the principle of materiality and the actual circumstances, and new items can be added for content needed to be presented separately (if necessary). Insurers applying the requirements of the Notice are no longer required to present their financial statements in accordance with the relevant requirements in *Accounting Standard for Business Enterprises - Application Guidance* (Cai Kuai [2006] No.18) and *Notice on Issuing the Revised Presentation of Financial Statements for Financial Institutions for 2018* (Cai Kuai [2018] No.36), but shall comply with the requirements for the presentation methods of the items carried forward in the Notice. For further details about the Notice, please refer to EY WeChat: [MOF revised and issued the Format of Financial Statements for Insurance Companies for the year 2023](#).

► **MOF releases Accounting Standards for Business Enterprises Interpretation No.16**

The MOF has released [Accounting Standards for Business Enterprises Interpretation No.16](#) (Cai Kuai [2022] No.31, 'Interpretation No.16') to clarify the following three issues:

- Accounting treatment for assets and liabilities arising from a single transaction which are not applicable for deferred tax initial recognition exemption (effective on 1 January 2023)
- Accounting treatment for the tax effect of dividends related to financial instruments classified as equity instruments by issuers (effective upon release on 30 November 2022)
- Accounting treatment for share-based payments reclassified from cash-settled to equity-settled (effective upon release on 30 November 2022)

For further details about *Interpretation No.16*, please refer to EY WeChat: [MOF releases Accounting Standards for Business Enterprises Interpretation No.16 and relevant application examples](#).

► **The Accounting Regulatory Department of the MOF releases Application Examples of the Share-based Payment Standard**

On 14 December 2022, the Accounting Regulatory Department of the MOF released [Application Examples of the Share-based Payment Standard - Accounting treatment for share-based payments reclassified from cash-settled to equity-settled](#). The relevant application example has illustrated the accounting treatment for share-based payments reclassified from cash-settled to equity-settled as mentioned in *Interpretation No.16*.

► **MOF and Ministry of Emergency Management (MEM) issue *Notice on the Administrative Measures for the Accrual and Use of Enterprise Work Safety Funds***

To live up to the values of new safety development and strengthen enterprises' input in work safety, the MOF and the MEM have issued [Notice on the Administrative Measures for the Accrual and Use of Enterprise Work Safety Funds](#) (Cai Zi [2022] No.136, the "Measures") in accordance with the *Work Safety Law of the People's Republic of China* and other relevant laws and regulations. The Measures became effective on 21 November 2022. *Administrative Measures for the Accrual and Use of Enterprise Work Safety Funds* (Cai Qi [2012] No.16) was repealed simultaneously.

The measures are implemented to expand the scope of applicable industries, adjust the standards for the accrual of safety funds, further increase the ranges of purposes of using safety funds and optimize the supervision and management mechanism of safety funds. It involves how enterprises and public institutions that are administered as enterprises accrue and use enterprise work safety funds, which will further impact the operating performance. Therefore, relevant enterprises need to evaluate the impact of the new administrative measures on 2022 annual financial statements.

► **MOF releases *Announcement on the Equivalence of Auditing Standards and Audit Oversight between China and Switzerland***

Recently, the MOF has released [Announcement on the Equivalence of Auditing Standards and Audit Oversight between China and Switzerland](#) (MOF Announcement [2022] No.37). According to the Announcement, the Swiss auditing standards and the International Standard on Auditing recognized by Switzerland are equivalent to the Chinese auditing standards. For accounting firms that are registered in the Swiss Confederation and the People's Republic of China respectively and issue audit reports on financial statements of economic entities, the audit oversight systems of the two countries are equivalent.

► **Notice of Shanghai Stock Exchange (SSE) on issuing the *Guidelines for the Application of Rules of the Shanghai Stock Exchange for Confirmation of Satisfaction of the Listing Requirements by Asset-backed Securities No.1 - Application Documents and Preparation***

In order to put focus on the information disclosure of application documents for asset-backed securities and the verification requirements of intermediaries, and to improve the standardization, relevance and effectiveness of information disclosure, the SSE has formulated the [Guidelines for the Application of Rules of the Shanghai Stock Exchange for Confirmation of Satisfaction of the Listing Requirements by Asset-backed Securities No.1 - Application Documents and Preparation](#) (Shang Zheng Fa [2022] No.164), which became effective upon release on 30 December 2022.

► **Announcement of Beijing Stock Exchange (BSE) on issuing the *Beijing Stock Exchange Guideline No.6 on Business Matters of Listed Companies - Related Matters of Periodic Report***

In order to align with the adjustment to information disclosure management mechanism of BSE-listed companies and to standardize the preparation and disclosure of periodic reports, performance previews and performance forecasts, the BSE has revised the [Beijing Stock Exchange Guideline No. 6 on Business Matters of Listed Companies - Related Matters of Periodic Report](#) (BSE Announcement [2022] No.57), which will become effective on 13 February 2023.

► **The BSE office issues *Notice on the Better Preparation of Disclosure of 2022 Annual Reports of Listed Companies***

In order to better prepare for the disclosure of 2022 annual reports of BSE-listed companies, the BSE office has issued [Notice on the Better Preparation of Disclosure of 2022 Annual Reports of Listed Companies](#) (Bei Zheng Ban Fa [2022] No.62). Listed companies should focus on the standardization of financial information disclosure such as changes in accounting policies and accounting estimates, correction of accounting errors, impairment of assets, and prevention of occupation of funds by controlling shareholders.

▶ **The National Equities Exchange and Quotations (NEEQ) office issues *Notice on the Better Preparation of Disclosure of 2022 Annual Reports of NEEQ-listed Companies***

The NEEQ office has issued [Notice on the Better Preparation of Disclosure of 2022 Annual Reports of NEEQ-listed Companies](#) (NEEQ Announcement [2022] No.94) to better prepare for the disclosure of 2022 annual reports of NEEQ-listed companies, which:

- ▶ Provides differentiated templates for the disclosure of annual reports for general companies at different tiers and NEEQ-listed companies in seven financial industries;
- ▶ Requires NEEQ-listed companies on the Innovation Tier in 16 industries, including software and information technology service companies and pharmaceutical manufacturing companies, to disclose their industry operating information in their annual reports according to the corresponding Guidelines on Industry Information Disclosure;
- ▶ Reaffirms the relevant handling of the situation that triggers the termination of listing.

▶ **NEEQ releases *Guideline No. 3 on Continuous Supervision of Companies Listed on the National Equities Exchange and Quotations - Management of Raised Funds***

To further standardize the use and management of raised funds of NEEQ-listed companies and improve the efficiency of the raised funds, the NEEQ formulates [Guideline No. 3 on Continuous Supervision of Companies Listed on the National Equities Exchange and Quotations - Management of Raised Funds](#) (NEEQ Announcement [2022] No.386, the "Guideline"). The Guideline becomes effective on 1 January 2023.

According to the Guideline, the board of directors of NEEQ-listed companies should conduct special verification on the use of raised funds every six months, issue a verification report and disclose the information in the annual report and interim report until the beginning of the reporting period when the raised funds have been used up or have been transferred out from the special account as per Article 19 of the Guideline.

▶ **NEEQ releases *Guideline No. 4 on Continuous Supervision of Companies Listed on the National Equities Exchange and Quotations - Related Party Transactions***

To further clarify the regulatory requirements of related party transactions of NEEQ-listed companies and standardize related party transactions of listed companies, the NEEQ formulates [Guideline No. 4 on Continuous Supervision of Companies Listed on the National Equities Exchange and Quotations - Related Party Transactions](#) (NEEQ Announcement [2022] No.387). The Guideline becomes effective on 1 January 2023.

IASB news and updates

▶ IASB Update for December 2022

The [December](#) issue of the *IASB Update* contains the IASB staff summary of the IASB meeting held from 13 to 15 December 2022 when the board discussed:

Work plan overview

- ▶ IASB work plan update

Research and standard-setting

- ▶ Financial Instruments with Characteristics of Equity
- ▶ Rate-regulated Activities
- ▶ Equity Method
- ▶ Goodwill and Impairment
- ▶ Digital Financial Reporting
- ▶ Disclosure Initiative - Subsidiaries without Public Accountability: Disclosures

Maintenance and consistent application

- ▶ Lack of Exchangeability

▶ IFRIC Update for November 2022

At its November 2022 meeting, the IFRS Interpretations Committee (IFRIC) discussed:

IFRIC's tentative agenda decisions

- ▶ Definition of a Lease–Substitution Rights (IFRS 16 *Leases*)

Matters recommended for the IASB's annual improvements

- ▶ Terminology update (IFRS 1 *First-time Adoption of International Financial Reporting Standards*)
- ▶ 'De facto agent' assessment (IFRS 10 *Consolidated Financial Statements*)
- ▶ Terminology update (IFRS 9 *Financial Instruments*)
- ▶ Terminology update (IAS 7 *Statement of Cash Flows*)
- ▶ Reference update (IFRS 7 *Financial Instruments: Disclosures*)
- ▶ Implementation guidance (IFRS 7 *Financial Instruments: Disclosures*)

Other matters

- ▶ Post-implementation Review of IFRS 15 *Revenue from Contracts with Customers*
- ▶ Work in Progress

The [November 2022](#) issue of the *IFRIC Update* summarizes what you need to know about these and other issues discussed at the IFRIC's November 2022 meeting.

EY publications

▶ IFRS Developments Issue 210: IASB projects on International Tax Reform - Pillar Two Model Rules

IFRS Developments [Issue 210](#) summarizes the IASB's tentative decisions in response to potential financial reporting issues for GloBE model rules.

In its November 2022 meeting, the IASB made significant progress in its response to the potential financial reporting issues associated with Pillar Two model rules. In this edition, we summarize the tentative decisions taken by the IASB and our views on the issue.

▶ Applying IFRS: Accounting for climate change (Updated December 2022)

The [edition](#) of *Applying IFRS* is intended to support entities in assessing and disclosing the extent to which climate change affects their financial statements prepared in accordance with IFRS.

Significant judgement may be required to identify the accounting considerations that are relevant to the entity's specific facts and circumstances. The December 2022 updates include updates on the illustrations, where possible, and new illustrations.

▶ Good Bank (International) Limited - Illustrative consolidated financial statements (December 2022)

The [edition](#) contains the illustrative consolidated financial statements of Good Bank (International) Limited and its subsidiaries for the year ended 31 December 2022. The consolidated illustrative financial statements are prepared in accordance with IFRS in issue on 30 September 2022 and effective for annual periods beginning on 1 January 2022, unless otherwise stated. Standards issued, but not yet effective, as at 1 January 2022 are not illustrated in these financial statements. This edition includes updated commentary and considerations on macroeconomic and geopolitical uncertainty as well as climate risk.

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