

Accounting Standards for Business Enterprises No. 22 — Recognition and Measurement of Financial Instruments (Cai Kuai [2017] No. 7)

Chapter 1: General Provisions

Article 1

These Standards are formulated in accordance with the *Accounting Standards for Business Enterprises — Basic Standards* to regulate the recognition and measurement of financial instruments.

Article 2

A financial instrument refers to a contract that forms a financial asset of one party and a financial liability or equity instrument of another party.

Article 3

A financial asset refers to any of the following assets held by an enterprise:

1. Cash or another party's equity instruments;
2. A contractual right to receive cash or another financial asset from another party;
3. A contractual right to exchange financial assets or financial liabilities with another party under potentially favorable conditions;
4. A non-derivative contract to be settled in the enterprise's own equity instruments, where the enterprise is to receive a variable number of its own equity instruments;
5. A derivative contract to be settled in the enterprise's own equity instruments, except for contracts exchanging a fixed number of the enterprise's own equity instruments for a fixed amount of cash or another financial asset.

Article 4

A financial liability refers to any of the following obligations of an enterprise:

1. A contractual obligation to deliver cash or another financial asset to another party;
2. A contractual obligation to exchange financial assets or financial liabilities with another party under potentially unfavorable conditions;
3. A non-derivative contract to be settled in the enterprise's own equity instruments, where the enterprise is to deliver a variable number of its own equity instruments;
4. A derivative contract to be settled in the enterprise's own equity instruments, except for contracts exchanging a fixed number of the enterprise's own equity instruments for a fixed amount of cash or another financial asset.

Article 5

A derivative instrument is a financial instrument or other contract within the scope of these Standards that has all the following characteristics:

1. Its value changes in response to changes in a specified interest rate, financial instrument price, commodity price, exchange rate, price index, credit rating, or other variable;
2. It requires no initial net investment or a smaller initial net investment compared to contracts with similar responses to market changes;
3. It is settled at a future date.

Article 6

These Standards apply to all types of financial instruments of all enterprises, except for the following:

1. Investments in subsidiaries, joint ventures, and associates under **ASBE No. 2 — Long-term Equity Investments**;
2. Employee benefit plans under *ASBE No. 9 — Employee Compensation*;

3. Share-based payments under *ASBE No. 11 — Share-based Payments*;
4. Debt restructuring under *ASBE No. 12 — Debt Restructuring*;
5. Contingent compensation rights under *ASBE No. 13 — Contingencies*;
6. Contractual rights and obligations under *ASBE No. 14 — Revenue*;
7. Forward contracts for business combinations under *ASBE No. 20 — Business Combinations*;
8. Lease rights and obligations under *ASBE No. 21 — Leases*;
9. Transfers of financial assets under *ASBE No. 23 — Transfer of Financial Assets*;
10. Hedge accounting under *ASBE No. 24 — Hedge Accounting*;
11. Insurance contracts under relevant insurance standards;
12. Equity instruments classified under *ASBE No. 37 — Financial Instruments: Presentation*.

Article 7

These Standards apply to loan commitments that:

1. Are designated as financial liabilities measured at fair value through profit or loss;
2. Can be settled net in cash or another financial instrument;
3. Are made at below-market interest rates.

Article 8

Contracts to buy or sell non-financial items that can be settled net in cash or another financial instrument shall be treated as financial instruments under these Standards unless they meet specific exceptions.

Chapter 2: Recognition and Derecognition of Financial Instruments

Article 9

An enterprise shall recognize a financial asset or financial liability when it becomes a party to the financial instrument contract.

Article 10

Financial assets purchased or sold in the "regular way" shall be recognized or derecognized on the trade date.

Article 11

A financial asset shall be derecognized when:

1. The contractual right to receive cash flows expires;
2. The asset is transferred, and the transfer meets derecognition criteria.

Article 12

A financial liability (or part thereof) shall be derecognized when the present obligation is discharged.

Article 13

If a new financial liability replaces an existing one with substantially different terms, the original liability shall be derecognized, and the new one recognized.

Article 14

Gains or losses from derecognizing a financial liability shall be recognized in profit or loss.

Article 15

Partial repurchases of financial liabilities shall be allocated based on fair value proportions.

Chapter 3: Classification of Financial Assets

Article 16

Financial assets shall be classified based on:

1. The enterprise's business model for managing them;
2. The contractual cash flow characteristics of the financial asset.

Categories:

1. Amortized cost;

2. Fair value through other comprehensive income (FVOCI);
3. Fair value through profit or loss (FVTPL).

Article 17

A financial asset shall be measured at amortized cost if:

1. The business model is to hold to collect contractual cash flows;
2. The contractual cash flows represent solely payments of principal and interest (SPPI).

Article 18

A financial asset shall be measured at FVOCI if:

1. The business model is both to collect contractual cash flows and sell;
2. The contractual cash flows meet the SPPI test.

Article 19

All other financial assets shall be measured at FVTPL.

Article 20

An enterprise may designate a financial asset at FVTPL to eliminate accounting mismatches.

Chapter 4: Classification of Financial Liabilities

Article 21

Financial liabilities shall be classified as:

1. Amortized cost (default);
2. FVTPL (e.g., trading liabilities, derivatives, or designated).

Article 22

A financial liability may be designated at FVTPL to:

1. Eliminate accounting mismatches;
2. Align with risk management strategies.

Chapter 5: Embedded Derivatives

Article 23

An embedded derivative is a derivative component within a non-derivative host contract.

Article 24

If the host contract is a financial asset, the entire hybrid contract shall be classified under financial asset rules.

Article 25

If the host contract is not a financial asset, the embedded derivative shall be separated if:

1. It is not closely related to the host;
2. It meets the definition of a derivative;
3. The hybrid contract is not at FVTPL.

Chapter 6: Reclassification of Financial Instruments

Article 27

Reclassification is required if the business model for managing financial assets changes.

Article 29

Reclassifications shall be applied prospectively from the reclassification date.

Chapter 7: Measurement of Financial Instruments

Article 33

Initial measurement shall be at fair value. Transaction costs are expensed for FVTPL assets/liabilities; others capitalize them.

Article 38

Amortized cost is calculated using the effective interest method.

Chapter 8: Impairment of Financial Instruments

Article 46

Expected credit losses (ECL) shall be recognized for:

1. Financial assets at amortized cost or FVOCI;
2. Lease receivables;
3. Contract assets;
4. Loan commitments and financial guarantee contracts.

Article 48

ECL shall be measured based on whether credit risk has increased significantly since initial recognition.

Chapter 9: Gains and Losses

Article 64

Gains/losses on financial assets/liabilities at FVTPL shall be recognized in profit or loss, except for certain cases (e.g., equity investments at FVOCI).

Chapter 10: Transitional Provisions

Article 72

Enterprises shall apply these Standards retrospectively, with exceptions in Articles 73–83.

Chapter 11: Supplementary Provisions

Article 84

These Standards shall be effective from January 1, 2018.

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