Accounting Standards for Business Enterprises No. 23 — Transfer of Financial Assets

(Cai Kuai [2017] No. 8)

Chapter 1: General Provisions

Article 1

This Standard is formulated in accordance with the *Basic Standards for Business Enterprises Accounting* to prescribe the accounting treatment for the transfer and derecognition of financial assets (including individual or groups of similar financial assets).

Article 2

A transfer of financial assets refers to an enterprise (the transferor) conveying or delivering financial assets (or their cash flows) to another party (the transferee) other than the issuer of the financial assets.

Derecognition of financial assets refers to an enterprise removing previously recognized financial assets from its balance sheet.

Article 3

If an enterprise has control over the transferee of financial assets, in addition to applying this Standard to its individual financial statements, it shall consolidate all subsidiaries (including structured entities) within the scope of consolidation when preparing consolidated financial statements in accordance with *Accounting Standards for Business Enterprises No. 33 — Consolidated Financial Statements* and apply this Standard at the consolidated financial statements level.

Chapter 2: General Principles for Derecognition of Financial Assets

Article 4

If part of a financial asset meets any of the following conditions, the enterprise shall apply derecognition rules to that part; otherwise, derecognition rules shall apply to the entire financial asset:

1. The part includes only specifically identifiable cash flows from the financial asset (e.g., an interest-stripping contract where the transferee receives interest cash flows but not principal).
2. The part includes a proportionate share of all cash flows from the financial asset (e.g., a transfer contract granting the transferee a fixed percentage of total cash flows).
3. The part includes a proportionate share of specifically identifiable cash flows (e.g., a transfer contract granting the transferee a fixed percentage of interest cash flows).

If multiple transferees exist, proportionality to total or identifiable cash flows suffices; individual proportionality is not required.

Article 5

A financial asset shall be derecognized if:

1. The contractual right to receive its cash flows terminates; or
2. The asset is transferred, and the transfer meets this Standard's derecognition criteria.

Chapter 3: Circumstances of Financial Asset Transfers and Their Derecognition

Article 6

A financial asset transfer includes:

1. Transferring the contractual right to receive the asset's cash flows to another party; or
2. Retaining the contractual right but assuming an obligation to pass on cash flows to one or more final recipients, provided:
    - Payment obligations arise only upon receiving equivalent cash flows (short-term advances recoverable in full with market interest qualify).
    - The transfer contract prohibits sale/pledge of the asset, except as collateral for payment obligations.
    - All cash flows must be remitted to final recipients without significant delay (temporary reinvestment

in cash/cash equivalents during settlement periods is permitted if earnings are passed on).

Article 7

When transferring financial assets, an enterprise shall assess the extent of risks and rewards retained and proceed as follows:

1. Almost all risks/rewards transferred: Derecognize the asset; recognize new rights/obligations separately.
2. Almost all risks/rewards retained: Continue recognizing the asset.
3. Neither transferred nor retained almost all risks/rewards:
    - No control retained: Derecognize the asset; recognize new rights/obligations.
    - Control retained: Continue recognizing the asset to the extent of continuing involvement and recognize a corresponding liability.

Article 8

To assess risk/reward transfer, compare pre- and post-transfer exposure to variability in the timing/amount of net cash flows. No significant change in risk exposure implies retention of almost all risks/rewards (e.g., full recourse transfers or fixed-price repurchases). A substantial reduction implies transfer (e.g., unconditional sales or repurchases at fair value).

Calculations are usually unnecessary but, if required, should weigh all plausible scenarios and use appropriate market discount rates.

Article 9

Control is determined by the transferee's practical ability to sell the asset unilaterally to unrelated parties without restrictions. Restrictions (e.g., valuable put options/guarantees) imply the transferor retains control.

Chapter 4: Accounting for Transfers Meeting Derecognition Criteria

Article 14

For full derecognition, recognize the difference between:

- The asset's carrying amount at derecognition; and
- The sum of consideration received and any cumulative fair value changes previously recognized in other comprehensive income (OCI) attributable to the derecognized portion.

Service rights retained (e.g., cash flow collection) shall be recognized as a service asset/liability at fair value.

Article 15

For partial derecognition, allocate the asset's carrying amount between derecognized and retained portions based on relative fair values. Recognize the difference between:

- The derecognized portion's carrying amount; and
- The sum of consideration received and attributable OCI adjustments.

Chapter 5: Accounting for Continued Recognition of Transferred Assets

Article 17

If almost all risks/rewards are retained, continue recognizing the asset and record consideration received as a financial liability.

Article 18

Income/expenses from continued recognition of the asset and related liability shall not be offset.

Chapter 6: Accounting for Continuing Involvement in Transferred Assets

Article 19

If control is retained without transferring almost all risks/rewards, continue recognizing the asset to the extent of involvement and recognize a corresponding liability. Measure the liability as:

- For amortized-cost assets: Liability = Asset's carrying amount ± retained/assumed rights/obligations (at amortized cost).

- For fair-value assets: Liability = Asset's carrying amount ± retained/assumed rights/obligations (at fair value).

Article 20

For guarantees, recognize the lower of the asset's carrying amount or guarantee amount as the asset, and the sum of guarantee amount and guarantee contract's fair value as the liability.

Article 21–23

Options or similar derivatives triggering continuing involvement shall be accounted for by:

- Measuring retained assets at amortized cost/fair value;
- Recognizing liabilities based on strike prices, time values, and fair values; and
- Aligning subsequent fair value changes without offsetting.

Chapter 7: Non-Cash Collateral Provided to Transferees

Article 26

Non-cash collateral (e.g., debt/equity instruments) shall be:

- Separately presented if the transferee may sell/re-pledge it;
- Recognized as a liability (at fair value) if sold by the transferee; and
- Derecognized only upon default.

Chapter 8: Transitional Provisions

Article 27

Enterprises with continuing involvement at this Standard's effective date shall retrospectively adjust transferred assets under *ASBE 22* and remeasure related liabilities accordingly.

Chapter 9: Supplementary Provisions

Article 28

This Standard shall be effective from January 1, 2018.

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