Accounting Standards for Enterprises No. 23 - Transfer of Financial Assets

Cai Kuai [2006] No. 3

Chapter I General Provisions

Article 1These Standards are formulated in accordance with the Accounting Standards for Enterprises - Basic Standards for the purpose of regulating the recognition and measurement of the transfer of financial assets (including a single or a group of similar financial assets).

Article 2The term "transfer of a financial asset" refers to an enterprise's (the transferor's) transferring or delivering a financial asset to a party other than the issuer of the financial asset (the transferee).

Article 3If the enterprise has the control right over the transferee of the financial asset, it shall not only apply these Standards to its financial statements, but also include the transferee into its scope of consolidated financial statements according to the Accounting Standards for Enterprises No. 33 -Consolidated Financial Statements.

Chapter II Recognition of Transfer of Financial Assets

Article 4The transfer of financial asset by an enterprise includes two circumstances as follows:

(1)The enterprise transfers the right to another party for receiving the cash flow of the financial asset; and

(2)The enterprise transfers the financial asset to another party, but maintains the right to receive the cash flow of the financial asset and undertakes the obligation to pay the cash flow it receives to the final recipient, and meets the conditions as follows at the same time :

(a)The enterprise is not obliged to make any payment to the final recipient until it receives the cash flow which is equivalent to the financial asset.

For any short-term payment made by the enterprise on behalf of others, if the enterprise has the right to recover the full amount of the payment and charge interests according to the market bank loan interest rate of the same period, the conditions shall be deemed to have been satisfied.

(b)In accordance with the contractual stipulations, the enterprise can't sell the financial asset or use it as a guaranty, but it may use it as an guarantee for paying the cash flow to the final recipient.

(c)The enterprise is obliged to pay the cash flow it receives to the final recipient in a timely manner. The enterprise has no right to make a re-investment with the cash flow, but in accordance with the contractual stipulations, it may make investment with cash or cash equivalent by using the cash flow it receives during the interval of between 2 consecutive payments.

If the enterprise makes a reinvestment in accordance with the contractual stipulations, it shall pay the proceeds by investment to the final recipient in accordance with the contractual stipulations.

Article 5An enterprise shall differentiate the transfer of a financial asset into the entire transfer and the partial transfer of financial assets, and deal with them respectively according to these Standards.

Article 6The partial transfer of financial asset includes the circumstances as follows:

(1)To transfer the specific or identifiable portion of the cash flow arising from the financial asset, for example, the enterprise transfers the receivable interests of a group of similar loans and etc.;

The copyright and/or other intellectual property rights of China Business Engine including related text, images, charts, sound, animation, and videos, and their arrangement on the China Business Engine website, are protected by copyright and other protective laws.

(2)To transfer a certain proportion of the total cash flow arising from the financial asset, for example, the enterprise transfers a certain proportion of the principal and receivable interests of a group of similar loans and etc.; and
(3)To transfer a certain proportion of the specific or identifiable portion of the cash flow arising from the financial asset, for example, the enterprise transfers a certain portion of the receivable interests of a group of the similar loans and etc..
Article 7Where an enterprise has transferred nearly all of the risks and rewards related to the ownership of the financial asset to the transferee, it shall stop recognizing the financial asset. If it retained nearly all of the risks and rewards related to the ownership of the financial asset, it shall not stop recognizing the financial asset.
The expression "to stop recognizing" shall refer to a financial asset or financial liability to be written off from the account and balance sheet of the enterprise.
Article 8When an enterprise makes a judgment about whether nearly all of the risks and rewards related to the ownership of a financial asset are transferred to the transferee, it shall compare the pre- and post-transfer risks it faces due to the change of the net present value of the future cash flow of the financial asset and the time distribution.
If the risks that the enterprise faces have changed substantially resulting from the transfer of a financial asset, it shows that the enterprise has transferred nearly all of the risks and rewards related to the ownership of financial asset to the transferee, for example, the sale of a financial asset without any additional term of guarantee and etc..
If the risks that the enterprise faces have not changed substantially resulting from the transfer of a financial asset, it shows that the enterprise still retains all the risks and rewards related to the ownership of the financial asset, for example, it transfers an entire loan and undertake a full amount of compensation for the possible credit losses of the loan and etc..
Where an enterprise requires to judge, by calculation, whether it has transferred nearly all of the risks and rewards related to the ownership of financial asset to the transferee, when it calculates the net present value of the future cash flow of the financial asset, it shall take into consideration all the reasonable and possible fluctuating of the cash flow, and shall adopt an appropriate present market interest rate as the discount rate.
Article 9Where an enterprise does not transfer or retain nearly all of the risks and rewards related to the ownership of a financial asset (that is to say, it is not under a circumstance as mentioned in Article 7 of these Standards), it shall deal with it according to the circumstances as follows, respectively:
(1)If it gives up its control over the financial asset, it shall stop recognizing the financial asset;
(2)If it does not give up its control over the financial asset, it shall, according to the extent of its continuous involvement in the transferred financial asset, recognize the related financial asset and recognize the relevant liability accordingly.
The term "continuous involvement in the transferred financial asset" shall refer to the risk level that the enterprise faces resulting from the change of the value of the financial asset.
Article 10When an enterprise judges whether its control over the transferred financial asset has been given up, the enterprise shall pay more attention to the transferee's actual ability of selling

The copyright and/or other intellectual property rights of China Business Engine including related text, images, charts, sound, animation, and videos, and their arrangement on the China Business Engine website, are protected by copyright and other protective laws.

the financial asset.
If the transferee is able to independently sell the entire transferred financial asset to a third party without any relationship with it as an associated party and there is no additional conditions to limit the sale, it shows that the enterprise has given up its control over the financial asset.
Article 11To judge whether the transfer of a financial asset can satisfy the conditions as prescribed in these Standards for stopping the recognition of a financial asset, the enterprise shall pay more attention to the essential of the transfer of the financial asset.
(1)For the sale of a financial asset with a repurchase agreement, if the asset to be repurchased by the transferor is identical with or substantially identical with the sold financial asset, and if the repurchase price is fixed or is the original sales price plus a reasonable return, the sold financial asset shall not be stopped to recognize , for example, selling any bonds through a buyout repo or a pledged repo transaction.
(2)After the transfer of a financial asset, if the transferor only retains the priority to repurchase the right of financial asset at its fair value (when the transferee sells the financial asset), it shall stop recognizing the transferred financial asset.
(3)For the transfer of a financial asset in which the secondary equities are retained or a credit guaranty is given for upgrading the level of credit, if the transferor only retains partial (not nearly all of) the risks and rewards related to the ownership of the transferred financial asset and may control the transferred financial asset, it shall recognize the relevant asset and liability according to the extent of its continuous involvement in the transferred financial asset.

Chapter III Measurement of Transfer of Financial Assets

Article 12If the transfer of an entire financial asset satisfies the conditions for stopping recognition, the difference between the amounts of the following 2 items shall be recorded in the profits and losses of the current period:
(1)The book value of the transferred financial asset;
(2)The sum of consideration received from the transfer, and the accumulative amount of the changes of the fair value originally recorded in the owner's equities (in the event that the financial asset involved in the transfer is a financial asset available for sale).
Where an enterprise obtains a new financial asset or undertakes a new financial liability due to the transfer of a financial asset, it shall, on the date of transfer, recognize the financial asset or liability according to its fair value (including the call option, put option, guaranteed liability, future contract, interchange, etc.) , and shall treat the net amount as an integral part of the aforesaid consideration through deducting the financial liability from the financial asset .
Where an enterprise concludes a service contract with the transferee of a financial asset on providing relevant services (including receiving cash flow of the financial asset and delivering the received cash flow to the fund preservation institution as designated), it shall recognize a service asset or liability based on the service contract. The service liability shall be subject to the initial measurement according to its fair value and shall be treated as an integrate part of the aforesaid consideration.
Article 13If the transfer of partial financial asset satisfies the conditions to stop the recognition,

The copyright and/or other intellectual property rights of China Business Engine including related text, images, charts, sound, animation, and videos, and their arrangement on the China Business Engine website, are protected by copyright and other protective laws.

the entire book value of the transferred financial asset shall, between the portion whose recognition has been stopped and the portion whose recognition has not been stopped (under such circumstance, the service asset retained shall be deemed as a portion of financial asset whose recognition has not been stopped), be apportioned according to their respective relative fair value, and the difference between the amounts of the following 2 items shall be included into the profits and losses of the current period :

(1)The book value of the portion whose recognition has been stopped;

(2)The sum of consideration of the portion whose recognition has been stopped, and the portion of the accumulative amount of the changes in the fair value originally recorded in the owner's equities which is corresponding to the portion whose recognition has been stopped (in the event that the financial asset involved in the transfer is a financial asset available for sale).

The portion of the accumulative amount of changes in the fair value originally recorded in the owner's equities which corresponds to the portion whose recognition has been stopped, shall be recognized after the apportionment of the accumulative amount according to the relative fair values of the portion of financial asset whose recognition has been stopped and the portion of financial asset whose recognition has not been stopped.

Article 14If the entire book value of the transferred financial asset is apportioned according to the relative fair values between the portion whose recognition has been stopped and the portion whose recognition has not been stopped in accordance with the provision of Article 13 of these Standards, the fair value of the portion whose recognition has not been stopped shall be determined according to the following provisions:

(1)It shall be determined based on the latest actual transaction price if the enterprise has ever sold any financial asset similar to the portion whose recognition has not been stopped, or has ever conducted any other market transaction related to the portion whose recognition has not been stopped;

(2)If no quotation for the portion whose recognition has not been stopped is available in the active market and if there is no actual transaction price relating to it, it shall be determined based on the residual amount deducting the consideration of the portion whose recognition has been stopped from the entire fair value of the transferred financial asset .

If the entire fair value of the financial asset is really difficult to determine reasonably, it shall be determined based on the residual amount deducting the consideration of the portion whose recognition has been stopped from the entire book value of the financial asset.

Article 15If an enterprise still retains nearly all of the risks and rewards related to the ownership of the transferred financial asset, it shall continue to recognize the entire financial asset to be transferred and shall recognize the consideration it receives as a financial liability.

The financial asset shall not be used to offset the relevant financial liabilities it has recognized. In the subsequent accounting periods, the enterprise shall continue to recognize the income generated by the financial asset and the expenses generated by the financial liability.

If the transferred financial asset is measured at the amortized cost, the relevant liability it has recognized shall not be designated as a financial liability, which is measured at its fair value and the changes are recorded in the profits and losses of the current period.

The copyright and/or other intellectual property rights of China Business Engine including related text, images, charts, sound, animation, and videos, and their arrangement on the China Business Engine website, are protected by copyright and other protective laws.

Article 16If an enterprise does not transfer or retain nearly all of the risks and rewards related to the ownership of the financial asset, and does not waive its control over the financial asset, the relevant asset and liability it recognizes according to these Standards shall fully reflect the rights it retains and the obligations it undertakes.

Article 17If the enterprise is continuously involved in the transferred financial asset by way of providing a financial guarantee, it shall, on the date of transfer, recognize the assets formed by its continuous involvement based on the book value of the financial asset and the amount of financial guarantee, whichever is lower. In the meanwhile, it shall, based on the sum of amount of financial guarantee and the fair value of the financial guaranty contract (the charge for providing the guarantee), recognize the liability formed by its continuous involvement.

The amount of financial guarantee shall refer to the highest amount of repayment to be demanded among the considerations the enterprise receives.

In the subsequent accounting periods, the initially recognized amount of the financial guarantee contract shall be amortized in accordance with the time proportion within the period of the financial guarantee contract and shall be recognized as income for each period.

The book value of the asset formed by the guarantee shall be conducted a devalue test on the balance sheet date.

Article 18If an enterprise fails to satisfy the conditions to stop the recognition due to it sells a put option or holds a call option, and it measures the financial asset at the amortized cost, it shall recognize the liability formed by its continuous involvement in the light of the consideration it receives on the date of transfer.

The difference between the amount of the amortized cost of the transferred financial asset on the maturity date of the option and the amount of the initially recognized liability formed by continuous involvement shall be amortized through the actual interest rate method and recorded into the profits and losses of the current period. In the meanwhile, an adjustment shall be made to the book value of the liability formed by its continuous involvement.

For the relevant option exercise, the difference between the book value of the liability formed by its continuous involvement and the exercise price of option shall, when exercising the option, be recorded in the profits and losses of the current period.

Article 19If an enterprise fails to satisfy the conditions to stop the recognition due to it holds a call option, and if it measures the financial asset according to its fair value, it shall, on the date of transfer, recognize the transferred financial asset according to its fair value and shall, in the light of the following provisions, simultaneously measure the liability formed by its continuous involvement:

(1)If the option is an in-the-money option or at-the-money option, the liability formed by its continuous involvement shall be measured in accordance with the residual amount of the option exercise price deduct the time value of the option; and

(2)If the option is an out-of-the-money option, the liability formed by its continuous involvement shall be measured in accordance with the residual value of the fair value of the transferred financial asset deduct the time value of the option.

Article 20If an enterprise fails to satisfy the conditions to stop the recognition due to it sells a put

The copyright and/or other intellectual property rights of China Business Engine including related text, images, charts, sound, animation, and videos, and their arrangement on the China Business Engine website, are protected by copyright and other protective laws.

option and if it measures the financial asset according to its fair value, it shall, on the date of transfer, recognize the asset formed by its continuous involvement in accordance with the fair value of the financial asset and the option exercise price, whichever is lower.

At the same time, it shall recognize the liability formed by its continuous involvement in accordance with the sum of option exercise price and the time value.

Article 21If an enterprise fails to satisfy the conditions to stop the recognition for transferred financial asset due to it sells a put option and purchases a call option (namely up-and-down options) and it measures the financial asset according to its fair value, it shall, on the date of transfer, still recognize the transferred financial asset according to its fair value. At the same time, it shall measure the liability formed by its continuous involvement in accordance with the following provisions:

(1)If the call option is an in-the-money option or at-the-money option, the liability formed by its continuous involvement shall be measured in accordance with the residual amount of the sum of option exercise price and the fair value of the put option less the time value of the call option; and

(2)If the call option is an out-of-the-money option, the liability formed by its continuous involvement shall be measured in accordance with the residual value of the sum of total fair value of the transferred financial asset and the fair value of the put option less the time value of the call option.

Article 22An enterprise shall recognize the relevant assets formed by its continuous involvement in the transferred financial assets as the relevant incomes and shall recognize the relevant liabilities formed by its continuous involvement therein as the relevant expenses.

The relevant assets and liabilities so formed by its continuous involvement shall not be offset each other, and their subsequent measurement shall be governed by the Accounting Standards for Enterprises No. 22 - Recognition and Measurement of Financial Instruments.

Article 23An enterprise's continuous involvement in merely a portion of its transferred financial asset shall be treated according to the Article 13 of these Standards.

Article 24Where an enterprise provides the transferee of a financial asset with a non-cash guaranty (such as a liability instrument or equity instrument investment), this enterprise and the transferee shall make treatments in accordance with the provisions as follows:

(1)If the transferee has the right to sell the guaranty or reuse it as a guaranty in accordance with the contract or practices, the enterprise shall put this non-cash guaranty into a new category in the balance sheet and present it separately;

(2)If the transferee has sold this guaranty, the transferee shall recognize the a liability according to fair value for the obligation to return the guaranty. ;

(3)If the enterprise defaults and loses the right to redeem the guaranty, it shall stop recognizing the guaranty, and the transferee shall recognize the guaranty as an asset according to its fair value. If the transferee has sold the guaranty, it shall stop recognizing the obligation to return it; and

(4)In a circumstance other than that as described in Item (3), the enterprise shall continue recognizing the guaranty as an asset.

The copyright and/or other intellectual property rights of China Business Engine including related text, images, charts, sound, animation, and videos, and their arrangement on the China Business Engine website, are protected by copyright and other protective laws.