Accounting Standards for Enterprises No.37-Presentation of Financial Instruments

Issued by the Ministry of Finance (2006) No.3

Chapter Ⅰ. General

Article 1 The Standards are made in accordance with the Basic Standards of Accounting Standards for Enterprises to standardize the presentation of financial instruments.

Presentation of financial instruments includes the report and disclosure of financial instruments

Article 2 Before the presentation of financial instruments, the financial instruments should be classified according to their features and the properties of related information.

Article 3 The following items should comply with other related accounting standards

1. Long-term investment on stocks is standardized by Accounting Standards for Enterprises No.2-Long-term Investment on Stocks
2. Share based payment is standardized by Accounting Standards for Enterprises No.11-Share Based Payments
3. Debt-restructuring is standardized by Accounting Standards for Enterprises No.12-Debt-Restructuring
4. The contingent consideration contract in the enterprise merger is standardized by Accounting Standards for Enterprises No.20-Enterprise Merger
5. The rights and liabilities in lease are standardized by Accounting Standards for Enterprises No.21-Lease
6. The rights and liabilities of the original insurance contract are standardized by Accounting Standards for Enterprises No.25-Original Insurance Contract
7. The rights and liabilities of the reinsurance contract are standardized by Accounting Standards for Enterprises No.26-Reinsurance Contract

Article 4 The Standards are not applicable to non-financial project contracts which are signed according to the requirements of ordered purchases, sales or usage and are implemented in the duration. But the Standards are applicable to those non-financial project contracts in which netting is conducted in the form of cash or other financial instruments, or settlement through the exchange of financial instruments

Chapter Ⅱ. Report of financial instruments

Article 5 Upon issuance of financial instruments, the enterprise should verify the financial instrument or its components to be financial assets, financial liability or equity instrument on the initial verification according to the nature of the financial instrument and the definition of financial assets and liability and equity instruments.

Article 6 The financial instruments issued by the enterprise which will be accounted by the self equity instruments in the future should be verified as equity instruments on the initial verification as long as they comply with any of the following conditions:

1. The instrument does not include contract liability of delivery of cash or other financial assets to other units.
2. The instrument does not, under any potential unfavorable conditions, include contract liability of exchange financial assets or liabilities with other units.

Article 7 Financial instruments issued by enterprise which should or could be accounted by the self equity instruments should be verified as equity instruments on the initial verification as long as they comply with any of the following conditions:

1. The instrument is a non-derivative instrument, and the enterprise has no liability to deliver unfixed quantity of self equity instrument for the settlement..
2. The instrument is a derivative instrument, and the enterprise has to deliver fixed quantity of self equity instruments for the exchange of fixed amount of cash or other financial assets in the settlement. Among them, the equity instruments do no include those contracts which are accounted through the collection or delivery of the self equity instruments of the enterprise.

Article 8 Those financial instruments of which the form of settlement is decided by the uncertain issues in the future (such as the change of the stock price index and consumption price index, etc.)which cannot be controlled by the issuers or the holders should be verified as the financial liability on the initial verification. However, if they comply with any of the following conditions, they should be verified as equity instruments:

1. The settlement of the instruments will not be conducted in the form of cash or other financial assets.
2. The settlement in the form of cash or other financial assets is only needed in the condition of enterprise liquidation of the issuer.

Article 9 Those derivative financial instruments of which the form of settlement (cash netting or cash exchange through issuance of stocks) can be decided by the issuer or the holder should be verified as financial assets or liability, but the forms of settlement should prove that the derivative financial instrument is excluded by equity instruments.

Article 10 If the non-derivative financial instrument issued by the enterprise includes components of liability or equity, those components should be separated upon the initial verification and processed separately.

Upon separation, the fair value of the component of liability should be previously confirmed and then regarded as the initial verified amount. The issuing price of the financial instrument subtracting the initial verified amount of liability is the initial verified amount of the component of equity. The cost in the issuance of the non-derivative financial instrument should be allocated according to the fair value of the component of liability and equity.

Article 11 After the deduction of the transaction cost (not including the transaction cost in issuance of equity instrument in enterprise merger), the owner's equity should be increased upon issuance of financial instruments; upon repurchase of self equity instruments, concerning the consideration and transaction cost, the owner's equity should be decreased. On occasions of issuance, repurchase, selling or de-registration of self equity instruments, the enterprise should not verify the profit or loss.

Article 12 If the financial instrument or its component belongs to financial liability, the related interest, profit and loss should be accounted as the P&L of the current period.

Upon the distribution (not including the dividend on shares) in all forms to the holders of equity instruments, the owner's equity should be decreased. The enterprise should not confirm the change amount of the fair value of the equity instruments.

Article 13 The financial assets and liabilities should be listed respectively in the balance sheet and should not be offset. However, if they comply with all the following conditions, they can be offset and the net amount after offsetting should be listed in the balance sheet:

1. The enterprise is legally authorized to offset verified amount, and the legal right is executable
2. The enterprise is planned for netting and meanwhile change the financial asset into cash and pay the financial liability.

If the transfer of financial assets does not meet the conditions of verification, the transferor should not offset the transferred financial assets and related liabilities.

Chapter Ⅲ. Disclosure of Financial instruments

Article 15 The enterprise should disclose the major information such as accounting policies and measuring basis of the financial instruments on making the financial report.

The information mainly includes the following items:

1. The following information should be disclosed for those financial assets or liabilities on which the fair value measurement is taken and the change is accounted in the P&L of the current period:

(1). Appointed basis

(2). The properties of the appointed financial assets or liabilities

(3). The explanation on how the inconsistency in confirmation or measurement of the related profit and loss caused by the variety of measuring basis of financial assets or liabilities is eliminated or decreased significantly and the explanation on whether it complies with the risk management and investment strategy claimed in the written documents of the enterprise.

2. The qualification of the appointed financial assets to be offering for sale

3. The objective basis of the confirmation of the depreciation of the financial assets, and the method of calculation in the confirmation of the loss of depreciation.

4. The measuring basis of the profit and loss of financial assets or liabilities.

5. The condition of the suspension of confirmation of the financial assets or liabilities.

6. Other accounting policies related with financial instruments.

Article 16 The enterprise should disclose the book value of the following financial assets or

China Business Engine
Tel +86 21 52289730
Fax +86 21 5228-9730

Website
China site：www.cbize.com
Globe site：www.cbize.net

liabilities:

1. The financial assets calculated based on the fair value with their change accounted in the P &L of the current period.
2. Hold due to investment
3. Loan and account receivable
4. Financial assets for sale
5. The financial liabilities calculated based on the fair value with their change accounted in the P&L of the current period
6. Other financial liabilities

Article 17 The enterprise should disclose the following information if it is to use fair value as the measurement of a single or a set of loan or account receivable and take the change accounted into the P&L of the current period:

1. The amount of the largest credit risk exposure brought by the loan or account receivable on the balance sheet, and the amount in the segregation of the credit risk by related derivative instruments or similar instruments. Credit risk refers to the risk caused by the incapability of one party of the financial instrument to perform the liability.
2. The change amount of the fair value and accumulated change value of the loan or account receivable caused by the change of credit risk in the current period; the change amount of the fair value of related credit derivative instruments or similar instruments in the current period; and the accumulated change amount of the loan or account receivable since appointment

Article 18 The enterprise should disclose the following information if it is to use fair value as the measurement of an item of financial liability and take the change accounted into the P&L of the current period:

1. The change amount of fair value and the accumulated change amount of the financial liability caused by the change of credit risk in the current period.
2. The margin between the book value and amount of due payment according to the contract of the financial liability

Article 19 If the enterprise is to re-classify the financial assets and change the measuring basis between cost or amortized cost and the fair value, the enterprise should disclose the fair value or book value of the re-classified financial assets and the reason for re-classification.

Article 20 For the transfer of financial assets which does not meet the conditions of suspension of confirmation as regulated in Accounting Standards for Enterprises No.23-Transfer of Financial Assets, the enterprise should disclose the following information:

1. The nature of the transferred financial assets
2. The nature of the remained risk and payment related with the ownership
3. The book value of transferred financial assets and related liabilities should be disclosed if the entirety of the transferred financial assets is to be further confirmed

4. If there is any further involvement of the transferred financial assets, the book value of the entirety of the transferred financial assets, the book value of the assets for further confirmation, and the book value of related liabilities should be disclosed.

Article 21 The enterprise should disclose the following information related with the financial assets as guaranty:

1. The book value of the financial assets as guaranty of liabilities or contingent liabilities.
2. If the enterprise is to sell the guaranty or re-use it as guaranty, the enterprise should disclose the fair value of the guaranty and whether the enterprise has the liability for return of the guaranty.
3. The time limit and condition related to the guaranty.

Article 23 Enterprises should disclose the detailed information of the depreciation loss of each class of financial assets, including the coordination between opening balance, provision of the current period, the reverse of the current period and the final balance in the depreciation of the comparative financial assets in the previous and current period.

Article 24 Enterprises should disclose the following information related with loan breaching the contract:

1. The characteristics and reason for the breach
2. The book value of the loan breaching the contract on the date of the balance sheet
3. The remedy measures of the breach and the progress in the negotiation about postponing with the creditor before the approval of the publicity of the financial report.

Article 25 Enterprises should disclose the following information related with every types of hedging:

1. Description of the hedging relationship
2. Description of the hedging instruments and the fair value of them on the date of the balance sheet.
3. The characteristics of the arbitrage risk

Article 26 Enterprises should disclose the following information related with the cash flow hedging:

1. The predicted cash flow and the duration of its influence on profit and loss.
2. The predicted transactions which was processed in the hedging accounting but is impossible to occur
3. The verified amount in the owner’s equity of the current period
4. The amount transferred from the owner’s equity and accounted in the P&L of the current period
5. The amount transferred from the owner’s equity and accounted as the initially verified amount of the non-financial assets or liabilities of predicted transactions.

6. The profit or loss caused by ineffective hedging in the current period

Article 27 For the hedging of fair value, enterprises should disclose the profit or loss caused by the hedging instruments in the current period, and the profit or loss of the arbitrage projects caused by the arbitrage risk.

Article 28 For the net investment hedging of overseas operation, enterprises should disclose the profit or loss caused by ineffective hedging in the current period.

Article 29 Except the items as regulated in Article 31, enterprises should disclose the following information of fair value according to the classification of financial assets and liabilities:

1. The method of verification of fair value, including wholly or partly reference to the quotation in the active market or employment of estimation technique. If the estimation technique is employed, the assumption of estimation should be disclosed according to the classification of financial assets and liabilities, including rate of advance repay, estimated credit loss rate, interest or discounted rate.
2. If the fair value is wholly or partly verified by the estimation technique but the technique does not adopt the current open transaction price and available market data as the estimation assumption, and the estimation technique is quite influential to the estimation assumption, the possible influence caused by the change of the estimation assumption should be closed, and the meanwhile the change amount of the fair value accounted in the P&L of the current period should be disclosed.

Enterprises should take into consideration the net profit, total assets, total liabilities, gross value of the owner's equity (applicable to the condition in which the change of the fair value is accounted as in the owner's equity) on deciding the sensitivity of estimation technique on estimation assumption.

The disclosure of the fair value of financial assets and liabilities should be based on the gross value (except those the financial assets and liabilities are listed in the form of net value in the balance sheet), and the method of disclosure should be convenient for the user of the financial report to tell the fair value and book value of financial assets and liabilities.

Article 30 For those financial assets or liabilities for which there is no active market, according to Article 52 (3) of Accounting Standards for Enterprises No.22-Confirmation and Measurement of Financial Instruments, if they are measured according to the open transaction price and estimation result of financial instruments of the same type, the following information should be disclosed according to the classification of financial assets and liabilities:

1. The accounting policy adopted in the verification of the difference between the original transaction price and the fair value in the loss.
2. The balance of the difference in the beginning and end of the period

Article 31 Enterprises should not disclose the fair value information of the following financial

assets or liabilities:
1. Short-term financial assets or liabilities with little difference between the book value and fair value
2. Equity instrument investment for which there is not quotation in the active market, and derivative instruments related with the equity instruments and have to pay the equity instruments for settlement.

Article 32 For those equity instrument investment for which there is not quotation in the active market, and derivative instruments related with the equity instruments and have to pay the equity instruments for settlement, enterprises should disclose the following information:
1. The fact that there is no related disclosure of fair value because the fair value can not be calculated based on reliable measurement.
2. The description and book value of the financial instruments and the reason why the fair value cannot be reliably calculated.
3. The description of the related market of the financial instruments.
4. Whether there is an intention for the enterprise to treat the financial instruments and the possible way of the treatment.
5. If the verification of the financial instruments is suspended in the current period, the book value of the financial instrument at the time of the verification suspension as well as the profit or loss caused by the suspension should be disclosed.

Article 33 Enterprises should disclose the following income, cost, profit or loss related with financial instruments:
1. Financial assets or liabilities calculated based on fair value with their change accounted in the P&L of the current period; hold due to investment, loan and account receivable, financial assets for sale, and net profit or loss of the financial liabilities based on the calculation of amortized cost.
2. The total amount of interest income or expense of the financial assets or liabilities confirmed based on the calculation of real interest rate.
3. The income or expense of commission charge which comes from the following projects and is not included in the confirmation of real interest rate:

(1). Financial assets or liabilities other than the financial assets or liabilities calculated in the form of fair value with their change accounted in the P&L of the current period.
(2). The enterprise manages the trust properties for others and other trusteeship.

4. The interest income caused by the depreciation of the financial assets
5. The depreciation loss of the hold due to investment, loan and account receivable, and financial assets for sale in the current period.

Article 34 Enterprises should disclose the information about descriptions and quantity related with all types of financial instrument risks.

1. Descriptive information:

(1). Risk exposure and the reason for it
(2). The objective, policy and process of risk management and the method of measuring the risk.
If the above descriptive information takes place in the current period, relevant note should be given.
2.Quantity information
(1). The collective statistics of the risk exposure on the date of the balance sheet. Upon providing the statistics, the enterprise should take the statistics provided to the key management staff as the basis. If the enterprise adopts more than one method in risk management, the enterprise should explain which method allows the most reliable information.
(2). The information provided according to the regulation of Article 35 to Article 45 in this Standard.
(3). The information of risk concentration on the date of the balance sheet. The information of risk concentration should include the explanation about the concentrated point of the risk given by the management staff, the factors in deciding the concentrated points of risk (including the competitor, geographical area, currency, market, etc.), and the amount of risk exposure on each concentrated point of risk.

If the above quantity information can not explain the risk exposure of the enterprise in the current period, further information should be provided.

Article 35 Enterprises should disclose the following information related with the credit risk of each type of financial instruments:
(1). Despite of any available guaranty or credit enhancement (such as the netting agreement which does not comply with the conditions for offset), the amount which can best represent the biggest credit risk exposure on the date of the balance sheet, and the information about available guaranty and credit enhancement.
2. The information about the credit quality of the financial assets which are still in the valid term and have not depreciated yet.
3. The book value of those financial assets which were out of the valid term or depreciated but for which new decisions have been made in related contract

Article 36 The amount which can best represent the biggest credit risk exposure on the date of the balance sheet should be the book balance of the financial assets with deduction of the amounts in the following items:

1. The amount offset according to Article 13 of this Standards
2. The verified depreciation loss of financial assets

Article 37 Enterprises should disclose the following information related with the financial assets which have been out of valid term or depreciated.:

1. The analysis of limit time of the financial assets which have been out of valid term but yet not been depreciated on the date of the balance sheet.
2. The information about the financial assets which have been confirmed to be depreciated on

the date of the balance sheet, and the factors in confirmation of depreciation.

3. The guaranty which is owned by the enterprise and relevant to varied types of financial assets and other relevant assets for credit enhancement as well as their fair value. If the related fair value is hard to estimated, related explanation should be given.

Article 38 For those financial assets or non-financial assets which come from the guaranty treatment because of the default of the debtor or other relevant assets for credit enhancement, and which comply with the conditions of assets confirmation, the following information should be disclosed:

1. The characteristics and book value of the gained assets
2. If the gained assets are not easy to exchange for cash, the treatment of the assets or the plan for using them in the daily operation should be disclosed.

Article 39 Enterprises should disclose the time expiry analysis of the financial assets and liabilities according to the remained valid time as well as the method of managing the flow risk of those financial assets and liabilities.

The flow risk refers to the risk of encountering shortage of fund on performing the obligations related with financial liabilities.

Article 40 Upon disclosure of time expiry analysis of financial assets and liabilities, the enterprise should decide the appropriate time quantum based on the professional judgment. All the amount of financial assets and liabilities listed in all the time quantum should be undiscounted contract cash flow.

Enterprise may conduct the analysis according but not limited to the following time quantum:

1. Within a month (including a month, the same below)
2. 1 to 3 months
3. 3 to 12 months
4. 1 to 5 years
5. More than 5 years

Article 41 If the creditor can decide the time of return, the debtor should list the financial liability into the earliest time quantum as required by the creditor.

If the amount payable is not fixed, the debtor should confirm the amount in the time expiry analysis according to the condition on the date of the balance sheet.

On occasions of installment payment, the creditor should list the collected amount in each period into the earliest time quantum; and the debtor should list the paid amount in to the earliest time quantum.

The current deposit and other deposit with the characteristics of current deposit should be listed into the earliest time quantum.

Article 42 The market risk of financial instruments refers to the risk of fluctuation of the fair value

or the future cash flow of the financial instruments caused by the change of the market price, including foreign exchange risk, interest risk and other price risk.
Foreign exchange risk refers to the risk of fluctuation of the fair value or the future cash flow of the financial instruments caused by the change of foreign exchange rate.
Interest risk refers to the risk of fluctuation of the fair value or the future cash flow of the financial instruments caused by the change of interest rate.
Other price risk refers to the market risk except the foreign exchange risk and interest risk.

Article 43 Enterprises should disclose the following information related with sensitivity analysis:
1. The sensitivity analysis of all types of market risk on the date of the balance sheet. The disclosure should reflect the possible influence on the current P&L or the owner’s equity caused by the reasonable and possible change of the risk variable on the date of the balance sheet.
2. The methods and assumptions used in the sensitivity analysis of the current period. If the methods and assumptions are different from that of the former period, the reason for change should be disclosed.

Article 44 If the enterprise adopts risk value method or other similar method in the analysis of sensitivity and the result is able to reflect the relationship between the risk variables (such as the relationship between interest rate and foreign exchange rate), and furthermore the enterprise has been using the method in the management of financial risk, the disclosure may not follow the regulations in Article 43, but the following information should be disclosed:
1. The method of the analysis of sensitivity and the main parameters and assumptions of it
2. The objective of the adopted method, and the possibilities that the method cannot fully reflect the fair value of related financial assets and liabilities.

Article 45 If the information of sensitivity analysis disclosed according to the regulations of Article 43 or Article 45 cannot reflect the internal market risk of the financial instruments, the enterprise should disclose the fact and the reason of it.

China Business Engine
Tel +86 21 52289730
Fax +86 21 5228-9730

Website
China site：www.cbize.com
Globe site：www.cbize.net