



**Financial Reporting Webinar Series:**

Get ready for 2022 Interim  
Reporting season

**Friday, 20 May 2022**



# Financial reporting challenges during times of uncertainty



**Russia-Ukraine conflict**

**Inflationary pressures**

**Rising interest rates by central banks**

**Continuing challenges from pandemic**

**Global supply chain disruptions**

**Climate change**



**Business**

**Financial**

**Operational**

**Legal / regulatory**

**Reputational**



## Potential issues include:

- Impairment of non-financial assets
- Revenue recognition
- Onerous contracts
- Valuation & ECL
- Lack of exchangeability
- Hedge accounting
- Ability to fulfil contracts
- Going concern
- Provision and contingencies
- Contract existence & modification
- Divestment & discontinued operations

**Accounting judgement, estimates, risk disclosures**

## Fact Pattern

- The entity holds a demand deposit whose terms and conditions do not prevent the entity from accessing the amounts held in it.
- The entity has a contractual obligation with a third party to keep a specified amount of cash in that separate demand deposit and to use the cash only for specified purposes. If the entity were to use the amounts held in the demand deposit for purposes other than those agreed with the third party, the entity would be in breach of its contractual obligation.



**Polling question – Does the entity’s demand deposit with restrictions on use agreed with a third party, qualify as a component of cash and cash equivalents?**

A. Yes

B. No



## Fact Pattern

- The entity holds a demand deposit whose terms and conditions do not prevent the entity from accessing the amounts held in it.
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**Polling question - Does the entity's demand deposit with restrictions on use agreed with a third party, qualify as a component of cash and cash equivalents?**



**A. Yes**

B. No



**Restrictions on use arising from a contract with third party do not change the nature of the deposit**

## Fact Pattern

- **In City A within Mainland China, pre-sale proceeds from the sale of uncompleted properties are supervised by the local authorities and relevant banks. The proceeds are kept in a designated bank account.**
- **The funds in such account can only be used for settling the construction costs, building mortgage or interest payments.**
- **Property developer is required to provide sufficient documents evidencing the proper use of the funds in the relevant property projects and it normally takes around 2 days for the relevant banks or local authorities to examine and approve the fund withdrawal.**



**Question: Does the restriction on use in accordance with the relevant laws and regulations preclude the cash deposit from being classified as cash and cash equivalents?**

- A. Yes
- B. No
- C. It depends

## Fact Pattern

- In City A within Mainland China, pre-sale proceeds from the sale of uncompleted properties are supervised by the local authorities and relevant banks. The proceeds are kept in a designated bank account.
- The funds in such account can only be used for settling the construction costs, building mortgage or interest payments.
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**Question:** Does the restriction on use in accordance with the relevant laws and regulations preclude the cash deposit from being classified as cash and cash equivalents?

A. Yes

B. No

**C. It depends**



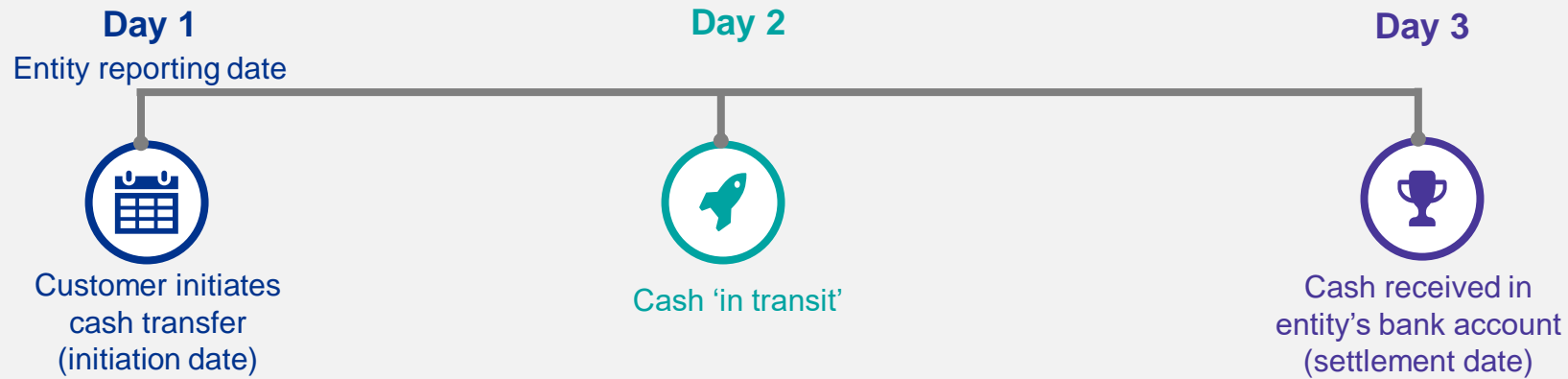
**It depends on whether they are held for meeting developer's short-term cash commitments and the features of "cash equivalent" in IAS 7.6 are met**

# Financial reporting challenges during times of uncertainty

## TAD : Cash Received via Electronic Transfer as Settlement for a Financial Asset



### Fact Pattern



To be published in Q2 2022



**Polling question – Does the entity recognize cash on the initiation date?**

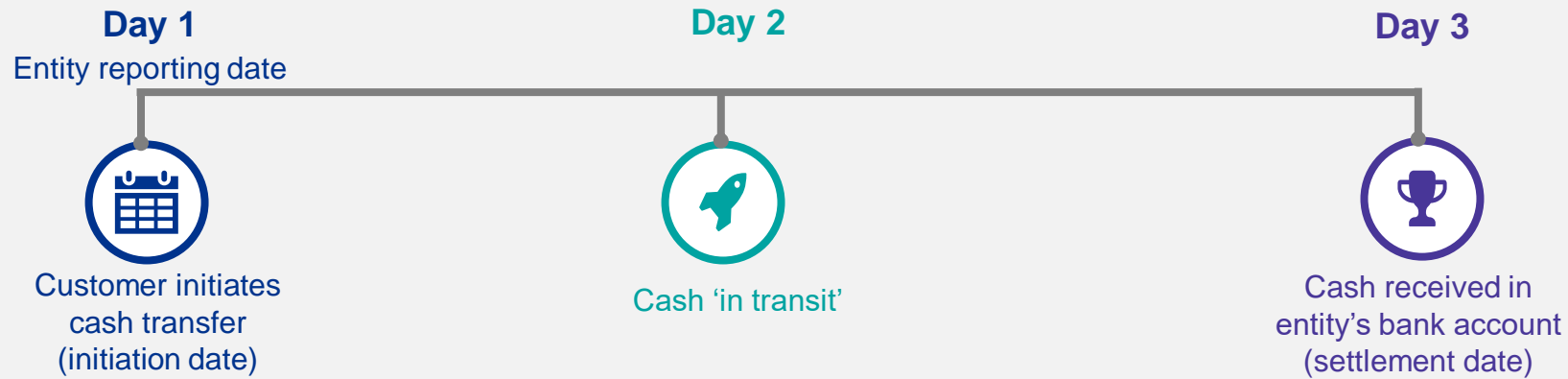
- A. Yes
- B. No



# Financial reporting challenges during times of uncertainty

## TAD : Cash Received via Electronic Transfer as Settlement for a Financial Asset

### Fact Pattern



**Polling question – Does the entity recognize cash on the initiation date?**

A. Yes

**B. No**



The entity recognises cash as a financial asset on the day **when cash is deposited into its bank account** (i.e. the settlement date) upon which the entity has **a right to obtain cash** from the bank.



# Financial reporting challenges during times of uncertainty

## TAD: Lessor Forgiveness of Lease Payments



Original lease contract	Change to lease contract
<ul style="list-style-type: none"> <li>Classified as an <b>operating lease</b> by lessor.                             <ul style="list-style-type: none"> <li><b>Operating lease receivable</b> is subject to IFRS 9 <b>ECL</b> and <b>derecognition</b> requirements.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li><b>Rent concession</b> agreed.                             <ul style="list-style-type: none"> <li>Lessor <b>forgives specified lease payments</b>.</li> <li>Some payments are already contractually due; others are contractually due in future periods.</li> </ul> </li> </ul>
<p><b>Issue:</b> How does the lessor apply IFRS 9 and IFRS 16 in accounting for the rent concession?</p>	

**To be published in Q3 2022**



### Forgiven operating lease receivables

Apply **ECL requirements in IFRS 9** (considering the expectations of rent forgiveness)

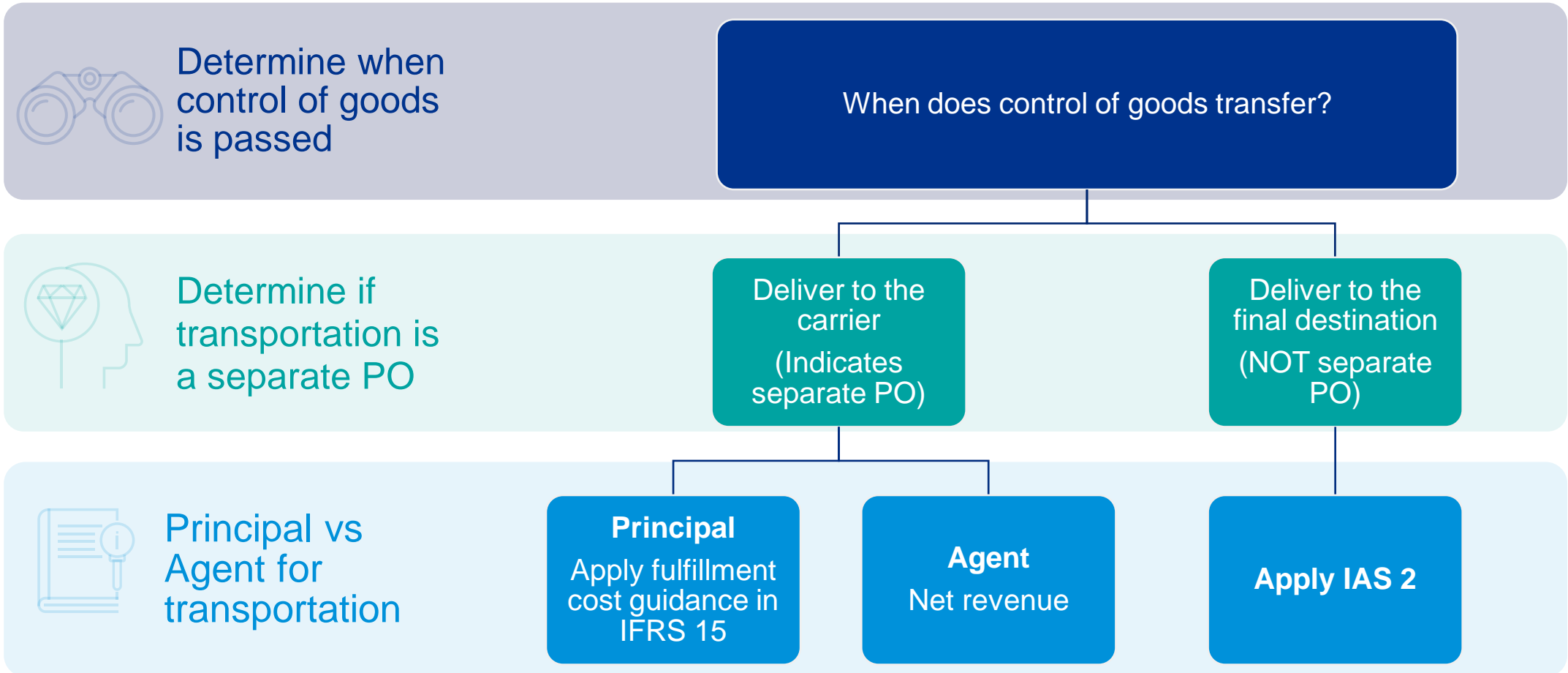
Apply **derecognition requirements in IFRS 9** to forgiven lease payments

### Forgiven future lease payments

Apply **lease modification requirements in IFRS 16**

# Financial reporting challenges during times of uncertainty

## Reminder on treatment on transportation cost



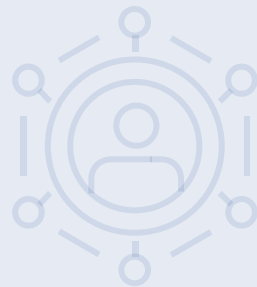
# Financial reporting challenges during times of uncertainty

## Considerations on restructuring of foreign operation

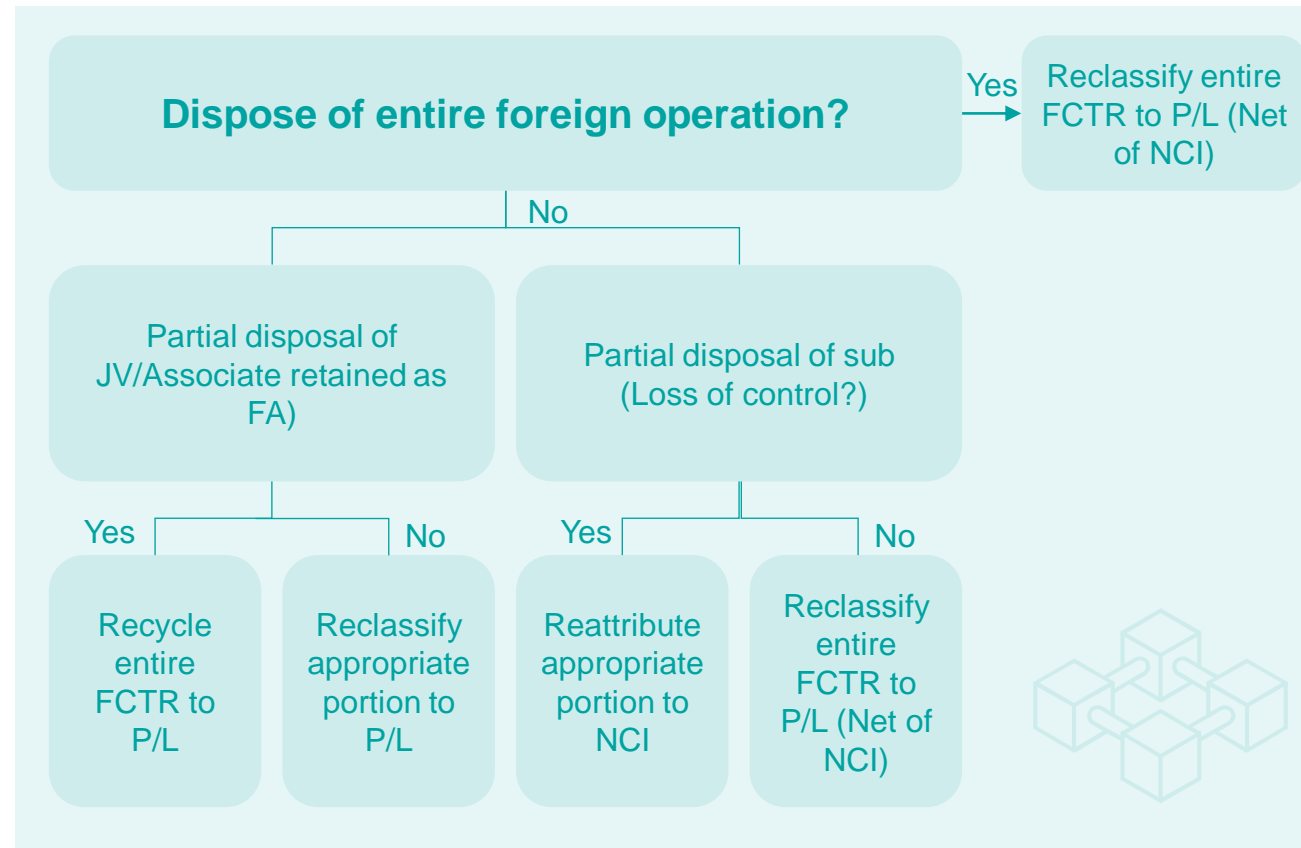


### Disposal of foreign operation

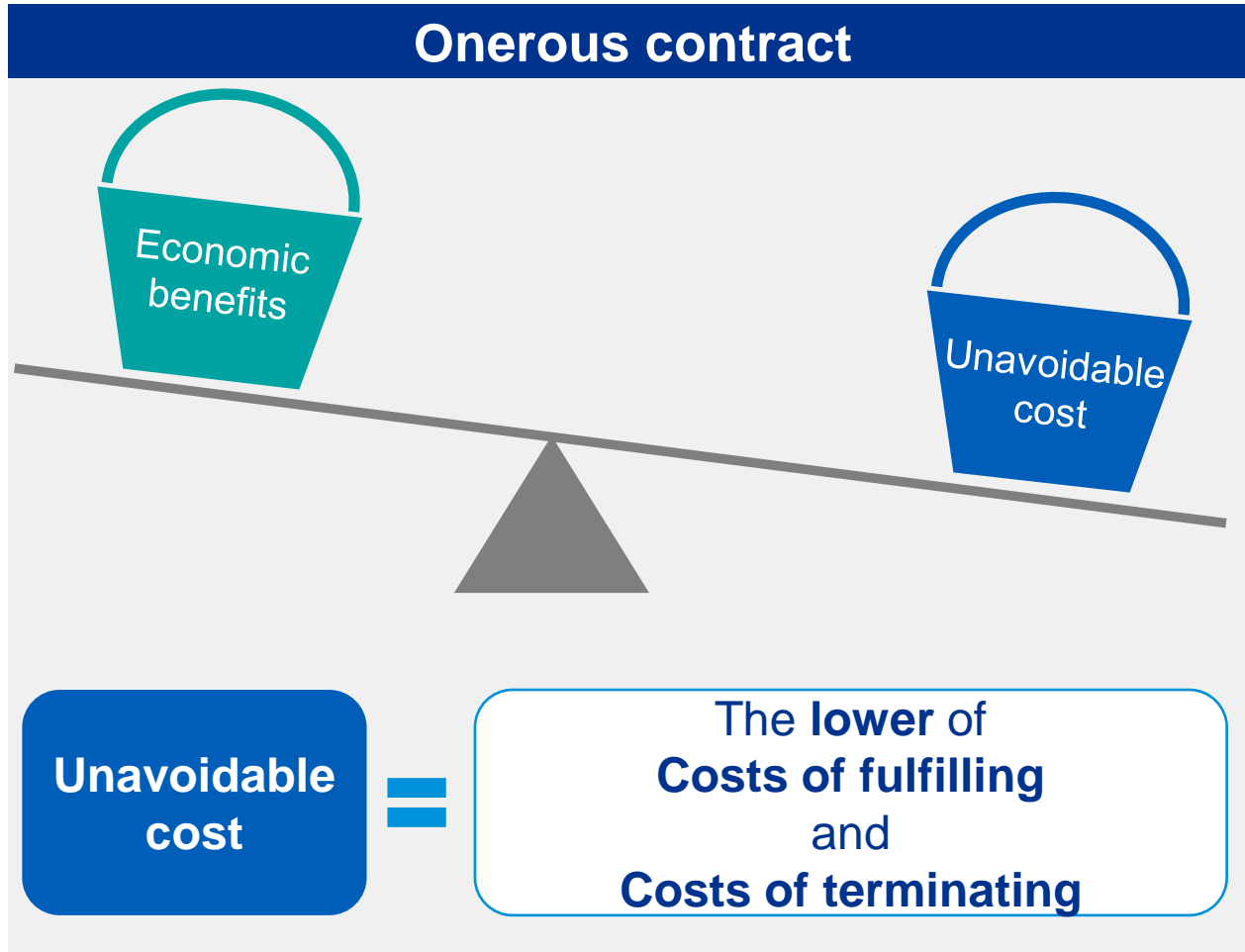
- ❑ Does a foreign operation disposed with nominal consideration qualify for IFRS 5 held for sale classification?
- ❑ Reclassification of foreign currency translation reserve (FCTR) on disposal of foreign operation



### Decision tree outlining the principle of treatment of FCTR



# Onerous Contracts - Cost of Fulfilling a Contract (Amendment to IAS 37)



**Issue:**  
**What are included in costs of fulfilling after withdrawal of IAS 11?**

# Onerous Contracts – Cost of Fulfilling a Contract (Amendment to IAS 37)

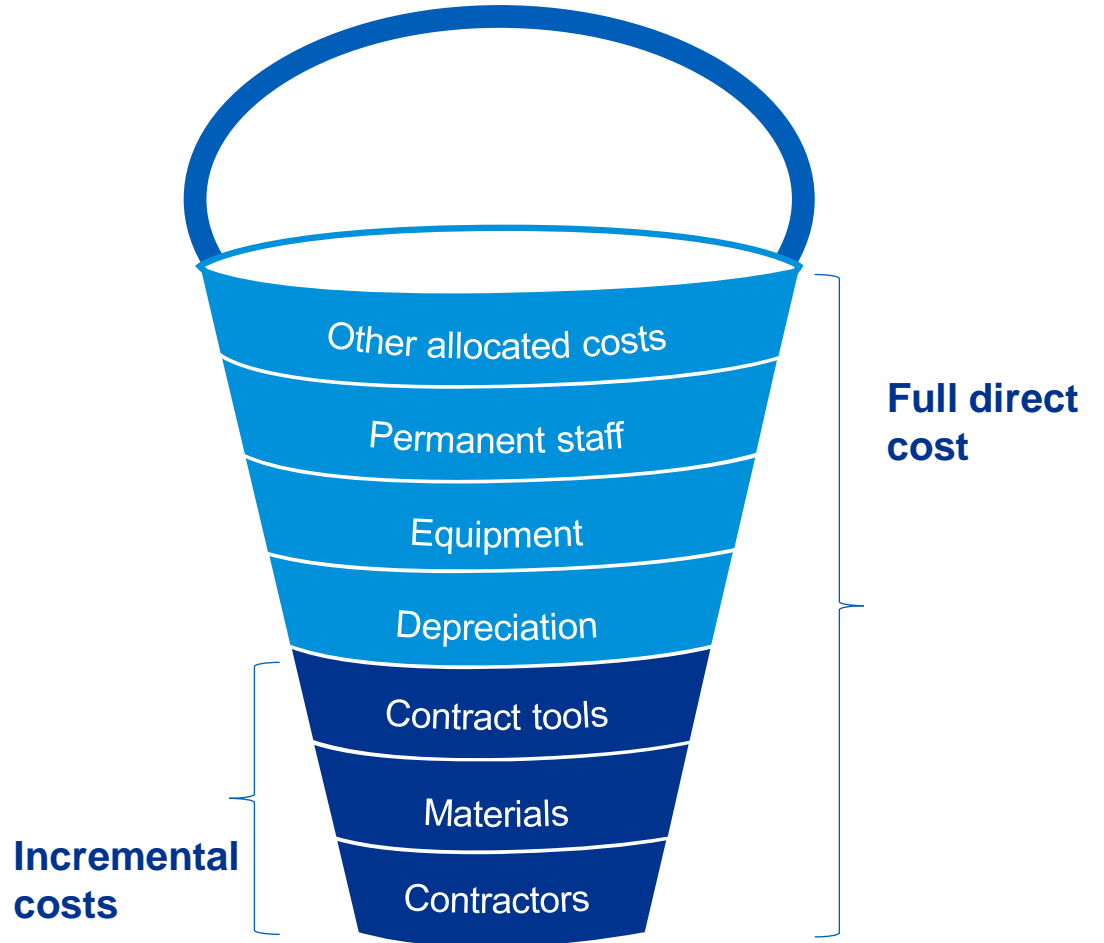
the incremental costs

e.g. direct labour and materials;

an allocation of other direct costs

e.g. an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract.

Effective for reporting period on or after 1 Jan 2022 to contracts existing the date when the amendments first applied



# Financial reporting challenges during times of uncertainty

## Impairment assessment

### Likely that an impairment testing will be required for the interim reporting

Index summary			
As at	31 Dec 2021	13 May 2022	Movement
Hang Seng Index	23,397.67	19,898.77	-15%
Shanghai Stock Exchange Composite Index	3,639.78	3,084.28	-15%
Shenzhen Stock Exchange Component Index	14,857.35	11,159.79	-25%
CSI 300 Index	4,940.37	3,988.60	-19%
S&P 500	4,766.18	4,023.89	-16%
Dow Jones Industrial Average	36,338.30	32,196.66	-11%



### Discount rates - WACC

Risk free rate (RFR) summary			
As at	31 Dec 2021	13 May 2022	Movement
HK RFR (20 year government bond)	1.63%	3.10%	1.47%
Mainland RFR (20 year government bond)	2.89%	2.95%	0.07%

Source: Capital IQ



### Examples of impairment indicators (IAS 36.12 (b)- (d)):

- significant changes in the technological, market, economic or legal environment that will adversely affect the entity
- an increase in market interest rates that are likely to affect the discount rate
- the carrying amount of an entity's net assets exceeding the entity's market capitalisation

# Classification and measurement of financial assets

You have probably heard/ read...

Business / Banking & Finance

**Evergrande crisis: a third of China's developers may face pressure with US\$84 billion in debt maturing by end of 2022, S&P warns**

Source: [https://www.scmp.com/business/banking-finance/article/3153906/evergrande-crisis-third-chinas-developers-may-face?module=perpetual\\_scroll\\_0&pgtype=article&campaign=3153906](https://www.scmp.com/business/banking-finance/article/3153906/evergrande-crisis-third-chinas-developers-may-face?module=perpetual_scroll_0&pgtype=article&campaign=3153906)

THE WALL STREET JOURNAL

**Chinese Property Developers' Broken Promises Erode Investor Confidence**  
China's property-bond market remains deeply distressed as real-estate sales fall and investors retreat on a lack of trust

Source: <https://www.wsj.com/articles/chinese-property-developers-broken-promises-erode-investor-confidence-11646305569>

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Markets

**Crisis in China's Property Industry Deepens With No End in Sight**

- Credit stress, plunging home sales continue to plague market
- Vanke chairman tells staff year could make or break the firm

Source: <https://www.bloomberg.com/news/articles/2022-02-18/crisis-in-china-s-property-industry-deepens-with-no-end-in-sight>



**Some accounting questions from the investor's perspective ...**



For a 'held-to-collect' business model, does it mean that no sale is allowed?



Entity A holds bonds which are measured at amortised cost. Due to liquidity management purposes, Entity A started selling some of these bonds. Does the sale trigger a reclassification of the remaining bonds?



Given the drop in the bond price, would classifying a bond as FVOCI instead of amortised cost have a more favourable PL impact since the fair value loss would be recognised in OCI?



The bond issuer is in a net asset position. Does it mean that the bond holder would be able to fully recover the cash flows of the bond and thus no ECL would be recognised?



# Financial guarantee contracts

## Definition:

A contract that requires the issuer to make specified payments to **reimburse the holder for a loss it incurs** because a **specified debtor fails to make payment when due** in accordance with the original or modified terms of a **debt instrument**

Initial measurement : fair value  
Subsequent measurement:  
higher of:

- Initial FV - cumulative income recognised
- ECL

Apply IFRS 9  
*unless insurance contract accounting applies*



*Integral to the  
guaranteed  
debt?*

Yes



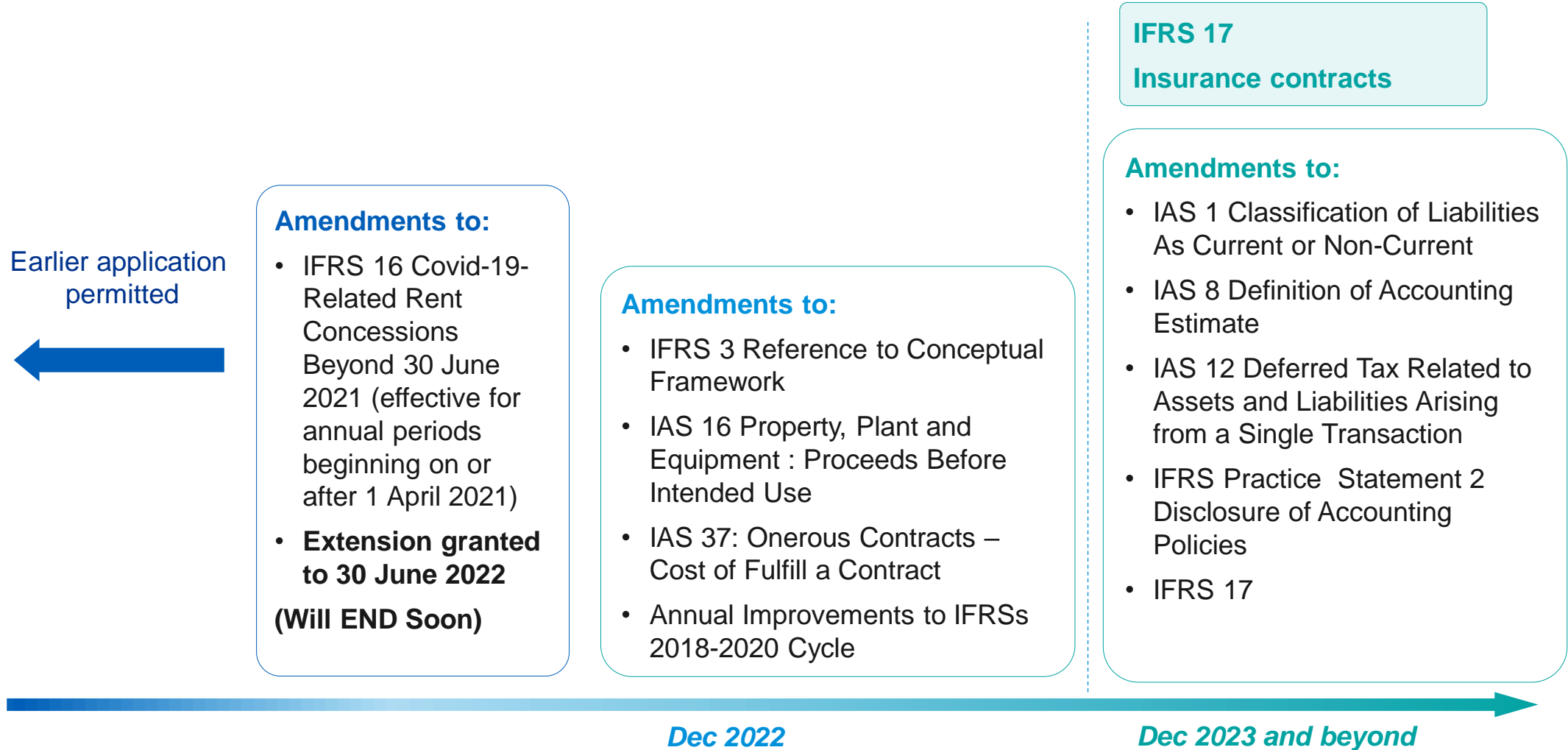
No



- Part of financial asset's
- initial carrying amount if entered into at the same time as the guaranteed asset
  - ECL measurement

Separately accounted for

# Amendments effective from 1 Jan 2022



# IFRIC agenda decisions - Future work plan

Comment feedback:  
[#Cash Received via Electronic Transfer as Settlement for a Financial Asset \(IFRS 9\)](#)

Comment feedback:  
[Transfer of Insurance Coverage under a Group of Annuity Contracts \(IFRS 17\)](#)

Comment feedback  
[Special Purpose Acquisition Companies \(SPAC\): Accounting for Warrants at Acquisition](#)

Comment feedback:  
[#Lessor Forgiveness of Lease Payments \(IFRS 9 and IFRS 16\)](#)

Q2 2022

Q3 2022

Comment feedback:  
[Negative Low Emission Vehicle Credits \(IAS 37\)](#)

Agenda Decision:  
[IFRS - Principal versus Agent: Software Reseller \(IFRS 15\)](#)

Comment feedback  
[Special Purpose Acquisition Companies \(SPAC\): Classification of Public Shares as Financial Liabilities or Equity \(IAS 32\)](#)

# Items covered in this webinar

More details: [IFRS - IFRS Foundation work plan](#)



# Resources

## **KPMG Global IFRS Institute - Financial Reporting Resource Centre - Uncertain times**

<https://home.kpmg/xx/en/home/insights/2022/03/financial-reporting-uncertain-times-resource-centre.html>

## **KPMG Global IFRS Institute**

<https://home.kpmg/xx/en/home/services/audit/international-financial-reporting-standards.html>

## **KPMG Global IFRS Institute – IFRS Today**

<https://home.kpmg/xx/en/home/services/audit/international-financial-reporting-standards/ifrs-today.html>

## **KPMG China - Financial Reporting Webinars and Webcasts**

<https://home.kpmg/cn/en/home/services/audit/ifrs-news/financial-reporting-webinars-and-videocasts.html>

# Webinar dates and topics for 2022

- **26 January – HKEX Listing Rules Update**
- **18 March – IFRS Sustainability Standards – The climate-related and general disclosure prototypes**
- **20 May – Get ready for 2022 Interim Reporting season**
- **10 June – ESG update/TCFD/Climate-risk on financial reports**
- **29 July – Accounting for intangible assets (including alternative investment asset class)**
- **2 September – IASB projects update**
- **18 November – ESG update/TCFD/Climate-risk on financial reports**
- **16 December – Year-end reporting reminders**



**For more details and access to our webinar series:**

**<https://home.kpmg/cn/en/home/services/audit/ifrs-news/financial-reporting-webinar-series.html>**



# Speakers



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