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Relevant industries: financial sector
Relevant companies: N/A
Relevant taxes: N/A

Potential impacts on businesses:
- Compliance requirements increased
- Operational costs reduced

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China plans financial sector regulatory reforms

Per a posting to the website of the official Xinhua News Agency on 15 July 2017, National Financial Work Conference ("the Conference") was held in Beijing on 14-15 July. The Conference is a high profile government policy-setting event, and has been held every five years since 1997, this being the fifth conference. Both Chinese President Xi Jinping and Premier Li Keqiang formally addressed the Conference, with other members of the standing committee of the politburo, including Yu Zhengsheng, Wang Qishan and Zhang Gaoli, also present. The Conference identified three key goals for improved governance of China's financial sector: (i) strengthen the financial sector's support for the real economy; (ii) guard against financial sector systemic risks, and (iii) deepen financial reform.

The Conference set out the following high-level measures, with detailed implementation plans from specific government ministries and agencies to follow:

- Develop direct financing (i.e. financing by way of financial instruments, such as bonds and shares) and improve the structure of indirect financing (i.e. financing via financial institutions) with two main focus areas: (i) Accelerate the transformation of large state-owned banks, and (ii) foster the development of private financial institutions**.**
- Guard against financial risks by deleveraging the economy through use of a prudent monetary policy and leverage reduction at state-owned enterprises.
- Reform of financial sector institutional framework:
  - ❑ Improved management of state-owned investment funds and assets;
  - ❑ Improve the operation of the foreign exchange market;
  - ❑ Enhance corporate governance and reform capital structures of state-owned financial institutions, and put in place modernized executive incentive structures;
  - ❑ Enhance coordination between China's several government authorities with financial regulatory responsibilities;
  - ❑ Set up a dedicated committee under the State Council to oversee financial stability and development. This will look to improve regulatory effectiveness in the face of increasing diversity and complexity in China's financial service sector products and operations.

- Liberalize the financial sector further:
  - ❑ Further develop the mechanism for managing the RMB exchange rate, promote RMB internationalization and capital account convertibility;
  - ❑ Open up the financial sector to further foreign and private sector investment;
  - ❑ Drive financial innovation to serve the Belt and Road initiative.

Reference: Cai Kuai [2017] No. 22
Issuance date: 5 July 2017
Effective date: 1 January 2018, 1 January 2020, 1 January 2021

Relevant industries: All
Relevant companies: All
Relevant taxes: N/A

Potential impacts on businesses:
- Compliance risks due to regulatory uncertainties reduced

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Revised Accounting Standards for Business Enterprises

On 5 July 2017, the Ministry of Finance (MOF) issued revised Accounting Standards for Business Enterprises (ASBE) No. 14 – Revenue ("New ASBE 14"). The revisions in ASBE 14 to the previous accounting guidance on revenue recognition ('old ASBE 14') are intended to align Chinese accounting practice with International Financial Reporting Standards (IFRS) No. 15. IFRS No.15, issued in May 2014, made numerous clarifications in respect of recognizing revenue from contracts with customers. As China CIT calculations start with accounting income statement results, new ASBE 14 may have a knock-on impact on the CIT liabilities of affected enterprises.

The timetable for rollout of the new ASBE 14 is as follows, though early adoption is also permitted:

(i). New ASBE 14 will apply to enterprise financial statements from 1 January 2018 where (i) the enterprise is on both Chinese and overseas markets or (ii) the enterprise is listed overseas and their financial statements are compiled on the basis of either IFRS or ASBE;

(ii). New ASBE 14 will apply to enterprise financial statements from 1 January 2020 where the enterprise is listed solely on the Chinese markets;

(iii). New ASBE 14 will apply to enterprise financial statements from 1 January 2021 for non-listed enterprises which apply ASBE.

Significant revisions in new ASBE 14 include:

- Old ASBE 14 dealt with revenue from customers generally while ASBE 15 dealt with revenue from construction contracts – these are dealt with collectively under new ASBE 14.
- New ASBE 14 requires that revenues must be recognised when consumers obtain control over products (services). This replaces the existing recognition criterion that revenues must be recognised when risks and rewards of products (services) are transferred to buyers.
- New ASBE 14 provides more specific guidance on accounting treatment of a contract containing several interlocking transactions with the same customer. It requires that the revenues shall be recognised on an apportionment basis.
- It also stipulates revenue recognition and measurement requirements for certain specific transactions, including sales with quality guarantees, granting of IP rights to customers, sale and repurchase agreements, etc.

* For detailed analysis of the new ASBE 14 and its impacts, please access the relevant KPMG publication here.

Reference: Cai Shui [2017] No. 60
Issuance date: 12 July 2017
Effective date: 12 July 2017

Relevant industries: N/A
Relevant companies: Companies and individuals participating in the 2022 Olympic and Paralympic Winter Games
Relevant taxes: CIT, IIT, VAT, CT, water resources tax and stamp duty

Potential impacts on businesses:
- Operational costs reduced.

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Tax incentives for the Beijing 2022 Winter Olympics

On 12 July 2017, MOF, the State Administration of Taxation (SAT) and the General Administration of Customs (GAC) jointly issued Cai Shui [2017] No. 60 ("Circular 60"). This sets out the relevant tax policies for organizers and participants (such as sponsors, referees) in the 2022 Beijing Olympic and Paralympic Winter Games (the "Games"), and enters into force from 12 July 2017.

Circular 60 clarifies the following tax incentives for the participants of the Games:

CIT	• Sponsored monies and donations, including expenditures incurred on materials and services donated to the Games (including test events), made by enterprises and social organizations, can be deducted in full for Corporate Income Tax (CIT) purposes.
VAT	Value Added Tax (VAT) exemptions available as follows: • Provision of free services to Beijing Organising Committee ("BOC") for the Games by enterprises are VAT exempt. This is provided that the services are rendered based on the sponsorship agreement entered into between the enterprise and the BOC. Enterprises who are entitled to the VAT exemption will be determined by MOF and SAT. • Provision of free services and transfer of intangible assets free of charge to the BOC by organisations or individuals involved in the Games are VAT exempt. • Income earned by foreign technicians (including consultants and referees) paid by the BOC and Organising Committee for the Winter Olympic Test Games is VAT exempt. The VAT exemption also applies to the income of Chinese technicians.
IIT	• Donations including expenditures incurred by individuals on donated materials can be deducted in full for Individual Income Tax (IIT) purposes. • Income of foreign technicians (including consultants and referees) paid by the BOC and Organising Committee for the Winter Olympic Test Games can be exempted from IIT.
Other exemption	• Transfer documents for donated property (to the BOC) are exempt from stamp duty. • Water used for construction, operation and maintenance of stadiums (playing fields) of the Games are exempted from water resources tax.

Reference: N/A
Issuance date: N/A
Effective date: N/A

Relevant industries: All
Relevant companies: MNEs
Relevant taxes: N/A

Potential impacts on businesses:

- Risks of being challenged due to cross-border tax anti-avoidance arrangement increased

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Additional OECD guidance on Country-by-Country reporting

The Organisation for Economic Cooperation and Development (OECD) on 18 July 2017 released a further additional guidance for the preparation and filing of country-by-country (CBC) reports (BEPS Action 13). This is the fourth set of CBC guidance provided by the OECD, and aims to give certainty to tax administrations and MNE groups on the implementation of CBC reporting (See KPMG *China Tax Weekly Update (Issue 48, December 2016)*, *(Issue 41, November 2016)* and *(Issue 16, April 2017)* for the previous third rounds of CBC guidance by the OECD).

This fourth round of CBC guidance addresses two specific issues:

- Whether, for reporting revenues earned in each jurisdiction, countries must require MNEs to use aggregated data (i.e. simple addition of sales of subsidiaries in a given country, with potential for double counting where there are intra-group sales) or consolidated data (i.e. eliminating double counting). The new guidance clarifies that if the MNE parent country has group tax consolidation rules then the country may give its MNEs the option of using consolidated or aggregated data for each reported country. As China does not have CIT group consolidation rules Chinese MNEs could solely use aggregated data;
- How to include, in the CBC report, any entity owned/operated by more than one unrelated MNE group. This would be relevant to joint ventures held 50:50 by two MNE groups. The new guidance explains that the accounting consolidation rules in the MNE parent countries will determine whether the entity is to be included, for each MNE group, in their separate CBC reports. If it happens that the entity is included by both MNEs, under their parent country CBC rules, then, depending on the manner of consolidation, there may be double counting of joint venture entities. Given the proliferation of joint venture entities in China, this new guidance is of relevance to a China context.

* In July 2016, China's State Administration of Taxation (SAT) Announcement [2016] No. 42 provides China's CBC reporting administrative guidance. You may refer to the following KPMG publications for more details:

- ❑ *China Tax Alert: State Administration of Taxation (SAT) Issued Announcement on the Enhancement of the Reporting of Related Party Transactions and Administration of Contemporaneous Documentation (Issue 23, July 2016)*
- ❑ *China Tax Weekly Update (Issue 27, July 2016)*

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