Project	**Derecognition - Disclosures**
Topic	**Amendments to IFRS 7**

Introduction

1. In March 2009, the Board published an exposure draft ('Derecognition ED') to replace the derecognition requirements of IAS 39 *Financial Instruments: Recognition and Measurement* and to improve the disclosure requirements in IFRS 7 *Financial Instruments: Disclosures* relating to the transfer of financial assets and liabilities.

2. At the IASB meeting in March 2010 (see AP 5C) we presented a summary analysis of the comments that the Board received on the proposed amendments to IFRS 7, as outlined in the Derecognition ED, and the feedback that we received during our extensive outreach efforts.

3. The Board tentatively decided that the next due process document would incorporate the derecognition disclosures, and related objectives, proposed in the ED, with the clarification that for assets that are derecognised and in which the entity has more than one type of continuing involvement, the disclosures should be aggregated.

4. The Board also tentatively decided to delete the following disclosure requirements proposed in the ED (for transferred assets that are derecognised):

   (a) the fair value of derecognised financial assets in which the entity has continuing involvement, including a description of the methods and assumptions applied in determining the fair value; and

(b) a sensitivity analysis showing the possible effect on the fair value of the continuing involvement of changes in the relevant risk variables that were reasonably possible at the reporting date and a description of the methods and assumptions used in preparing the sensitivity analysis.

5. In June 2010, the IASB and FASB agreed that their near-term priority should be on increasing the transparency and comparability of their standards by improving and converging US GAAP and IFRS disclosure requirements for financial assets transferred to another entity. The boards also decided to conduct additional research and analysis, including a post-implementation review of the FASB's recently amended requirements, as a basis for assessing the nature and direction of any further efforts to improve or converge IFRSs and US GAAP.

Purpose of this paper

6. In the light of the Boards decision (as set out in paragraph 5), the staff has carefully compared the disclosure requirements tentatively decided by the Board in March 2010 and the disclosure requirements relating to transfers of financial assets in US GAAP to assess whether there are any differences and, if so, how those differences could be eliminated.

7. The staff has also undertaken a comparison of the proposed amendment to IFRS 7 with the disclosure requirements in the consolidation project to assess whether there are any overlaps and if so how those overlaps might be addressed.

8. This paper includes the following appendices:

(a) Appendix A - an excerpt of the disclosure requirements for transfer of financial assets (for servicing assets and liabilities) in SFAS 166, Accounting *for Transfers of Financial Assets-an amendment of FASB Statement No. 140* .

(b) Appendix B – staff working draft of the proposed amendment to IFRS 7.

9. The purpose of this session is, before issuing an amendment to IFRS 7 based on the tentative decisions the Board took in March 2010, to highlight possible remaining differences between US GAAP disclosure requirements in this area and the amended IFRS disclosure requirements, and to recommend how those differences might be addressed.

10. The paper also paper sets out the staff's recommendation with respect to transitional provisions on the proposed amendments.

Difference between amended IASB disclosure requirements and the guidance in SFA 166

11. After detailed analysis, the staff believes that the two sets of disclosure requirements will be broadly similar. (This should not be surprising as the staff liaised with the FASB team whilst developing the disclosure requirements proposed in the Derecognition ED).

12. Although broadly similar, the requirements differ in terms of location of the respective provisions (i.e. in geography). However the combination of the detailed provisions, application guidance and implementation guidance requires similar information to be disclosed by entities***. (Obviously, to the extent that the derecognition models are different, the statement of financial position and the associated disclosures will be different depending on which of the guidance is applied).***

13. The only major difference (or perhaps the only difference) between the two disclosure guidance is that SFAS 166 has detailed disclosure requirements for servicing assets and liabilities whereas IFRS 7 does not require such disclosures.

14. IAS 39 only provides guidance on initial recognition of servicing assets and liabilities (following a derecognition event) but does not provide any guidance on subsequent measurement or accounting for such assets or liabilities (strictly they are not in the scope of IAS 39 or IFRS 9 *Financial Instruments* as they do not meet the definition of a financial instrument).

15. There is some divergence in practice with respect to the accounting for such items. Some carry such items at fair value through profit or loss. Others believe that those items are intangible assets and hence are accounted for subsequently under IAS 38, *Intangible assets*. Others see such items as purely revenue contracts and hence apply the revenue recognition guidance.

16. The staff believes that the appropriate accounting for such items are beyond the scope of this project.

17. Although the staff believes that such disclosures might be useful for investors, the staff does not recommend that the Board include such disclosures in IFRS 7 for the following reasons:

    (a) Servicing assets and liabilities are not financial instruments and hence fall outside the scope of this project

    (b) There is probably a need to develop comprehensive guidance (including associated disclosures) for such items when the Board has opportunity

    (c) Inclusion of similar guidance, as in SFAS 166, would be a major change to the requirements exposed by the Board and hence would necessitate re-exposure of the proposed amendments.

Question
Does the Board agree with the staff recommendation in paragraph 17? If not, why not? What would you propose and why?

Comparison of the proposed IASB derecognition and the consolidation disclosure requirements

18. The staff does not believe that there are overlaps in the respective disclosure requirements in situations where the transferor is deemed to be the parent of

the transferee and hence is required to consolidate the transferee. In this case, on consolidated basis, no transfer may have taken place and hence the derecognition requirements may not apply.

19. Where we think there are potential for overlap are situations involving unconsolidated entities. The working draft of the consolidation standard specifies the following (based on previous board decisions):

Nature of the risk

To meet the objective in paragraph xx, a reporting entity shall disclose in tabular format, unless another format is more appropriate, a summary of:

(i) the carrying amount of the assets and liabilities recognised in the reporting entity's consolidated financial statements relating to the reporting entity's involvement with unconsolidated structured entities;

(ii) the line items in the consolidated statement of financial position in which those assets and liabilities are recognised;

(iii) the amount that best represents the reporting entity's maximum exposure to loss from its involvement with unconsolidated structured entities, including how the maximum exposure to loss is determined. If a reporting entity cannot quantify its maximum exposure to loss from its involvement with unconsolidated structured entities it must disclose that fact; and

(iv) a comparison of the carrying amount of the assets and liabilities of the reporting entity that relate to the reporting entity's involvement with unconsolidated structured entities and the reporting entity's maximum exposure to loss.

If during the reporting period, a reporting entity has, without having a contractual or constructive obligation to do so, provided support to an unconsolidated structured entity, to ensure that the structured entity continues *to operate as designed, it shall disclose the information required in paragraph xx.*

20. As set out in appendix B, similar information as noted above is required for transferred financial assets that are derecognised.

21. The staff believes that some overlaps are unavoidable or even necessary but such situations are limited. Such overlaps would be present if an entity transfers financial assets to an entity but is not required to consolidate the transferee.

22. Consolidation takes an entity view whereas derecognition is typically from a transaction perspective. (That is, we are considering different ‘unit of accounts’). Hence although there are potential overlaps, the information provided would be useful as they provide different analysis and perspective of an entity’s activities in a period and risk exposures resulting from transfer of financial assets.

23. The staff does not believe that these overlapping requirements should be eliminated. The staff therefore recommends that the Board should maintain the derecognition requirements agreed at the March 2010 meeting.

Question
Does the Board agree with the staff’s recommendation in paragraph 23? If not, why not? What would you propose and why?

Transitional requirements

24. We think that there are two options in terms of transition:

    (i) Option A: retrospective application

(ii) Option B: prospective application from the effective date

25. Retrospective application would result in the most useful information for users. An entity would be required to present its financial statements (disclosures) as if the proposed amendments had always been in place. The information presented for all periods would be fully comparative.

26. However, retrospective application might prove to be costly and extremely difficult, if not impossible, to apply given the transactional focus of the derecognition requirements. Therefore, we do not think that option A is feasible regarding the proposed disclosure requirements.

27. Option B would require a reporting entity to assess transfer transactions by applying the new guidance as from the effective date of the proposed amendments. The staff believes that it is likely to be unduly onerous to expect entities to comply with the proposed amendments under Option A. Accordingly, the staff is recommending a prospective application of the final guidance.

28. We also recommend **1 January 2011** as the effective date for the proposed amendment, assuming that the Board publishes the amendments by the end of the third quarter of 2010. We also recommend the amendment includes the following transitional provisions:

    "Amendments to IFRS 7, issued in [month and 2010], deleted paragraph 13 and added paragraphs 42A–42H. An entity shall apply those amendments for annual periods beginning on or after 1 January 2011. In the first year of application, an entity need not provide comparative information for the disclosures required by the amendments. Earlier application is permitted. However, if the entity elects to apply those amendments from an earlier date, it shall provide the added disclosure requirements for all transactions from that earlier date. If an entity applies the amendments from an earlier date, it shall disclose that fact."

Question
Does the Board agree with the staffs recommendation in paragraphs 27 and 28? If not, why not? What amendments or alternative do you suggest, and why?

Appendix A: US GAAP Disclosure requirements – servicing assets and liabilities

SFAS 166, ***Accounting for Transfers of Financial Assets-an amendment of FASB Statement No. 140*** **. (extract)**

Paragraph 17:

An entity shall disclose the following:

c. For all servicing assets and servicing liabilities:

(1) Management's basis for determining its classes of servicing assets and servicing liabilities (paragraph 13A).

(2) A description of the risks inherent in servicing assets and servicing liabilities and, if applicable, the instruments used to mitigate the income statement effect of changes in fair value of the servicing assets and servicing liabilities. (Disclosure of quantitative information about the instruments used to manage the risks inherent in servicing assets and servicing liabilities, including the fair value of those instruments at the beginning and end of the period, is encouraged but not required.)

(3) The amount of contractually specified servicing fees, late fees, and ancillary fees earned for each period for which results of operations are presented, including a description of where each amount is reported in the statement of income.

(4) Quantitative and qualitative information about the assumptions used to estimate the fair value (for example, discount rates, anticipated credit losses, and prepayment speeds). (An entity that provides quantitative information about the instruments used to manage the risks inherent in the servicing assets and servicing liabilities, as encouraged by paragraph 17(c)(2), also is encouraged, but not required, to disclose quantitative and qualitative information about the assumptions used to estimate the fair value of those instruments.)

d. For servicing assets and servicing liabilities subsequently measured at fair value:

(1) For each class of servicing assets and servicing liabilities, the activity in the balance of servicing assets and the activity in the balance of servicing liabilities (including a description of where changes in fair value are reported in the statement of income for each period for which results of operations are presented), including, but not limited to, the following:

  (a) The beginning and ending balances

  (b) Additions (through purchases of servicing assets, assumptions of servicing obligations, and recognition of servicing obligations that result from transfers of financial assets)

  (c) Disposals

  (d) Changes in fair value during the period resulting from:

    i. Changes in valuation inputs or assumptions used in the valuation model

ii. Other changes in fair value and a description of those changes

(e) Other changes that affect the balance and a description of those changes.

e. For servicing assets and servicing liabilities subsequently amortized in proportion to and over the period of estimated net servicing income or loss and assessed for impairment or increased obligation:

(1) For each class of servicing assets and servicing liabilities, the activity in the balance of servicing assets and the activity in the balance of servicing liabilities (including a description of where changes in the carrying amount are reported in the statement of income for each period for which results of operations are presented), including, but not limited to, the following:

(a) The beginning and ending balances

(b) Additions (through purchases of servicing assets, assumptions of servicing obligations, and recognition of servicing obligations that result from transfers of financial assets)

(c) Disposals

(d) Amortization

(e) Application of valuation allowance to adjust carrying value of servicing assets

(f) Other-than-temporary impairments

(g) Other changes that affect the balance and a description of those changes.

(2) For each class of servicing assets and servicing liabilities, the fair value of recognized servicing assets and servicing liabilities at the beginning and end of the period.

(3) The risk characteristics of the underlying financial assets used to stratify recognized servicing assets for purposes of measuring impairment in accordance with paragraph 63.

(4) The activity by class in any valuation allowance for impairment of recognized servicing assets—including beginning and ending balances, aggregate additions charged and recoveries credited to operations, and aggregate write-downs charged against the allowance—for each period for which results of operations are presented.