

Exposure Draft *Derecognition*

Proposed amendments to IAS 39 and IFRS 7

27 May 2009

The views expressed in this presentation are those of the presenter,
not necessarily those of the IASC Foundation or the IASB



Introduction

Purpose

To provide an overview of the

- Derecognition project
- Proposed derecognition approach for financial assets
- Alternative derecognition approach for financial assets
- Proposed disclosure requirements
- Next steps



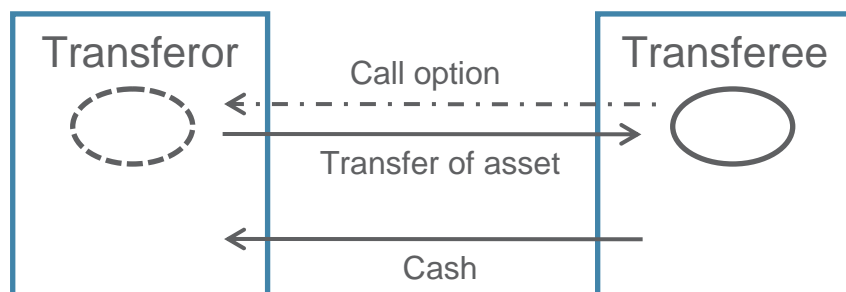
Derecognition project

Derecognition issue

- When should an entity remove a financial instrument from its financial statements?

Complicated when

- an entity has ongoing involvement with a transferred asset



Transferor's Accounting?

Sale of the asset

OR

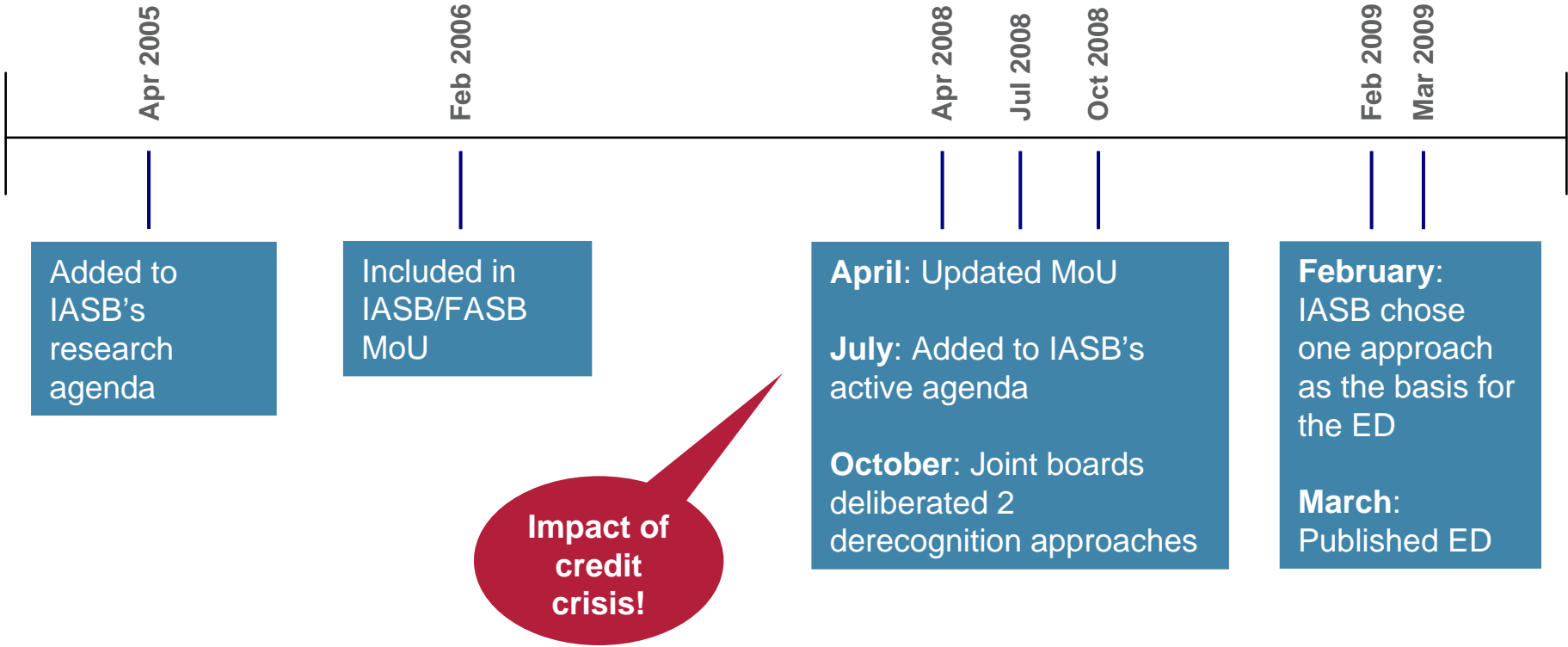
Borrowing
secured by the asset





Derecognition Project

Milestones



Derecognition Project



Consideration points

Complexity

Convergence

**Market
Environment**

**Divergent
Views**



Proposed approach

**Derecognise a financial asset
(or a specified part thereof) if...**

Contractual rights to the cash flows expire

Transfer + no continuing involvement

OR

**Transfer + continuing involvement, but
transferee has practical ability to transfer
the asset (or part) for its own benefit**



Proposed approach

How does it compare to IAS 39?

Some similarities...

- Same criteria for what qualifies as a 'part' of an asset
- Similar control test (but: test has primacy)
- Similar outcomes for many transfers (but: securitisations and transfers of readily obtainable assets)

But also some differences...

Focus on single concept (control):

- No pass-through requirements
- No explicit risks and rewards test
- No 'continuing involvement' measurement

Less complexity!



Alternative approach

Derecognise a financial asset if...

no longer *present access, for own benefit*, to *all* of the cash flows or other economic benefits of the asset.

Implications

Transfer of all or some cash flows



Derecognise the entire asset

Any involvement retained/obtained



FV (initially) as a new asset/liability



Proposed disclosures

Why?

To better understand entities' risk exposures in transfer transactions

What are they?

Transferred assets NOT derecognised (On-balance sheet)	Transferred assets derecognised (Off-balance sheet)
Relationship between transferred (but not derecognised) assets and associated liabilities	Nature of and risks from <i>continuing involvement</i>

Users'
concern!



Proposed disclosures

Transferred assets derecognised (Off-balance sheet)

- Carrying amount of the continuing involvement
- FV of the continuing involvement
- Maximum exposure to loss from continuing involvement
- FV of derecognised assets in which the entity has continuing involvement
- Cash outflows to repurchase assets
- Maturity analysis of future cash outflow
- Sensitivity analysis
- Qualitative information
- Gain or loss recognised
- Income and expense recognised from continuing involvement
- If transfer activity not evenly distributed
- ✓ Total amount of activity and related gains/losses in the period, and
- ✓ When greatest activity took place
- Any additional information necessary



Next steps

- Public roundtables in June 2009 (together with ED 10 *Consolidation*)
 - 1-2 June Toronto
 - 8-9 June Tokyo
 - 15-16 June London
- Comments on ED to be submitted by 31 July 2009
- Deliberation of comments with FASB
- Final standard expected in 1st half of 2010

