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International
Accounting Standards
Board

This observer note is provided as a convenience to observers at IFRIC meetings, to assist them in following the IFRIC's discussion. Views expressed in this document are identified by the staff as a basis for the discussion at the IFRIC meeting. This document does not represent an official position of the IFRIC. Decisions of the IFRIC are determined only after extensive deliberation and due process. IFRIC positions are set out in Interpretations.

Note: The observer note is based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because the observer note is less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting: January 2007, London

Project: IAS 39 *Financial Instruments: Recognition and Measurement* – Derecognition of financial assets – Staff proposal
(Agenda Paper 13(iv))

Introduction

1. The purpose of this paper is to ask the IFRIC to decide whether to finalise its tentative agenda decision dealing with the derecognition of financial assets.

Summary of IFRIC Discussions

2. The IFRIC had previously discussed two issues relating to the derecognition requirements of IAS 39, namely (a) when financial assets are considered to be similar for the purposes of the derecognition tests, and (b) when the pass through tests in paragraph 19 of IAS 39 should be applied.
3. At its meeting in July 2006 the IFRIC directed the staff to seek the views of the Board on these two issues. In particular, the IFRIC asked the Board to clarify whether the wording of IAS 39 reflected the Board's intentions. The Board discussed these issues at its meeting in September.
4. At the November meeting, the staff reported the views of the Board to IFRIC. Following this clarification of the Board's views, the IFRIC decided to issue a

tentative agenda decision. This was published in the November 2006 edition of IFRIC Update and proposed not to take these issues on to the agenda. Agenda paper 13(iii) reproduces the tentative agenda decision.

Feedback on Tentative Agenda Decision

5. The staff have received two letters objecting to the IFRIC's decision not to take these issues on to the agenda (see agenda paper 13(iii)). These letters state that, despite the publication of the Board's views, there is still considerable confusion regarding how to apply the derecognition requirements of IAS 39. Informal discussions suggest that a number of other constituents support the views expressed in the letters.

Options Available to IFRIC

6. The IFRIC could decide not to reconsider these derecognition issues and finalise the tentative agenda decision published in the November 2006 IFRIC Update.
7. Alternatively, the IFRIC may decide, given the concerns expressed in the comment letters, to take these issues on to its agenda. In making this decision, the IFRIC should consider its agenda criteria. To be added to the agenda, an issue should:
 - (a) Have practical and widespread relevance;
 - (b) Involve significant divergent interpretations (either emerging or already existing in practice);
 - (c) Be likely to result in a consensus view of the IFRIC on a timely basis;
 - (d) Be unrelated to a Board project that is expected to be completed in the near future.
8. The letters received by IFRIC suggest that these issues have widespread practical relevance and that divergent interpretations already exist.
9. Although the staff are undertaking research on the subject of derecognition which may eventually lead to a change in the derecognition requirements of IFRSs, it is unlikely that this project will be completed in the near future.
10. It is, of course, for the IFRIC to decide whether it is likely that it will be able to reach a consensus on these issues on a timely basis.

Content of Any Interpretation

11. If the IFRIC, decide to take these issues on to its agenda, the staff believe it is important that the scope of any Interpretation is established up-front.
12. Derecognition of financial assets is a complex area. As suggested in the letters received, there are a large number of potential questions regarding the application of the derecognition requirements of IAS 39 which the IFRIC could be asked to address. *[Part of paragraph omitted from observer notes]* The staff therefore recommend that, if the IFRIC choose to add derecognition to its agenda, any interpretation should be strictly limited in its scope.
13. The staff recommend that the scope of any Interpretation be limited to the following areas:
 - The application of paragraph 18 of IAS 39 to transfers of different types of financial assets (including transfers that include derivative financial instruments that can be assets or liabilities);
 - Whether the risk and rewards tests in paragraph 20 of IAS 39 should be applied separately to different types of financial assets transferred in the same transaction; and
 - Whether paragraph 18(a) or paragraph 18(b) of IAS 39 applies to a transfer of a financial asset.
14. If the IFRIC decide to take this issue on to its agenda, the staff will, of course, bring a more detailed scope proposal to a later meeting. However, the staff would like, if possible, to establish an outline of the scope at this meeting.

Decisions for IFRIC

- **Does the IFRIC wish to add these derecognition issues to its agenda?**
- **If the IFRIC decide to add these issues to its agenda:**
 - i. **Does the IFRIC agree that any Interpretation should be strictly limited in its scope; and**
 - ii. **Does the IFRIC agree with the scope proposed by the staff in paragraph 13 of this paper?**