

**International
Accounting Standards
Board**

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This document is provided as a convenience to observers at the Global Preparers Forum meeting, to assist them in following the discussions. It does not represent an official position of the IASB. Board positions are set out in Standards.

Note: These notes are based on the staff papers prepared for the GPF meeting. Paragraph numbers correspond to paragraph numbers used in the GPF agenda paper.

INFORMATION FOR OBSERVERS

GPF Meeting: November 2008, London
Project: Derecognition project

(Agenda Paper 5)



Derecognition Project

Global Preparers Forum – 11 November 2008

The views expressed in this presentation are those of the presenter,
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Introduction

2

Purpose

To provide an overview of the

- Derecognition project
- Staff's derecognition principle
- Staff's proposed two derecognition models, and
- Project timetable

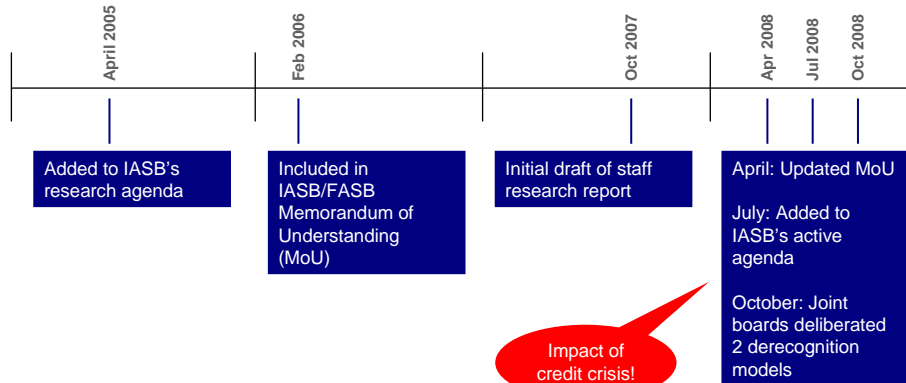
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Derecognition Project

3

Milestones



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Derecognition Project

4

Backdrop

Added in 2005 to research agenda because

- *Complexity of existing derecognition guidance, and*
- *Opportunity to converge between IFRS and US GAAP*

But: Project is difficult to tackle because

- *Impact of credit crisis (users' requests for more transparency, regulators' requests to improve and converge)*
- *Diversity of views on appropriate derecognition criteria*

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Staff's Derecognition Principle

5

We looked to the Framework...

An entity should derecognise a financial asset or component thereof if...

*...it no longer **controls** the underlying economic benefits (cash flows).*

How do we define 'control'?

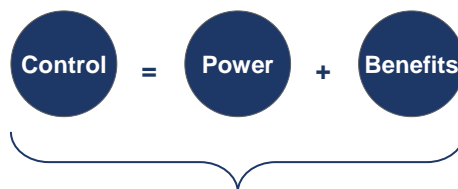
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Staff's Derecognition Principle

6

'Control' is...



An entity should derecognise a financial asset or component thereof if it no longer **has the ability to obtain** the underlying economic benefits (cash flows) **for its own benefit**.

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Staff's Derecognition Models

7

Making the Principle Operational...

An entity no longer has the ability to obtain the cash flows underlying a financial asset/component for its own benefit if:

- it is no longer involved in that asset or component after the transfer, or
- the counterparty (transferee) has the practical ability to **transfer** the asset for its own benefit.

Implication: Any readily obtainable FA will qualify for derecognition, *regardless of any other related contracts (eg, repos, forwards, puts, calls, total return swaps)!*

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Staff's Derecognition Models

8

Lack of Practical Ability to Transfer – Now What?

Approach 1	Approach 2
Assess whether the transferee can obtain the underlying cash flows by means other than a transfer.	Done. No ability to transfer = no control = no derecognition.

Remember backdrop factors!

Failed sale, but maybe linked presentation

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Project Plan and Timetable

9

- Close majority for Approach 2, but boards want the staff to develop both models further over next few months
- Monitor developments of IASB consolidation project and understand interaction with derecognition project
- Coordinate derecognition project with FAS 140 amendment project
- Possibly hold roundtables and other 'fatal flaw' discussions
- Plan to issue ED in 1st half of 2009

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