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Accounting Standards Board

This document is provided as a convenience to observers at the Analyst Representative Group 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 ARG meeting. Paragraph numbers correspond to paragraph numbers used in the ARG agenda paper.

INFORMATION FOR OBSERVERS

ARG Meeting:	***November 2008, London***
Project:	***Consolidation - Disclosure requirements proposed in the staff draft of the consolidation exposure draft***
	(Agenda Paper 4B)

Introduction

1 The objectives of the consolidation project are:

a to develop a cohesive control based model that encompasses structured financing and investment vehicles, replacing both IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation—Special Purpose Entities*.

b to improve the quality of information that is available to users about the risks that arise from the use of subsidiaries to conduct activities of the group, and from a reporting entity's involvement with structured entities that it does not control.

2 The Board and staff are working towards publishing an exposure draft on consolidation by the end of November. In this paper, we are interested in your views on the disclosure requirements proposed in the staff draft of the consolidation exposure draft.

3 The appendix of this paper sets out those disclosure requirements, and also includes illustrative examples of some of those disclosure requirements. You should note that some of the disclosure requirements have not yet been discussed by the Board (the Board will discuss disclosure at its November meeting), and also that we are continuing to work on the illustrative examples, which are not yet final. The examples are included in this paper to illustrate how an entity might present some of the disclosure requirements.

4 Some disclosure requirements apply only to a reporting entity's involvement with structured entities. The staff draft of the consolidation exposure draft describes structured entities as follows:

The founding documents of an entity (such as a constitution) and the legal framework in which the entity operates often define how the activities of that entity are directed. Such documents can also define the range and type of activities the entity is permitted to undertake. For example, the founding documents might preclude an entity from investing in a new type of activity without all its owners agreeing to such an investment. An agreement between the entity and the parties that contract with the entity can also restrict the entity's activities. For example, a debt agreement might limit the entity's ability to invest in a new type of activity. Often, the conditions for changing or relaxing those restrictions are severely limited.

The activities of some entities are restricted to the extent that they are directed by means of contractual arrangements, rather than by a governing body, or other party, that determines the strategic operating and financing policies of the entity. For the purposes of this [draft] IFRS, such entities are referred to as *structured entities*.[1]

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[1] Structured entities are sometimes called special purpose entities, special purpose vehicles or conduits. Sometimes those entities are referred to according to the type of transaction in which they are involved, such as securitisation vehicles, structured investment vehicles and lease vehicles. Typically, such entities are established to undertake a specific type of activity, such as to perform research and development on behalf of the reporting entity.

APPENDIX

EXTRACT FROM THE STAFF DRAFT OF THE CONSOLIDATION EXPOSURE DRAFT

Disclosure

52 A reporting entity must disclose information that enables users of its financial statement to evaluate:

(a) **the judgements made by management in applying this [draft] IFRS when reaching decisions about whether it controls other entities and the accounting consequences of those judgements;**

(b) **the structure of the group and basis of preparation of the consolidated financial statements;**

(c) **the nature and financial effect of restrictions on assets and liabilities that are a consequence of those assets and liabilities being held by subsidiaries;**

(d) **the nature of, and risks associated with, the reporting entity's involvement with structured entities that the reporting entity does not control;**

(e) **the accounting consequences of changes in the reporting entity's ownership interest in a subsidiary without loss of control; and**

(f) **the accounting consequences when the reporting entity loses control of a subsidiary during the reporting period.**

53 To meet the objectives in paragraph 52, a reporting entity shall disclose the information specified in paragraphs B1 - B18.

Application guidance

B1 A reporting entity shall present the disclosures required by paragraphs B3 - B18 in the financial statements or incorporate them by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.

B2 An entity decides, in the light of its circumstances, how much detail it provides to satisfy the requirements of this [draft] IFRS, how much emphasis it places on different aspects of the requirements and how it aggregates information to display the overall picture without combining information with different characteristics. It is necessary to strike a balance between overburdening financial statements with excessive detail that may not assist users of financial statements and obscuring important information as a result of too much aggregation. For example, an entity shall not obscure important information by including it among a large amount of insignificant detail. Similarly, an entity shall not disclose information that is so aggregated that it obscures important differences between the types of involvement or associated risks.

Judgement in determining control (paragraph (a))

B3 To meet the objective in paragraph (a), a reporting entity shall describe the basis for its assessment and any significant assumptions or judgements applied that would have resulted in a different conclusion regarding control. The reporting entity shall disclose this information when it has concluded that:

(a) it controls an entity, whose activities are directed through voting interests and in which the reporting entity does not have more than half of the voting interest.

(b) it does not control a structured entity:

(i) that the reporting entity set up or sponsored; or

(ii) from which the reporting entity obtains returns that are potentially significant to the structured entity.

B4 A parent shall disclose, for each subsidiary identified in paragraph (a), information that is necessary for users to evaluate the accounting consequences of its decision to consolidate an entity. Such information might include the amounts in the consolidated financial statements relating to the subsidiary's total assets, liabilities, income and profit or loss.

Structure of the group and basis of preparation of the consolidated financial statements (paragraph (b))

B5 To meet the objective in paragraph (b), a parent shall disclose:

(a) information about the structure and activities of the group, including a list of individually material subsidiaries. This list shall include the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting interest, main activity and total consolidated assets of each individually material subsidiary as reported in the parent's statement of financial position;

(b) information about non-controlling interests in the group's activities including:

(i) the non-controlling interest's share of the group profit or loss and comprehensive income. In addition, a parent shall disclose the non-controlling interest's share of other income measures, if those measures are more reflective of the activities of the group.

(ii) the non-controlling interest's proportionate interest in dividends paid by subsidiaries, distinguishing between dividends paid to the parent and to non-controlling interests.

(c) the end of the reporting period of the financial statements of a subsidiary when such financial statements are used to prepare consolidated financial statements and are as of a date or for a period that is different from that of the parent's financial statements. The parent shall also disclose the reason why the subsidiary uses a different date or period.

Restrictions on consolidated assets and liabilities (paragraph (c))

B6 To meet the objective in paragraph (c), a parent shall disclose the nature of restrictions that are a consequence of assets and liabilities being held by subsidiaries, including:

(a) the extent to which non-controlling interests can restrict the activities of subsidiaries, such as restricting cash flows or investment and financing decisions.

(b) legal and contractual restrictions such as:

(i) those that restrict the ability of subsidiaries to transfer cash to the parent; and

(ii) guarantees between entities within the group that may restrict dividends being paid to the parent.

(c) the carrying amount of the assets and liabilities to which those restrictions apply.

Involvement in unconsolidated structured entities and associated risks (paragraph (d))

B7 To achieve the disclosure objective in paragraph (d), a reporting entity shall disclose information that enables users of its financial statements to evaluate:

(a) the nature and extent of the reporting entity's involvement with structured entities that it does not control;

(b) the nature and extent of, and changes in, the market (interest rate, prepayment, currency and other price) risk, credit risk and liquidity risk from the reporting entity's involvement with structured entities that it does not control. This exposure may arise from both contractual and non-contractual commitments, and from past and present activities.

B8 If providing any of the disclosures required by this [draft] IFRS is impracticable, the reporting entity shall disclose why it is unable to obtain the information, and how it manages its exposure to risk from its involvement with unconsolidated structured entities for which it is unable to obtain the information.

Nature and extent of involvement (paragraph B7(a))

B9 In accordance with the disclosure objective in paragraph B7(a), a reporting entity shall disclose information about its involvement with unconsolidated structured entities that the reporting entity set up or sponsored, or in which it has continuing involvement at the reporting date. This includes summary information about the nature, purpose, size (indicated by, for example, total assets) and activities of the structured entities, categorised by type of activity or entity.

Structured entities set up or sponsored

B10 A reporting entity shall disclose for unconsolidated structured entities that the reporting entity has set up or sponsored, in tabular format, unless another format is more appropriate, a summary of:

(a) total income from the reporting entity's involvement with structured entities, including a description of the types of income presented in the summary; and

(b) the value of assets transferred to those structured entities, at the date the transfers were completed. The summary should distinguish between those assets originated by the reporting entity and those acquired by the reporting entity. In addition, the reporting entity shall disclose the basis of the valuation of the assets presented in the summary.

The summary shall separate the activity into relevant categories (such as by type of structured entity or asset that exposes the reporting entity to different risks). The reporting entity shall also identify the extent to which the activity relates to structured entities in which the reporting entity has continuing involvement at the reporting date and those in which the reporting entity has not.

B11 A reporting entity shall disclose the information in paragraph B10 for the current reporting period and the preceding two reporting periods. A reporting entity shall assess whether this information meets the disclosure objective in paragraph B7(a), and provide comparative information for additional reporting periods if that information is necessary to meet the objective.

Nature of risks (paragraph B7(b))

B12 To achieve the disclosure objective in paragraph B7(b), a reporting entity shall disclose information about its exposure to risks from its involvement with unconsolidated structured entities. The disclosure requirements in paragraphs B13 - B16 supplement the disclosure requirements in IFRS 7 *Financial Instruments: Disclosures*.

B13 A reporting entity shall present in tabular format, unless another format is more appropriate, a summary of:

(a) the carrying amount of the assets and liabilities relating to the reporting entity's involvement in structured entities.

(b) the line items in the reporting entity's statement of financial position in which those assets and liabilities are recognised.

(c) the total value of assets held by structured entities, in which the reporting entity has continuing involvement, measured at the reporting date of the reporting entity. The reporting entity shall disclose the basis of the valuation of the assets presented in the summary, and distinguish between assets originated by the reporting entity and those originated by other entities.

(d) the amount that best represents the reporting entity's maximum exposure to loss from its involvement with structured entities, including how the maximum exposure to loss is determined.

B14 The information required in paragraph B13 should be classified into categories that are representative of a reporting entity's exposure to risk (such as by type of structured entity or type of assets).

B15 In addition, a reporting entity shall disclose the following information, if such disclosure is relevant to an assessment of the risks to which the reporting entity is exposed:

(a) in relation to structured entities' assets, their categories and rating, their weighted-average life, and whether any assets have been written down or downgraded by rating agencies.

(b) in relation to funding and loss exposure:

(i) the forms of structured entities' funding (commercial paper, medium-term notes, etc) and their weighted-average life. That information shall include maturity analyses of the assets and funding of structured entities if the entities have longer-term assets funded by shorter-term funding.

(ii) any difficulties structured entities have experienced in financing their activities during the reporting period.

(iii) losses incurred by the reporting entity during the reporting period relating to its involvement with structured entities.

(iv) estimated exposure to loss or range of outcomes of that loss that were reasonably possible at the reporting date, if the reporting entity believes that the maximum exposure to loss is not representative of the estimated exposure to loss. The reporting entity shall explain the methodology used to determine the estimated exposure to loss or range of that loss.

(v) whether the reporting entity is required to bear any losses ahead of other investors in the structured entity, the ranking and amounts of losses borne by each category of party involved, and the maximum limit of such losses.

(c) The types of returns the reporting entity received during the reporting period from the financial instruments it holds in structured entities.

(d) The nature and terms of any obligation of the reporting entity to provide liquidity support to structured entities, in which it has continuing involvement at the reporting date (eg to purchase assets or commercial paper of the structured entity), including:

(i) a description of any triggers associated with the obligation.

(ii) whether there are any terms that would limit the obligation.

(iii) whether there are any other parties that provide liquidity support and, if so, how the reporting entity's obligation ranks with those other parties.

(e) In relation to support that has been provided by a reporting entity to structured entities during the reporting period whether:

(i) the reporting entity purchased any debt or equity interests in structured entities, and whether any agreement required the reporting entity to make these purchases;

(ii) other assistance was provided to structured entities in obtaining any other type of support;

(iii) there are any current intentions to provide other assistance to structured entities in obtaining any other type of support.

B16 If a reporting entity has provided support to unconsolidated structured entities without having a contractual or constructive obligation to do so, it shall disclose:

(a) the extent of support provided, including its nature and amount, including situations in which the reporting entity assisted the structured entity in obtaining another type of support, or in which there are current intentions to do so;

(b) an explanation of why the support was provided;

(c) an explanation of how the provision of the support resulted in the reporting entity controlling the structured entity, if applicable.

Accounting consequences of changes in a parent's ownership interest without loss of control (paragraph (e))

B17 To meet the objective in paragraph (e), a parent shall disclose a schedule that shows the effects of any changes in a parent's ownership interest in a subsidiary, that do not result in a loss of control, on the equity attributable to owners of the parent.

Accounting consequences when a parent loses control of a subsidiary (paragraph (f))

B18 To meet the objective in paragraph (f), a parent shall disclose the gain or loss, if any, recognised in accordance with paragraph **Error! Reference source not found.**, and:

(a) the portion of that gain or loss attributable to recognising any investment retained in the former subsidiary at its fair value at the date when control is lost; and

(b) the line item(s) in the statement of comprehensive income in which the gain or loss is recognised (if not presented separately in the statement of comprehensive income).

[*DRAFT*] Illustrative Examples
IFRS X *Consolidated Financial Statements*

This [draft] guidance accompanies, but is not part of, [draft] IFRS X.

Introduction

IE1 Examples 1 to 3 illustrate some of the disclosure requirements of the [draft] IFRS. A reporting entity is required to provide some of the disclosures in a tabular format, unless another format is more appropriate, however the formats used in the illustrations are not mandatory requirements.

IE2 The following examples relate to a hypothetical reporting entity, XYZ Bank. The examples do not illustrate all information that is required by the [draft] IFRS.

Example 1 – Nature and extent of involvement in unconsolidated structured entities

Illustrating the application of paragraphs 52(d) and B9 - B11 of the [draft] IFRS.

IE3 This example illustrates some of the disclosure requirements of the [draft] IFRS relating to the nature and extent of involvement of a reporting entity with structured entities that it has set up or sponsored, or in which it has involvement. The example is not intended to be all-inclusive. It may, however, include information that is not required explicitly by this [draft] IFRS but which is provided to meet the disclosure objectives and to provide information that is considered useful for users of the financial statements of the entity.

Structured entities

XYZ Bank enters into securitisation arrangements for a variety of business purposes, mainly relating to the securitisation of mortgages and credit card receivables, and providing investors with investment opportunities. Securitisation vehicles are structures in which interests in consumer and commercial receivables are sold to investors. Securitisation vehicles acquire assets originated by XYZ Bank itself or other third parties. The structured entities issue commercial paper, notes, or equity interests to investors to fund the purchase of receivables, and cash received from the receivables is used to service the finance provided by the investors.

XYZ Bank consolidates securitisation entities that hold receivables originated by itself because it controls those entities. XYZ Bank has the ability to direct the activities of the entities for its benefit both as a result of the extent of its involvement in setting up the entities and because of its powers as the servicer of those assets.

XYZ Bank also facilitates the establishment of structured entities on behalf of third parties. These entities are established to securitise third party receivables, to house assets leased by third parties, for research and development activities and for investing purposes (for example, collateralised debt obligations are used to provide investment opportunities for investors). XYZ Bank generally does not control entities that it establishes or sponsors on behalf of third parties. It sometimes provides asset management services to those entities, or has involvement in the entities as described below.

XYZ Bank's involvement with structured entities that it does not control, but has either set-up or sponsored, or in which it has involvement is presented below:

	31 December 2008
CU Million	**Assets of unconsolidated structured entities**
Collateralised debt obligations	145,300
Mortgage-backed securitisations	465,800
Credit card securitisations	220,300
Municipal bond securitisations	110,200
Principal-protected notes	12,540
Assets under lease	9,400
Asset repackagings and credit-linked notes	1,020
Research and development entities	2,520
Total	**967,080**

Structured entities set up or sponsored

The following tables summarise XYZ Bank's involvement with securitisation and other asset management entities that XYZ Bank set up or sponsored, by asset type. The tables present XYZ Bank's income recognised in each reporting period (which consists of fees for setting up the structured entities and servicing the receivables) and the fair value of the assets securitised at the date the securitisation transactions were completed. In some cases, XYZ Bank retained some involvement with the structured entities used to manage securitisation activities, in the form of residual interests, the provision of asset management services, credit guarantees or liquidity commitments. Further information is provided about those involvements in Note X Risk Disclosures.

For reporting period ended 31 December 2008 CU Million	Total fee income		
	2008	**2007**	**2006**
Collateralised debt obligations	1,025	820	697

Residential mortgage-backed securities	6,055	4,844	4,117
Commercial mortgage-backed securities	878	703	597
Municipal bond securitisations	623	499	424
Principal-protected notes	332	265	226
Asset repackagings and credit-linked notes	189	151	128
Total	**9,102**	**7,282**	**6,189**

As at 31 December 2008 **CU Million**	**Assets securitised during the year**		
	2008	**2007**	**2006**
Collateralised debt obligations	14,650	11,720	9,962
Residential mortgage-backed securities	86,500	69,200	58,820
Commercial mortgage-backed securities	12,546	10,037	8,532
Municipal bond securitisations	8,907	7,126	6,057
Principal-protected notes	4,739	3,791	3,223
Asset repackagings and credit-linked notes	2,695	2,156	1,833
Total	**130,037**	**104,030**	**88,427**

The following table provides a split between those transactions in which XYZ Bank retains some involvement at the reporting date and those in which it does not, by asset type.

Continuing involvement at the reporting date

For reporting period ended 31 December 2008 **CU Million**	**Total fee income**		
	2008	**2007**	**2006**
Collateralised debt obligations	410	328	279
Residential mortgage-backed securities	2,422	1,938	1,647
Commercial mortgage-backed securities	351	281	239
Total	***3,183***	***2,547***	***2,165***

No continuing involvement at the reporting date

For reporting period ended 31 December 2008 **CU Million**	**Total fee income**		
	2008	**2007**	**2006**
Collateralised debt obligations	615	492	418
Residential mortgage-backed securities	3,633	2,906	2,470
Commercial mortgage-backed securities	527	422	358
Municipal bond securitisations	623	499	424
Principal-protected notes	332	265	226
Asset repackagings and credit-linked notes	189	151	128
Total	***5,919***	***4,735***	***4,024***

Continuing involvement at the reporting date

As at 31 December 2008	**Assets securitised during the year**

CU Million	2008	2007	2006
Collateralised debt obligations	5,860	4,688	3,985
Residential mortgage-backed securities	34,600	27,680	23,528
Commercial mortgage-backed securities	5,018	4,015	3,413
Total	***45,478***	***36,383***	***30,926***

No continuing involvement at the reporting date

As at 31 December 2008 CU Million	Assets securitised during the year		
	2008	**2007**	**2006**
Collateralised debt obligations	8,790	7,032	5,977
Residential mortgage-backed securities	51,900	41,520	35,292
Commercial mortgage-backed securities	7,528	6,022	5,119
Municipal bond securitisations	8,907	7,126	6,057
Principal-protected notes	4,739	3,791	3,223
Asset repackagings and credit-linked notes	2,695	2,156	1,833
Total	***84,559***	***67,647***	***57,501***

Example 2 – Risk disclosures within the scope of IFRS 7 relating to unconsolidated structured entities

Illustrating the application of paragraphs 52(d) and B12 - B15 of [draft] IFRS.

IE4 This example illustrates some of the disclosure requirements about the risks associated with a reporting entity's involvement in unconsolidated structured entities that are within the scope of IFRS 7. This example is not intended to be all-inclusive. It may, however, include information that is not required explicitly by the [draft] IFRS but which is provided to meet the disclosure objectives and to provide information that is considered useful for users of the financial statements of the reporting entity.

Risk associated with unconsolidated structured entities

The following table summarises XYZ Bank's involvement at the reporting date with leasing, securitisation and other asset management activities, by asset type. XYZ Bank's involvement in the structured entities takes the form of residual interests, credit guarantees or liquidity commitments. The table relates both to those transactions in which XYZ Bank has retained a financial interest in the securities issued by the entity or another contractual agreement exists, such as a liquidity commitment, and those in which XYZ Bank has acquired an interest or other contractual commitment.

At December 2008

Exposure to Loss in unconsolidated structured entities

CU million Type of asset in unconsolidated entity	Current carrying amounts of assets held by unconsolidated entities	Maximum Exposure to Loss Total	Investments Loans and Receivables	Credit Guarantees	Liquidity Commitments	Carrying Amount on Statement of Financial Position	
Originated by XYZ Bank						**Assets**	**Liabilities**
Collateralised debt obligations	13,080	**4,316**	2,354	-	1,962	2,354	(98)
Real estate, credit-related and other investing	79,801	**11,970**	-	-	11,970	-	(599)
Municipal bond securitisations	13,940	**2,509**	2,509	-	-	2,509	-
Assets under lease	8,520	**596**	596	-	-	596	-
Subtotal	**115,341**	**19,391**	**5,459**	**-**	**13,932**	5,459	(697)
Originated by other entities						**Assets**	**Liabilities**
Collateralised debt obligations	92,780	**1,437**	784	-	653	784	(33)
Real estate, credit-related and other investing	167,400	**3,986**	-	-	3,986		(199)
Municipal bond securitisations	55,200	**1,068**	836	232	-	836	(14)
Credit card receivables	42,000	**1,250**	1,250	-	-	1,250	-
Subtotal	**357,380**	**7,741**	**2,870**	**232**	**4,639**	**2,870**	**(246)**
Total	**472,721**	**27,132**	**8,329**	**232**	**18,571**	**8,329**	**(943)**

Carrying amount of assets and liabilities in unconsolidated structured entities recognised in XYZ Bank's statement of financial position

Class of financial instrument	Investments Loans and Receivables	Credit Guarantees	Liquidity Commitments	Total	
Financial assets at fair value through profit or loss	4,595	-	-	4,595	-
Avaliable-for-sale financial securities	3,138	-	-	3,138	-
Commitments and guarantees	-	(14)	(929)		(943)
Loans and receivables	596	-	-	596	-
Total	**8,329**	**(14)**	**(929)**	**8,329**	**(943)**

Maximum exposure to loss

The maximum exposure to loss presented in the table above is contingent in nature and may arise as a result of draw downs under liquidity facilities where these have been provided, and any other funding commitments, or as a result of any loss protection provided by XYZ Bank to structured entities.

Maximum exposure to loss is calculated as the notional amounts of credit lines, guarantees, other credit support, and liquidity facilities, the notional amounts of credit default swaps and total return swaps, the carrying amount of any cash funding provided to the structured entities and the amount invested when XYZ Bank has a debt or equity interest in the entities. The maximum exposure to loss does not take into account the effects of any hedging activities of XYZ Bank designed to reduce that exposure to loss.

Liquidity Support

XYZ Bank provides back up liquidity lines of credit for structured entities containing CDOs and Real estate, credit-related and other investing receivables. The liquidity support takes the form of a commitment to purchase securities issued by these entities should they experience problems in attracting investment on maturity.

XYZ's maximum exposure is limited to the amortised cost of non-cash equivalent assets, which reflects the risk that XYZ Bank may be required to fund the vehicle in the event that debt is redeemed without reinvestment from third parties.

XYZ Bank's maximum exposure at 31 December 2008 amounted to CU 13,932 million in relation to assets originated by the bank and CU 4,639 million in relation to assets originated by other entities. At 31 December 2008 XYZ Bank has recognised a liability of CU 929 million [include reasons for and the calculation of the liability]

Credit guarantees

XYZ Bank provides credit enhancement in relation to its involvement with municipal bond securitisations only when management considers the risk of loss to be low because the credit enhancement ranks behind that provided by the sellers in the form of excess assets. XYZ Bank would be required to provide credit enhancement only in the event that losses incurred are greater than the excess collateral provided by sellers of the assets.

At December 31, XYZ Bank recognised a commitment for credit guarantees of CU 14 million in relation to municipal bond securitisations [include reasons for and the measurement of the liability].

Exposure to loss from XYZ Bank's retained interests in structured entities

As at 31 December 2008 **Asset type**	*Total* **CU million**	*Subordinated interest* **CU million**	*Mezzanine interest* **CU million**	*Senior interest* **CU million**
Collateralised debt obligations	3,138	3,138	-	-
Municipal bond securitisations	3,345	-	3,345	-
Assets under lease	596	596	-	-
Credit card receivables	1,250			1,250
Total	**8,329**	**3,734**	**3,345**	**1,250**

For reporting period ended 31 December 2008 **Asset Type**	*Losses-Subordinated interest* **CU million**	*Losses-Mezzanine interest* **CU million**	*Losses-Senior interest* **CU million**
Collateralised debt obligations	100	-	-
Municipal bond securitisations	-	50	-
Assets under lease	25	-	-
Credit card receivables	-	-	120
Total	**125**	**50**	**120**

Collateralised debt obligations

XYZ Bank arranges a number of collateralised debt obligations (CDO) transactions, in which it administers the activities of the CDO entities on behalf of investors. CDOs are facilitated through structured entities to enable the notes issued to investors to be rated. The structured entities are not consolidated by XYZ Bank because it acts as an agent on behalf of investors, administering the activities of the entities within parameters approved by the investors.

XZY Bank re-securitises sub prime MBS rated AA or lower in CDO securitisations, which create sequenced senior to junior tranches of CDOs. XYZ Bank retains a junior tranche.

In the second half of 2008, the credit ratings of some MBSs, many with exposures to US subprime and Alt-A mortgages, were downgraded. Total losses incurred amounting to CU100million were borne by XYZ Bank as the ‘first loss’ note holder.

Municipal bond securitisations

XYZ Bank retains a mezzanine interest in municipal bond securitisations, which are set up to provide a series of secondary market trusts that allow tax-exempt investors to finance their investments at short-term tax-exempt rates. The entity purchases fixed-rate, longer-term, highly rated municipal bonds by issuing puttable, floating-rate certificates and inverse floating-rate certificates. First loss protection is provided through investments being held by third parties. First loss tranches absorb any credit losses before they would fall on the mezzanine tranch held by XYZ Bank. In the reporting period ended 31 December 2008, XYZ Bank incurred CU50million of losses due to the first loss protection of CU150million not being sufficient to absorb all credit losses incurred.

Assets under lease

XYZ Bank provides leasing facilities and arranges finance for aircraft and other physical assets, customarily placed in structured entities.

At 31 December 2008, XYZ Bank recognised retained interests in such structured entities of CU 596 million. XYZ Bank sometimes provides credit enhancement to the investors in these entities in the form of guarantees.

During the year XYZ Bank incurred losses of CU25 million in relation to the guarantees that it provides.

Credit card receivables

XYZ Bank securitises credit card receivables through the use of structured entities, which are established to purchase credit card receivables. Credit card receivables are revolving securitisations, ie as customers pay their credit card balances, the cash proceeds are used to purchase new receivables and replenish the receivables in the structured entity.

XYZ Bank retains a senior interest. First loss protection is provided through other transaction specific credit enhancements provided by third parties and subordinated loss note holders. Due to an unprecedented increase in defaults on credit card payments for the reporting period ended 31 December 2008, XYZ Bank suffered a loss of CU 120 million, due to the more junior tranches, (first loss note holders absorbing losses of CU150million and mezzanine note holders losses of CU 75 million) not being sufficient to cover total losses incurred.

Example 3 – Risk disclosures outside the scope of IFRS 7 relating to unconsolidated structured entities

Illustrating the application of paragraph B16 of [draft] IFRS.

IE5 This example illustrates the disclosure requirements of the [*draft*] IFRS in situations in which a reporting entity has no retained interest in unconsolidated structured entities, but has provided non-contractual liquidity support.

Non-contractual support provided to unconsolidated structured entities

In February this year, because of disruption in the supply of commercial paper (CP) funding, XYZ Bank provided CU17.5 billion of funding in the form of CP purchases to Entity X (founded in 2007). The amount of CP purchased represented 90% of the asset value of Entity X. As a consequence, XYZ Bank concluded that the provision of the funding gave it control of Entity X. XYZ Bank consolidates Entity X from February, resulting in CU20 billion of BBB rated mortgage receivables being recognised in the statement of financial position. The CP was acquired as an act of good faith to the clients who had invested in the fund on the basis of XYZ Bank's advice.

In May 2006, XYZ Bank was approached by the administrators of the fund, Entity Y (founded in 2004), which was having difficulties obtaining short-term funding from other sources. CU3 million was provided in the form of short-term liquidity support to Entity Y. The full amount was repaid within fourteen days of the funding being advanced and no additional support has been provided since this date. XYZ Bank was not contractually obliged to provide funding, but did so to prevent the fund going into administration. In addition, XYZ Bank considered the risk associated with providing the funding to be minimal.