



Derecognition Project

October 2008

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



Purpose

- To decide on one approach for further development
- To agree on a project timetable
- To obtain feedback on how any selected approach may be improved



Backdrop

- Current market conditions and requests by regulators and others to improve and converge
- Complexity of existing derecognition guidance
- Opportunity to converge between IFRS and US GAAP
- Users' requests for more transparency
- Diversity of views on appropriate derecognition criteria



Current Derecognition Models

- IAS 39: Mixed model
 - Risks and rewards
 - Control
 - Continuing involvement
- FAS 140: Control-based model
 - Physical control
 - Legal isolation



Staff's Derecognition Principle

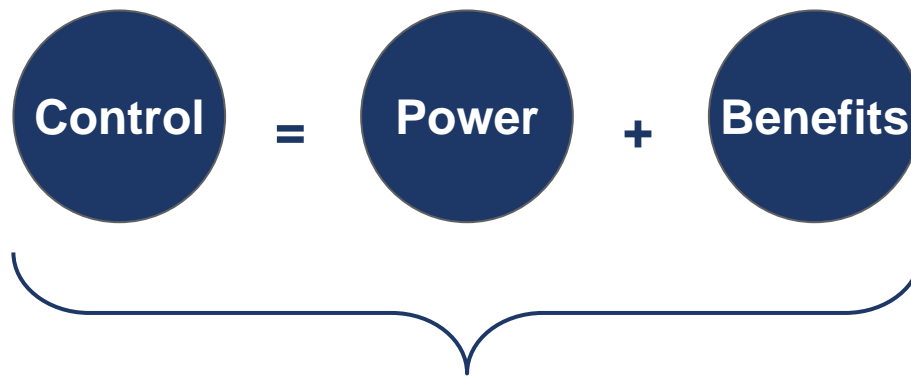
An entity should derecognise a financial asset or component thereof if...

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

How do we
define
'control'?



Staff's Derecognition Principle (continued)



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.**



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)!*



Question for the Board

Do you agree with the proposed approach in para. 115 of Agenda Paper 7A (previous slide)?

Making the Principle Operational...

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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.

Failed sale, but maybe linked presentation



Other

- Flowcharts in appendix to Agenda Paper 7B are combinations of
 - ‘no continuing involvement’ and ‘practical ability to transfer’ tests in Paper 7A, AND
 - Approach 1 vs. Approach 2
- Agenda Paper 7C applies flowcharts to some examples



Staff recommends...

...*Approach 2*. Why?



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Question for the Board

Do you agree with the staff's recommendation in para. 34 of Agenda Paper 7B (previous slide)?

Staff recommends...

...*Approach 2*. Why?



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Project Plan and Timetable

- Plan to issue ED by the end of Q1 2009
- Come back to the Board with
 - Definitions of ‘component’ and ‘continued involvement’
 - Criteria and measurement guidance for ‘linked presentation’
 - An approach for derecognition of financial liabilities



Question for the Board

Do you agree with the proposed project plan and timetable in para. 4 and 8 of Agenda Paper 7D?

Project Plan and Timetable

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- Come back to the Board with
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