International Financial Reporting Standards

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

Introduction

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

Agenda Paper 7

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)

Control = **Power** + **Benefits**

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

Agenda Papers 7B + C

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

Agenda Paper 7B + C

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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Agenda Paper 7D

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

Agenda Paper 7D

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

- 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