30 Cannon Street, London EC4M 6XH, United Kingdom
Phone: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
Email: iasb@iasb.org Website: http://www.iasb.org

International Accounting Standards Board

INFORMATION FOR OBSERVERS

Board Meeting: **February 2009, London**

Project: **Derecognition of Financial Assets and Liabilities**

Subject: **The effects of the recommendations in Agenda Paper 2-issues for Approach 2 (as set out in Agenda Paper 2B) (Agenda Paper 2B Addendum)**

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1. Agenda Paper 2-*issues* addresses issues identified in developing the more complex cases in Agenda Paper 2E and issues raised by one Board member on review of the Board papers summarising each of the approaches.

2. The issues identified and staff recommendations in Agenda Paper 2-issues relating to Approach 2 are as follows:

   (a) **Issue 1— scope of transfers of financial assets assessed for derecognition**. That the scope of transactions assessed for derecognition includes all transfers involving financial assets (irrespective of the form of the transaction).

(b) **Issue 2—derecognition or consolidation first**. That consolidation is assessed before derecognition.

(c) **Issue 3—determination of the Asset being transferred and continuing involvement.** For consolidated financial statements, that the determination of the Asset being transferred and continuing involvement in the Asset is assessed at the group level on the basis of the remaining interest in the asset that was the subject of the transfer.

(d) **Issue 4—transfer of subordinated interests in financial assets.** That the asset definition is amended to permit the transfer of subordinated interests in financial assets to qualify for derecognition.

(e) **Issue 5—practical ability to transfer in the context of securitisations.** That wording is added to the practical ability to transfer test regarding which entity is considered to be the transferee.

(f) **Issue 6—remaining interest in the asset transferred.** That any remaining interest in the asset that was the subject of the transfer is treated as part of the previously recognised asset.

(g) **Issue 7—transfer of part of an equity instrument.** That the transfer of a part of an equity instrument qualifies as 'the Asset'.

3. If the Board agrees with those staff recommendations, the following changes would be made to the summary of Approach 2:

(a) To address Issue 1—to add a definition of a transfer as follows:

> A transfer occurs when one party passes to or undertakes to pass to another party some or all of the cash flows or other economic benefits underlying its financial assets. The term 'transfer' is used broadly to include all forms of sale, assignment, and provision of collateral, sacrifice, distribution and other exchange.

(b) To address Issues 2 and 3—to add an explanatory note to the flowchart in paragraph 10 of Agenda Paper 2B as follows:

> For consolidated financial statements, the determination of the Asset being transferred and the continuing involvement in the Asset is assessed at the group level on the basis of the remaining interest in the asset that was the subject of the transfer.

(c) To address Issue 4—to amend the description of 'the Asset' in paragraph 11 of Agenda Paper 2B as follows:

The 'continuing involvement' step and 'practical ability to transfer' test are applied to a transferred part of a financial asset (or of a group of financial assets) only if that part comprises specifically identified cash flows and/or a proportionate or subordinated share of the cash flows from that financial asset (or that group or financial assets).

(d) To address Issue 5—to add a new paragraph about the practical ability to transfer test after paragraph 19 of Agenda Paper 2B as follows:

The transferee to which the practical ability to transfer test is applied is the entity with which the transferor has agreements that result in the continuing involvement of the transferor with the Asset.

(e) To address Issue 6—to amend paragraph 24 of Agenda Paper 2B about the treatment of any retained component as follows:

~~On the other hand~~ Similarly, a transferor that purchases an investment (ie beneficial interest) in transferee securitisation vehicle accounts for the component of that investment, that represents a retained interest in the asset that was the subject of the transfer, as part of the asset that was recognised before the transfer. If the investment in the transferee securitisation vehicle includes components other than a retained interest in the asset that was the subject of the transfer, the transferor accounts for those components as a new asset or liability ~~(rather than as a component of the assets that the transferor previously recognised before it transferred them to the vehicle).~~ As a result, the transferor would measure:

(a) the component of the investment that represents a retained interest in the asset transferred at the carrying amount of the asset that was recognised before the transfer according to paragraph 22 above.

(b) any components of the investment that do not represent a retained interest in the asset transferred according to the initial measurement requirements of IAS 39. Subsequently, the transferor would measure those components ~~the investment~~ following the classification it selected in accordance with IAS 39.

(f) To address Issue 7, to amend the description of 'the Asset' in paragraphs 12 and 13 of Agenda Paper 2B as follows:

A transferred part of a financial instrument that can be either an asset or liability over its life (eg an interest rate swap) ~~or that involves future economic benefits other than cash flows (eg an equity instrument)~~ does not qualify as a component and hence does not qualify as the 'Asset'.

For a transfer of a group of financial assets, the assets can be evaluated for derecognition as a group only to the extent that none of them are instruments that can be either an asset or liability over its life (eg an interest rate swap~~) or that involve future economic benefits other than cash flows (eg an equity instrument)~~.