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International Accounting Standards Board

INFORMATION FOR OBSERVERS

Board Meeting:	**January 2009, London**
Project:	**IAS 39 Financial Instruments: Recognition and Measurement – Derecognition of Financial Assets**
Subject:	**Linked Presentation – Merits and Usefulness (Agenda Paper 2E-1)**

PURPOSE

1. This paper discusses whether the LP model is appropriate for Flowchart 2 and asks whether the Board wants to pursue that approach.

2. The paper first defines and describes the LP concept. This is then followed by a discussion on the usefulness of the LP concept and why the Board may consider such an approach.

3. The staff does not believe that linked presentation is relevant or required for approach 1 (Flowchart 1) as the asset and liability that is required to be linked under LP would have been derecognised and hence there is nothing to link.

4. However, depending on the outcome of the staff's work on disclosures for Flowchart 1, a linked approach in the notes to the financial statement might be relevant for that approach.

LINKED PRESENTATION

5. LP is a special form of presentation which shows, either on the face of the financial statement or in the notes, how particular liabilities are related to particular assets.

6. LP is not a shortcut for derecognition because, under Approach 2, the entity is judged to have an asset and a liability.

7. LP is also not another form of offset. This is because the separate financial instrument contracts do not function as a single financial asset or financial liability contract nor is there an unconditional right to offset the amounts owing and payable or right to set off between the parties.

WHY LINKED PRESENTATION?

8. Approach 2 sets a higher threshold for derecognition as compared to current requirements. As a result more transactions may not meet the derecognition criteria compared to today's requirements. Hence more assets may remain on the statement of financial position of transferors, and more liabilities may be recognised.

9. The LP model has been suggested as a means of ameliorating the resulting grossing-up of the statement of financial position by providing more information for some of the transactions that might fail the proposed derecognition criteria.

10. The IASB and FASB conceptual frameworks state, partly, that the objective of financial reporting is to provide information to help present and potential investors and creditors and others to assess the amounts, timing, and uncertainty of the entity's future cash inflows and outflows (the entity's future cash flows).

11. LP may provide useful information to help users of financial statements assess the amounts of future cash inflows and outflows. LP provides information that allows

users of financial statements to use net amounts to assess the amount (or an approximation of the amount) of expected cash flows.

12. For example, users of financial statements may choose to use the net information provided by linked presentation if the entity is required to pay a debt holder at the same time that the asset generates benefits.

13. LP may also help users of financial statements assess the uncertainty of future cash inflows and outflows. Users of financial statements may choose to use the net information provided by linked presentation since it changes at each reporting to date to reflect the updated uncertainty in the economic benefits generated by the asset that the entity will be required to pass through to settle the debt obligation.

Staff Recommendation

14. Based on the benefits of the LP model (as discussed above), the staff recommends that that the Board adopts the LP model for Approach 2 to ameliorate the grossing-up of the statement of financial position resulting from that approach.

Questions for the Board

15. Does the Board agree with the staff recommendation (in paragraph 15)? If not, why not?