



Project	Derecognition
Topic	Cover note

1. At the IASB meeting in September 2009 we presented a summary analysis of the comments that the Board received on the Exposure Draft ED/2009/3 *Derecognition (proposed amendments to IAS 39 and IFRS 7)* and the feedback that we received during our extensive outreach efforts.
2. In light of the feedback on the ED, we highlighted some possible approaches that the Board could take to replacing the IAS 39 requirements for derecognition of financial assets. However we neither discussed the approaches with you in detail nor did we ask you for a decision as to your preferred approach. However, we informed you that we would ask you to take that decision at this meeting.
3. For you to make an informed decision at this meeting we decided to address some of the concerns raised by respondents to the ED in separate papers. Those concerns relate to:
 - (a) the proposed accounting for repo and securities lendings transactions and
 - (b) the perceived opportunity to manipulate earnings under the alternative approach by transferring a small portion (say 1%) of a financial asset and recognising a gain or loss on the entire asset as opposed to only on the portion transferred.
4. We have also prepared a separate paper that addresses the concept of ‘bankruptcy remoteness’ (legal isolation) and whether it should form part of any new derecognition model for financial assets. This paper was triggered by some Board members who in the course of recent discussions expressed concerns

This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IASB.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IASB.

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in IASB *Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

about the lack of a sufficient debate at the Board with respect to that concept. Some Board members also noted that a further analysis of the ‘bankruptcy remoteness’ concept would be useful in the Board’s discussion with the FASB in bringing to convergence the derecognition requirements in IFRS with those in US GAAP.

5. In summary, at this meeting we will be discussing with you the following papers:
- (a) **Agenda Paper 11A**— This paper addresses the ‘bankruptcy remoteness’ concept.
 - (b) **Agenda Paper 11B**—This paper addresses the concern by many respondents to the *Derecognition* exposure draft (ED) that under both the proposed approach and alternative approach, repos and securities lendings would qualify for derecognition even though (in those respondents’ view) those transactions are in substance secured borrowings. The paper summarises the specific comments received and then contrasts repos with ‘true’ collateralised borrowings by looking at the contractual rights and obligations of the borrower (transferor) and lender (transferee).
 - (c) **Agenda Paper 11C**—This paper addresses the concerns by some respondents to the ED that under the alternative approach a transferor could trigger a gain or loss recognition on an entire financial asset even though the transferor contractually sold only a small portion of that asset. The paper provides various alternative ways of dealing with this concern.
 - (d) **Agenda Paper 11D**—This paper sets out two feasible alternative derecognition approaches for financial assets that the Board could pursue going forward.