Appendix A

A1. The table below sets out the possible implications for the earnings manipulation issue if the retained interests are treated as new assets and recognised initially at fair value and subsequently accounted for under the proposed guidance on classification and measurement.

	Measurement of previously recognised (whole) asset (ie measurement before the transfer)	Measurement of retained interest (ie measurement after the transfer)	Perceived opportunity to manage earnings?
1	Fair value through profit or loss	Fair value through profit or loss	**No.** By transferring a part of a financial asset, the transferor would not be able to recognise an ‘additional’ gain or loss on the transfer because it would have already recognised any such gain or loss in profit or loss as a result of having carried the entire asset at fair value through profit or loss before the transfer.
2	Fair value through profit or loss	Fair value through other comprehensive income	**No.** (See reasoning in scenario 1.)
3	Fair value through profit or loss	Amortised cost	**No.** (See reasoning in scenario 1.)
4	Fair value through other comprehensive income	Fair value through profit or loss	**Yes**. By transferring a part of a financial asset, the transferor could trigger recognition in profit or loss of the gain or loss that it previously recognised on the entire asset in other comprehensive income. However, we note: • The opportunity to trigger a gain or loss in this instance might be impacted by any Board decision in the *Classification and Measurement* phase of the Financial Instruments project on the recycling of gains and losses in other comprehensive income to profit or loss. • The subsequent measurement of the retained interest at fair value through profit or loss might serve as a deterrent to transfer a small portion of a financial asset to trigger a gain or loss on the entire asset (in other words, any perceived

			opportunity to selectively manipulate earnings (if acted upon) would come at the expense of ongoing volatility in the profit or loss statement).
5	Fair value through other comprehensive income	Fair value through other comprehensive income	**Yes**. By transferring a part of a financial asset, the transferor could trigger recognition in profit or loss of the gain or loss that it previously recognised on the entire asset in other comprehensive income. However, we note that the opportunity to trigger a gain or loss in this instance might be impacted by any Board decision in the *Classification and Measurement* phase of the Financial Instruments project on the recycling of gains and losses in other comprehensive income to profit or loss.
6	Fair value through other comprehensive income	Amortised cost	**Yes.** (See reasoning in scenario 5.)
7	Amortised cost	Fair value through profit or loss	**Yes**. By transferring a part of a financial asset, the transferor could trigger recognition of a gain or loss on the entire asset. However, we note that the subsequent measurement of the retained interest at fair value through profit or loss might serve as a deterrent to transfer a small portion of a financial asset to trigger a gain or loss on the entire asset (in other words, any perceived opportunity to selectively manipulate earnings (if acted upon) would come at the expense of ongoing volatility in the profit or loss statement).
8	Amortised cost	Fair value through other comprehensive income	**Yes**. By transferring a part of a financial asset, the transferor could trigger recognition of a gain or loss on the entire asset.
9	Amortised cost	Amortised cost	**Yes.** (See reasoning in scenario 8.)