



Project	Derecognition
Topic	Statistical analysis of feedback on <i>Derecognition</i> ED

Introduction

1. This paper provides a statistical analysis of the comments received on the *Derecognition* exposure draft (ED) published on 31 March 2009. In particular, the analysis covers feedback on the approach that is proposed in the ED as a replacement of the current derecognition requirements in IAS 39, as well as the approach that is set out as an alternative model in the alternative views of the ED.
2. The paper is structured as follows:
 - (a) A summary of the demographics of the respondents (origin and type)
 - (b) A summary of the comments about the proposed and alternative approaches to derecognition of financial assets and also on the current approach in IAS 39 (effectively, Question 7 in the ED)
3. Detailed statistics are in Appendices 4A-C.
4. **The staff highlights that the Board in its redeliberations will consider the arguments advanced by respondents rather than the number of respondents that preferred a particular approach.**

Demographics

5. In total, the IASB received 118 comment letters relating to the *Derecognition* ED. Respondents primarily came from the following regions and within those regions mainly from the following countries (see below):

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West Europe	55.1%
United Kingdom	30.8%
Belgium	15.4%
France	13.8%
Switzerland	10.8%
Germany	9.2%
Asia-Pacific	19.5%
Australia	30.4%
Japan	21.7%
New Zealand	13.0%
Korea	8.7%
North America	16.1%
United States	47.4%
Canada	47.4%

6. Similarly, the main respondents by type and within the type by group were:

Industry organisation	27.1%
Banking	50.0%
Various*	25.0%
Insurance	12.5%
Users	12.5%
Preparer	25.4%
Banking	83.3%
Insurance	10.0%
Professional organisation	18.6%
Standard setter	12.7%

**Includes trade associations representing entities involved in securitisations and also private companies in various industries*

Feedback on the proposed and alternative approaches in the ED and on the current approach in IAS 39

7. **Overall.** On the basis of the statistical analysis (see Appendices 4A-4C), the staff makes the following observations:
- (a) The proposed approach did not receive much support (~13%)
 - (b) Some favoured the existing derecognition requirements in IAS 39 (~23%).
 - (c) The majority of the respondents preferred the alternative approach (~54%).

8. **Proposed approach.** Most respondents did not view the proposed approach to derecognition of financial assets as a significant improvement to be adopted as a replacement of the current derecognition requirements in IAS 39. Only **about 13%** of the respondents – most of them (a) institutes of chartered or certified public accountants and (b) standard setters from the Asia-Pacific region – favoured the proposed approach or a modified version of it.
9. **Current approach in IAS 39.** A significant number of respondents (~23%) advocated keeping the current model in IAS 39 intact or make some improvements to it, such as for example eliminating of the ‘continuing involvement’ measurement guidance. To address the concerns raised by regulators and others as a result of the credit crisis, these respondents suggested that the IASB focus on enhancing the disclosure requirements in IFRS 7. By and large, respondents who were in favour of maintaining the status quo:
- (a) were from West Europe (~93%), of which about 30% came from France, about 19% from Belgium and about 19% from United Kingdom, and
 - (b) were from industry organisations (~41%) and preparers (~22%) and within those groups mainly from banking (~71%), of which the organisations and entities were mainly located in Belgium and France.
10. **Alternative approach.** Many respondents – **about 31%** – preferred the alternative approach as it was described in the ED or a modified version of it. Of the respondents in favour of the alternative approach, the majority came from West Europe (~39%) and North America (~33%) and within those regions from the United Kingdom (~43%) and Germany (~21%) and Canada (~58%) and United States (~42%), respectively. Furthermore, supporting the alternative approach were primarily preparers (~31%) and industry organisations¹ (~19%) (and within those types mainly banking (~78%), of which most of the organisations and entities were from Canada, the United Kingdom and the United States), professional organisations (~17%) and accounting firms (14%).

¹This category includes industry organisations that represent users.

11. Other respondents also expressed support for the alternative approach either as a long-term solution or as part of another exposure draft that describes that approach in more detail (~24% in total). Of those respondents,
- (a) about 61% were from West Europe (the largest of which from Belgium (~29%)) and about 21% from Asia-Pacific (the largest of which from Australia (~67%)) and
 - (b) about 32% from preparers and about 29% from industry organisations (and within those groups mainly from banking (~65%) of which the organisations and entities were mainly located in Belgium, Australia and the United Kingdom, and from trade associations representing entities involved in securitisations and private companies in various industries (~24%)) and about 18% from professional organisations.
12. Adding the number of respondents who expressed support for the alternative approach either as a long-term solution or as part of another exposure draft that describes that approach in more detail to the number of respondents who preferred the alternative approach as it was described in the ED or a modified version of it results in **about 54%** of the respondents supporting the alternative approach in one way or the other. Of this total, the breakdown by region/country and by respondent type/group is as follows (see next page):

Region/ country	Alternative Approach (%)
West Europe	48.4%
United Kingdom	38.7%
Belgium	16.1%
Germany	12.9%
Switzerland	12.9%
North America	21.9%
Canada	57.1%
United States	42.9%
Asia-Pacific	17.2%
Australia	54.5%
New Zealand	27.3%

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Type/ group	Alternative Approach (%)
Preparer	31.3%
Banking	85.0%
Industry organisation	23.4%
Banking	53.3%
Various*	33.3%
Professional organisation	17.2%

**Includes trade associations representing entities involved in securitisations and also private companies in various industries*

13. Note: The total number of the respondents supporting the alternative approach does not include those respondents who preferred a modified proposed approach that (if those modifications were made) would look very similar to the alternative approach modified so that
- (a) repo and securities lending transactions are reported as financings and
 - (b) retained interests are measured using the same measurement attribute as the one applied to the previously recognised whole asset before the transfer.
14. Thus, had the staff counted those respondents as being in favour of the alternative approach, the total number of respondents supporting that approach would have been even larger.
15. *Users' responses.* The IASB received four responses from the user community (counted in the analysis as part of industry organisations). Two out of the four were in favour of the alternative approach (subject to some modifications or subject to a more detailed description and re-exposure), one in favour of the current requirements in IAS 39 (or in favour of an approach that incorporates a risks and rewards test) and one in favour of an approach different from either the proposed or alternative approaches or the approach in IAS 39 (that user group advocated an approach that would preclude derecognition if the transferor had *any* continuing involvement in the transferred asset after the transfer).
16. As part of its extensive outreach efforts, the staff also met with several users (including representatives from hedge funds, asset managers and rating agencies). The feedback the staff received from those meetings was generally

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consistent with the feedback from the users who submitted letters (ie more support was expressed for the alternative approach). It is worthy to highlight that the users we met personally were not opposed to reporting repo and securities lending transactions net (ie derecognising the 'collateral' and recognising a forward derivative). Furthermore, those users generally seemed to be less concerned about the location of financial information (ie whether on the face of financial statements or in the notes) as long as the information is clearly reported somewhere in the financial statements.

[Appendices omitted from observer note]