Project	**Derecognition**
Topic	**Disclosures**

Contents and purpose of this paper

1. This paper addresses comments received from respondents on the amendments to derecognition disclosure requirements in IFRS 7 *Financial Instruments: Disclosures* (IFRS 7) that the Board proposed in ED/2009/3 *Derecognition* (ED).

2. This paper is structured as follows:

   (a) Analysis of, and staff recommendations for, comments on the proposed objectives of derecognition disclosures.

   (b) Analysis of, and staff recommendations for, comments on the proposed changes and additions to the specific derecognition disclosures in IFRS 7.

3. This paper includes the following excerpts from the ED:

   (a) Appendix A -an excerpt of the proposed amendments to IFRS 7.

   (b) Appendix B - related application guidance for proposed IFRS 7 disclosures.

   (c) Appendix C - an excerpt of the proposed amendments to guidance on implementing IFRS 7.

Objectives of proposed derecognition disclosures

4. In the Basis for Conclusions of Exposure Draft *ED/2009/3*, the Board provided the objectives of the proposed amendments to IFRS 7.

> *The Board proposed requiring disclosures that enable users of financial statements:*
>
> (a) *to understand the relationship between […] financial assets that are not derecognised and associated liabilities*
>
> (b) *to evaluate the nature of and risks associated with the entity's continuing involvement in derecognised financial assets.*

5. The Board also proposed to include these objectives in the amended IFRS 7 (see paragraphs 42B and 42C in the ED).

6. Generally, respondents to the ED did not object to the proposed disclosure objectives.

7. However, some commented that the specific disclosure requirements proposed resembled a checklist and suggested that the Board focus on first establishing principles (in making that suggestion, these respondents used the term 'principles' interchangeably with 'objectives'). Judging from these comments, the staff infers that the respondents did not realise that paragraphs 42B and 42C (and also articulated in the Basis for Conclusions) contained the disclosure objectives that the Board had in mind when developing the proposals to amend IFRS 7.

8. Others suggested that the Board first develop a disclosure framework as part of the Conceptual Framework project that would guide the Board when developing disclosure principles at the standard level, and would also help entities in applying these principles.

Staff analysis

9. The staff agrees that the objectives for derecognition disclosures should be clearly articulated and positioned in the final disclosure standard. Thus to the extent the ED did not achieve this aim, the staff believes that the Board should

improve the next due process document in that regard. A simple solution would be to include the term 'objectives' when introducing derecognition disclosure objectives in the standard.

10. The staff also agrees that having a disclosure framework that would guide the Board in setting disclosure requirements at the standard level, and help entities in applying the standards, is a worthy goal. However, the staff believes that this undertaking is outside the scope of this project.

11. The staff also points out that on the basis of its review of comment letters by users, and its outreach with that community, users have expressed support for the proposed derecognition disclosure objectives and requirements.

Staff recommendation

12. In light of the foregoing, the staff recommends that the next due process document includes the same derecognition disclosure objectives as proposed in the ED (see paragraph 4).

13. The staff will address the comments by respondents on the lack of clarity of the objectives as part of drafting of the next due process document.

Question
Does the Board agree with the staff's recommendation in paragraph 12? If not, why not? What would you propose and why?

Proposed changes to specific derecognition disclosures in IFRS 7

14. The Board received numerous comments on the amendments to the specific derecognition disclosures in IFRS 7 that the Board proposed in the ED.

15. Some respondents supported the proposed changes, while others argued that the Board needed to reconsider all or some of the proposed changes.

16. While we believe that the majority of the comments received are adequately addressed in the ED, the staff would like to discuss a few of the more contentious comments. These relate to the following disclosures:

(a) Transactions that do not result in derecognition of the financial assets

(b) Transactions that result in derecognition of the financial assets

(c) Continuing involvement in financial assets that were derecognised

(d) Transactions that do not result in derecognition of financial liabilities

17. Some respondents requested that the Board review the derecognition disclosures in IFRS 7 as part of a broader review of that standard. They questioned why the Board distinguished between financial assets and liabilities that are obtained as part of transfers of financial assets and those that are obtained on a stand-alone basis.

18. The staff understands this concern, especially in the context of the derecognition approach for financial assets that the Board is currently pursuing. Why is it that in determining whether it should derecognise a financial asset, an entity disregards 'history', but that when it concludes that it must derecognise the asset it might have to provide disclosures on that asset as a result of having previously recognised the asset and continue to be involved in it (ie 'history' seems to matter)?

19. That said, as set out in the ED, the Board proposed to require disclosures for transfers of financial assets in which the transferor has continuing involvement specifically to address the concerns by users and others for more transparency with respect to these transactions.[1]

20. Rightly or wrongly, to many users, it matters that an entity acquired a derivative or other assets and liabilities in connection with the transfer of a financial asset, in particular if the buyer of the asset is a structured entity. For these transactions, these users want more information about the transferred asset and other aspects of the arrangement.

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[1] See paragraphs BC101-103 of the ED.

21. Thus. the staff believes that the Board should continue the path of requiring specific disclosures for transactions that result in an entity derecognising a financial asset in which it continues to be involved.

22. The staff also suggests that to the extent the Board would like to consider expanding some or all of the proposed derecognition disclosures to apply to all financial assets and liabilities (irrespective of how they were acquired or incurred), the Board does so as part of a broader review of IFRS 7 (which should involve more outreach in the user community).

a) Transactions that do not result in derecognition of financial assets (paragraph 42B) [2]

23. Paragraph 42B proposes disclosures related to financial assets that have failed derecognition which include the relationship between those assets and associated liabilities after the transfer, the risks the entity remains exposed to and whether the counterparty has recourse only to the related assets.

24. In paragraphs BC97 and BC100 of the Basis for Conclusions in the ED, the Board provided the rationale for the proposed disclosures in paragraph 42B:

> *When financial assets are transferred but not derecognised, there has been a contractual event that may not be captured fully by the accounting that treats any cash received as a secured borrowing. In those situations, the Board concluded that it is useful to understand the relationship between those financial assets and the associated liabilities that an entity recognises. Understanding the relationship between the assets and associated liabilities helps users of financial statements in assessing both an entity's cash flow needs and the cash flows available to the entity from its assets.*
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> *The Board noted that the disclosures proposed would provide information useful in assessing the extent to which the economic benefits generated from assets of an entity cannot be used in an unrestricted manner, as is*

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[2] See excerpt in Appendix A.

implied when assets are controlled and recognised in an entity's statement of financial position. In addition, it would also provide information about liabilities that will be settled entirely from the proceeds received from specific assets, and thus identifies liabilities for which the counterparties do not have claims on the assets of the entity in general. For those assets for which the underlying cash flows are committed to be used to satisfy related liabilities, the linked presentation disclosure (in addition to showing the cash flow relationship between those assets and liabilities) also provides a means of understanding the net exposure of an entity following a transfer transaction that fails derecognition.

25. Generally, respondents to the ED did not object to, or comment much on, these proposed disclosures. However, some respondents felt that these disclosures were not always applicable or should be clarified.

…where the assets subject to a financing transaction are measured at amortised cost and the resulting liability is also at amortised cost, it is not clear what the purpose of separately disclosing the fair value of the assets and liabilities would be, for example, for a single debt factoring arrangement.

… an entity may have engaged in several transfers of financial assets in the same class that do not qualify for derecognition, some of which the counterparties to the associated liabilities have recourse only to the transferred assets. In this case, the disclosure of the carrying amounts of the assets and the associated liabilities pursuant to paragraph 42B(c) would not distinguish between the carrying amounts related to the transfers involving counterparty recourse only to the transferred assets and the carrying amounts related to the transfers when the counterparties have claims on the assets of the transferor in general. Therefore, we recommend requiring separate disclosures of the carrying amounts of the assets and associated liabilities in these two situations in order to improve financial statement users' understanding of the relationship between the transferred financial assets and associated liabilities after the transfer.

Staff analysis

26. The staff notes that the proposed disclosure requirements in paragraph 42B(e) of the ED, which deals with non-recourse transactions, would not be triggered in a typical factoring arrangement. This is because in such an arrangement, the entity that sells receivables typically provides a guarantee to the buyer on these assets. Thus, the buyer has recourse to the seller. As a result, the staff disagrees with the first comment cited in paragraph 25.

27. However, the staff agrees with the second comment in that paragraph. The staff believes that the Board could modify the table in IG40A in the ED to accommodate that respondent's concern.

Staff recommendation

28. In light of the foregoing, the staff recommends that the next due process document include the disclosure requirements in paragraph 42B.

29. The staff will address the second comment as part of drafting of the next due process document.

Question
Does the Board agree with the staff recommendation in paragraph 28? If not, why not? What would you propose, and why?

b) Transactions that result in derecognition of the financial assets (paragraph 42D sections (d) – (f)) [3]

30. Proposed paragraph 42D sections (d) – (f) require disclosure of fair value, undiscounted cash flows and contractual maturities of derecognized assets where an entity has continuing involvement in such assets.

Comments received

31. Some respondents to the ED did not believe that such disclosures were reasonable or necessary.

> *Paragraph 42D(d) – We do not believe the requirement to disclose the fair value of the derecognised assets will provide any further meaningful information to users, if the reporting entity has disclosed the fair value of its continuing involvement and maximum exposure to loss. It is likely that a reporting entity will not maintain a valuation for all the assets in which it has only a small involvement and that obtaining such data will potentially be onerous. If a reporting entity itself has no use for the valuation, then we are unsure of what benefit this information will provide to users.*

[3] See excerpt in Appendix A

32. Others noted that such disclosures required in paragraph 42D (e) and (f) are inconsistent with the current requirements of IFRS 7:

….These disclosures are inconsistent with the current requirements of IFRS 7 which were modified to recognise the difficulties in determining undiscounted cash flows and contractual maturities of derivatives. As per our general comments above, we believe these inconsistencies should be included within an overall review of IFRS 7.

33. Another respondent believes the proposed format of disclosure may be misleading if there is more than one type of continuing involvement in the same financial assets.

For each category of continuing involvement in derecognised financial assets, proposed paragraph 42D(d) of IFRS 7 would require the disclosure of the fair value of the derecognised assets. Some transfers of financial assets that qualify for derecognition may include more than one category of continuing involvement, e.g. servicing and an option agreement. If the fair value of these derecognised financial assets is disclosed separately for each category of continuing involvement in the same derecognised financial assets, these quantitative disclosures may be subject to misinterpretation. We would, therefore, recommend that where an entity has more than one category of continuing involvement in derecognised financial assets, the disclosure requirement in paragraph 42D specify that the disclosures be presented in a manner that clearly reflects the existence of this multiple facetted continuing involvement. In addition, to reflect this situation, the first illustration on page 53 of the Exposure Draft could be modified to include the following additional disclosures: (See BASEL CL#95 Page 11 or table below).

CU million	Fair value of transferred (derecognised) assets	Cash outflows to repurchase transferred (derecognised) assets	Carrying amount of continuing involvement in statement of financial position		Fair value of continuing involvement	Maximum exposure to loss
Type of continuing involvement			Assets	Liabilities		
Written put options and servicing:	X					
Put options		(X)		(X)	X	X
Servicing			X	(X)	X	X

34. In addition, some noted that these disclosures may not always apply to continuing involvement in the derecognised assets:

…Proposed paragraphs 42D(e) and (f) of IFRS 7 would require disclosures for each category of continuing involvement concerning undiscounted cash outflows to repurchase derecognised financial assets. However, as shown in the illustrative disclosures on page 53 of the Exposure Draft, when continuing involvement is in the form of servicing, the undiscounted cash outflows disclosure is not applicable. This disclosure also would not be applicable when the transferor provides the transferee a

credit guarantee and the transfer qualifies for derecognition. To clarify this disclosure requirement, we would recommend that paragraphs 42D(e) and (f) be combined and revised to read as follows:

(e) if the entity's continuing involvement may or will result in the return of derecognized financial assets to its statement of financial position in the future:

the undiscounted cash outflows to repurchase derecognised financial assets (e.g. the strike price in an option agreement or the repurchase price in a repurchase agreement); and

a maturity analysis of the undiscounted cash outflows to repurchase the derecognised financial assets that shows the remaining contractual maturities of the entity's continuing involvement.

Analysis

35. The reasons the Board originally proposed expanding the disclosure requirements around transferred assets was to address concerns specifically raised by users for these types of transactions, especially given the current credit environment.[4] IFRS 7 does not require disclosures about transferred assets that have been derecognised. The Board felt that by providing the disclosures set out in paragraph 42D of the ED, it was providing users with information specific to derecognition activities about the risks associated with the entity's continuing involvement in an asset, including the amount, timing and uncertainty of the entity's future cash flows.

36. In addition, users indicated that disclosure of fair value, undiscounted cash flows and contractual maturities of derecognized assets where an entity has continuing involvement in such assets is key to understanding the nature of financial assets that have been derecognized but in which an entity has continuing involvement. The fair value of the derecognised or underlying assets gives users information around potential future cash inflows and outflows. For example:

    (a) If the continuing involvement is represented by a call option or a forward contract, this disclosure gives users information on the amount of future cash flows that will be required take the asset back.

[4] Paragraphs BC 101 and BC 102 of the ED.

(b) If the continuing involvement is as a servicer (i.e. with fees based on the fair value of the underlying assets), the risk would be directly related to the portfolio size of such assets and the related return on assets. This information helps users understand how fees are calculated and to forecast fee income for future periods.

(c) The fair value of the derecognised assets, as well as other information regarding such assets (regional, credit rating) is also important to users to gauge potential future involvement entities may have with such assets from a reputational risk standpoint.

37. Based on the analyses in paragraphs 35 and 36, the staff believes that the requirements in paragraph 42D (e) and (f) should be maintained.

38. The staff agrees that if an entity has multiple instances of continuing involvement the fair value of the derecognised assets should be aggregated to avoid inflation of the disclosures required in paragraph 42D (d). The staff also agrees that undiscounted future cash flows and a maturity analysis may not always apply to the form of continuing involvement that an entity has with a derecognised asset.

39. In addition, the staff believes that the proposed guidance does not clearly indicate that the form of continuing involvement may be the new rights and obligations that an entity has recognised as a result of a derecognition transaction. For example, a beneficial interest or retained interest in the asset.

40. Paragraph B34 of the ED requires an entity to *indicate if a gain or loss on derecognition arose because the fair values of the components of the previously recognised asset …were different from the fair value of the previously recognised asset as a whole.* While this requirement relates more to the proposed approach, the staff believes it does give some information regarding the form of continuing involvement needed (if the description is modified to fit more the requirements under the alternative approach).

41. The staff believes that entities should also be required to clearly disclose additional information around the terms of the transaction, including the "new" asset recognised. This could be included in the discussion of gains or losses in

paragraph 42E herein or in paragraph 42D. Entities should aggregate similar transactions if they believe this provides the users with adequate information regarding the terms of the transaction that resulted in derecognition of the old asset and recognition of a new asset. Information required should include fair value of assets derecognised, gain or loss on derecognition, fair value of assets recognised and the terms of the transaction that led to derecognition.

Staff recommendation

42. Based on the above, the staff recommends the following to the Board:

(a) to maintain the proposed disclosure requirements in Paragraph 42D sections (d) to (f) with a clarification for transactions that may not have the same types of continuing involvement,

(b) to require an entity to aggregate disclosures when it has more than one category of continuing involvement with the same derecognised financial assets, and

(c) to require an entity to disclose the fair value of the assets derecognised, the gain or loss on derecognition, the fair value of assets recognised and the terms of the transaction that led to derecognition when a transaction or modification occurs that requires the entity to derecognise the original asset and recognise another (similar) asset.

Question
Does the Board agree with the recommendation in paragraph 42 to: a) maintain the proposed disclosure requirements in Paragraph 42D sections (d) to (f) with a clarification for transactions that may not have the same level of continuing involvement, b) require an entity to aggregate disclosures when it has more than one category of continuing involvement with the same derecognised financial assets, and c) to require an entity to disclose the fair value of the assets derecognised, the gain or loss on derecognition, the fair value of assets recognised and the terms of the transaction that led to derecognition when a transaction or

> modification occurs that requires the entity to derecognise the old asset and recognise a new asset?
>
> If not, why not? What would you propose, and why?

c) Continuing involvement in derecognised financial assets (paragraph 42E) [5]

43. Proposed paragraph 42E sections (a) and (b) require disclosure of gains / losses and income / expenses related to continuing involvement in derecognised financial assets. If the total amount of "transfer" activity that qualifies for derecognition is not evenly distributed throughout the reporting period, paragraph 42E section (c) requires disclosure of the reporting period that has the greatest "transfer" activity.

Comments received

44. Some respondents were unclear how the information required in sections (a) and (b) could be useful:

> *…We are unsure how this disclosure could be granular enough in order for the information to be meaningful, yet aggregated enough that the information is not confusing to users. These figures would also only be meaningful if they take into account related hedges.*

45. Other respondents felt that the requirement in section (c) was overly burdensome for companies and was not useful to investors.

> *Paragraph 42E(c)* **-** *We do not believe this disclosure is required if the results produced by the derecognition model are seen as robust by users. If the board believe this disclosure does provide useful information, then the reason why should be discussed in the Basis for Conclusions and the meaning of 'transfer activity' needs to be included in the guidance.*
>
> *Paragraph 42E(c) – Practical Application* **-** *It would be extremely difficult for global financial institutions who trade across many different regions and systems to monitor the level of transfer activity where they retain a continuing involvement. Also, total activity is largely driven by client demands and can be seasonal. For example, activity in financial markets is generally lower during December. In any case, without a definition of 'the period within the reporting period' in terms of the number of days, weeks or months to be considered, it will be impossible to produce in a meaningful or consistent manner. However, it is also unclear whether the*

[5] See excerpt in Appendix A.

purpose of the disclosure is to capture this seasonality or derecognition transactions just before year-end that result in significant gains or losses. If it is the latter, then these may not be captured by looking at total transfer activity.

Analysis

46. The staff agrees that the information required in sections (a) and (b) could be confusing to users if not properly aggregated. However, in paragraph B29 of the ED the Board explains that the categories of continuing involvement should be classified by the entity's exposure to risks. Without performing a further review of IFRS 7 in total, the staff believes that this is sufficient guidance to preparers related to this requirement.

47. The disclosure in section (c) related to transfer activity was originally intended for repos and securities lending transactions. As the Board tentatively decided on the effective control exception in February 2010, these disclosures may no longer be necessary. However, many believe it is important to disclose this information to ensure that there is no window dressing at the end of the reporting periods. If companies are able to track and record gains or losses on transactions, they can track and record when such activity took place.

Staff recommendation

48. Based on discussions and analyses performed, the staff does not believe that further clarification around the aggregation of gains in losses in paragraph 42E (a) and (b) is required. In addition, the staff does not believe that disclosure of transfer activity (paragraph 42E (c)) is necessary now that the effective control exception has been tentatively proposed.

Question
Does the Board agree with paragraph 48 that: a) further clarification around the aggregation of gains in losses in paragraph 42E (a) and (b) is not required? If not, why not? What would you propose and why? b) disclosure of transfer activity (paragraph 42E (c)) is no longer necessary now that the effective control exception has been tentatively proposed?

If not, why not? What would you propose and why?

d) Transactions that do not result in derecognition of financial liabilities

Comments received

49. Some respondents noted that the ED should also require disclosure of modifications or ”transfers” of financial liabilities that failed derecognition.

We note that there are no disclosures for financial liabilities that fail derecognition. We consider it may be useful for users to understand if during the period the entity had a modification or exchange of a financial liability with an existing lender. (CL#36)

Provide information (disclosures) on failed sale of liability and modification of financial liabilities

Analysis

50. In the December 2009 meeting the Board tentatively decided that a financial liability is considered extinguished and should be derecognised only when the contract giving rise to that liability is substantially modified. An example of a modification to a financial liability that does not result in an extinguishment (and derecognition) is a waiver, as it does not irrevocably alter the rights of the parties under the original contact.[6]

51. For example, a financial liability may require compliance with certain covenants (i.e. maintenance of a minimum current ratio or a minimum debt-to-equity ratio). If the borrower violates the covenants at one of the reporting periods, the holder (lender) has the right to call the debt. The lender may decide waive its right to help facilitate repayment of the related debt. However, it still retains the right to the future covenant requirements. Users of financial statements believe this information is important in their analyses, even if not considered a substantial modification.

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[6] December 2009 AP 15A

52. The staff also believes that such information should be disclosed. This information is important to credit analysts and is often hard for them to find if not adequately disclosed. The context of such disclosures could mean cash flow problems or a different interest rate environment. The staff has not recommended a threshold for these disclosures as we understand that renegotiation of financial liabilities that do not result in substantial modifications will not occur on a regular basis.

Staff recommendation

53. Based on the above analysis the staff believes that the Board should require qualitative and quantitative disclosures regarding modifications to liabilities that do not result in extinguishment. The disclosures should include the following information:

    (a) Carrying amount and terms of the liability (interest rates, repayment terms, maturity), and

    (b) A description of the modification and why it did not result in extinguishment.

Question
Does the Board agree with the staff's recommendation in paragraph 53: namely, that the Board should require qualitative and quantitative disclosures regarding modifications to liabilities that do not result in extinguishment, and include the following information: a) carrying amount and terms of the liability (interest rates, repayment terms, maturity) and b) a description of the modification and why it did not result in extinguishment? If not, why not? What would you propose, and why?

Other issues

54. In its February 2010 meeting the Board tentatively decided to finalise certain proposed improvements to IFRS 7 *Financial Instruments: Disclosures* as part

of the 2009 annual improvements. This included the deletion of paragraph 36(d), which required an entity to disclose the "carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated."

55. This disclosure was considered impracticable by preparers as they could not distinguish if a financial asset would have been impaired if the terms of the asset had already been restructured.

56. However, some are concerned that deletion of this requirement will remove information that is needed by users. Investors/analysts want to track modifications to assets (i.e. restructured assets) even if the asset isn't considered impaired (or isn't derecognised). If there are renegotiated loans or a loosening of repayment terms (i.e. due to violations of loan covenants), even if the loans are being repaid on a normal basis, this information is important to analysts, especially if companies have many of these situations. Investors want to know the cumulative amount of loans modified by the holder related to companies in financial trouble. This helps in determining the holder's credit risk exposure.

57. Due to the original concerns around the IFRS 7 paragraph 36(d) disclosure requirements (see paragraph 55 above), the staff believes that narrowing the requirement to a subset of financial assets only related to borrowers that *are* (rather than might otherwise be) in financial trouble would both help address user needs and be practicable for preparers to provide the information.

58. Disclosures should be required when an entity modifies the terms of a financial asset for a borrower that is in financial trouble in order to make the terms more favorable to the borrower and to protect the entity (creditor's) investment. Disclosures should be required for both (a) modifications to financial assets measured at fair value that are not derecognised, and (b) modifications to all

financial assets that are derecognised (with a "new" asset recognised) as a result of the modification.[7]

59. The entity should disclose:

   (a) The carrying amount of the financial assets (or prior and current carrying amounts for derecognised assets).

   (b) The terms of the modifications and the reasons they were made.

   (c) The gains or losses related to the modifications, to the extent separately measurable.

60. Disclosure of the gains or losses could be included as a modification to IFRS 7, paragraph 20A:

> *An entity shall disclose an analysis of the gain or loss recognised in the statement of comprehensive income arising from the derecognition of financial assets measured at amortised cost, showing separately gains and loses arising from derecognition of those financial assets. This disclosure shall include the reasons for derecognizing those financial assets.*

61. Originally the purpose of paragraph 20A was to provide information about when an entity was holding assets to collect cash flows but were selling those assets before maturity. However, revising paragraph 20A to require additional information for modifications to assets that protect the creditor's investments would also meet concerns and needs of users.

Staff recommendation

62. Based on the above, the staff recommends that the Board require the following disclosures when an entity modifies the terms of a financial asset for a borrower

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[7] The staff notes that for assets measured at amortised cost that are not derecognised, Exposure Draft ED/2009/12 *Financial Instruments: Amortised cost and Impairment* already requires disclosures of such modifications.

that is in financial trouble in order to make the terms more favorable to the borrower and to protect the entity (creditor's) investment:

(a) The carrying amount of the financial assets (or prior and current carrying amounts for derecognised assets).

(b) The terms of the modifications and the reasons they were made.

(c) The gains or losses related to the modifications, to the extent separately measurable.

Question
Does the Board agree with the recommendations in paragraph 62- namely, to require disclosures when an entity modifies the terms of a financial asset for a borrower that is in financial trouble in order to make the terms more favorable to the borrower and to protect the entity (creditor's) investment.? Does the Board agree that the requirements should include disclosure of: a) the carrying amount of the financial assets for assets that were not derecognised, b) the original and new carrying amount of the financial assets that were derecognised, c) the terms of the modifications including reasons for the modifications, and d) the gains or losses related to the modifications, to the extent separately measurable? If not, why not? What would you propose, and why?

Appendix A

Proposed amendments to IFRS 7 *Financial Instruments: Disclosures*

Paragraph 13 and the heading before paragraph 13 are deleted. After paragraph 42, headings and paragraphs 42A–42F are added.

Derecognition

42A The disclosure requirements in paragraphs 42B–42F relating to transferred financial assets supplement the other disclosure requirements of this IFRS. An entity shall present the disclosures in paragraphs 42B and 42D–42F in a single note in its financial statements.

Derecognition—Transferred financial assets that are not derecognised

42B An entity may have transferred financial assets in such a way that part or all of the financial assets do not qualify for derecognition (see paragraphs 15A–18A of IAS 39). The entity shall disclose information that enables users of its financial statements to understand the relationship between those assets and associated liabilities after the transfer. The entity shall disclose for each class of such financial assets:

(a) the nature of the assets.

(b) the nature of the risks to which the entity remains exposed.

(c) the carrying amounts of the assets and of the associated liabilities.

(d) a description of the nature of the relationship between the assets and the associated liabilities, including any restrictions on the entity's use of the assets.

(e) when the counterparty (or counterparties) to the associated liabilities has (have) recourse only to the assets, a schedule that sets out the fair value of the assets, the fair value of the associated liabilities and the net position.

Derecognition—Transferred financial assets that are derecognised

42C When an entity derecognises financial assets but has continuing involvement in them (see paragraphs 15A–18A of IAS 39), the entity shall disclose information that enables users of its financial statements to evaluate the nature of and risks associated with the entity's continuing involvement in those derecognised financial assets.

42D To meet the objective in paragraph 42C, an entity shall disclose, as a minimum, for each category of continuing involvement at the reporting date:

(a) the carrying amount of the assets and liabilities recognised in the entity's statement of financial position representing the entity's continuing involvement, and the line items in which those assets and liabilities are recognised.

(b) the fair value of the assets and liabilities representing the entity's continuing involvement.

(c) the amount that best represents the entity's maximum exposure to loss from its continuing involvement, including how the maximum exposure to loss is determined.

(d) the fair value of derecognised financial assets in which the entity has continuing involvement, including a description of the methods and assumptions applied in determining the fair value (see paragraphs 27A and 27B).

(e) the undiscounted cash outflows to repurchase derecognised financial assets (eg the strike price in an option agreement or the repurchase price in a repurchase agreement).

(f) a maturity analysis of the undiscounted cash outflows to repurchase the derecognised financial assets that shows the remaining contractual maturities of the entity's continuing involvement.

(g) a sensitivity analysis showing the possible effect on the fair value of the continuing involvement of changes in the relevant risk variables that were reasonably possible at the reporting date. The entity shall describe the methods and assumptions used in preparing the sensitivity analysis (see relevant sections of paragraphs B17–B21).

(h) qualitative information that explains and supports the quantitative disclosures in (a)–(g).

42E In addition, an entity shall disclose for each category of continuing involvement:

(a) the gain or loss recognised at the date of transfer of the assets.

(b) income and expenses recognised from the entity's continuing involvement (eg servicing fees and fair value changes in derivative instruments).

(c) if the total amount of transfer activity (that qualifies for derecognition) in a reporting period is not evenly distributed throughout the reporting period (eg if a substantial proportion of the total amount of transfer activity takes place in the closing days of a reporting period), the total amount of the transfer activity and the related gains or losses recognised in the period within the reporting period that has the greatest transfer activity. The entity shall also disclose when (within a reporting period) the greatest transfer activity took place (eg the last five days before the end of the reporting period).

An entity shall provide this information for each of the periods for which a statement of comprehensive income is presented.

42F An entity shall disclose any additional information that it considers necessary to meet the disclosure objective in paragraph 42C.

Appendix B

Application guidance

After paragraph B28, headings and paragraphs B29–B34 are added.

Derecognition (paragraphs 42A–42F)

Categories of continuing involvement (paragraphs 42D and 42E)

B29 Paragraphs 42D and 42E require qualitative and quantitative disclosures for each category of continuing involvement. An entity classifies its continuing involvement into categories that are representative of the entity's exposure to risks. For example, an entity may categorise its continuing involvement by type of continuing involvement (eg repurchase agreements, guarantees, call options and servicing) or by type of transfer (eg factoring, receivables securitisations and securities lending).

Maturity analysis for undiscounted cash outflows to repurchase transferred assets (paragraph 42D(f))

B30 Paragraph 42D(f) requires an entity to disclose a maturity analysis of the undiscounted cash outflows to repurchase derecognised financial assets, which shows the remaining contractual maturities of the entity's continuing involvement (eg the strike price in an option agreement or the repurchase price in a repurchase agreement). This analysis distinguishes cash flows that are required to be paid (eg forward contracts), cash flows that the entity may be required to pay (eg written put options) and cash flows that the entity might choose to pay (eg purchased call options).

B31 An entity uses its judgement to determine an appropriate number of time bands in preparing the maturity analysis required by paragraph 42D(f). For example, an entity might determine that the following time bands are appropriate:

(a) not later than one month;

(b) later than one month and not later than three months;

(c) later than three months and not later than one year; and

(d) later than one year and not later than five years.

B32 If there is a range of possible maturities, the cash flows are included on the basis of the earliest date on which the entity can be required or permitted to pay.

Qualitative information (paragraph 42D(h))

B33 The qualitative information required by paragraph 42D(h) includes a description of the derecognised financial assets, and the nature and purpose of the continuing involvement retained after transferring those assets. It also includes a description of the risks to which an entity is exposed, including:

(a) a description of how the entity manages the risk inherent in its continuing involvement.

(b) whether the entity is required to bear losses before other parties, and the ranking and amounts of losses borne by each category of party involved.

(c) a description of triggers associated with obligations to provide financial support or to repurchase a transferred financial asset.

Gain or loss on derecognition (paragraph 42E(a))

B34 Paragraph 42E(a) requires an entity to disclose the gain or loss on derecognition relating to financial assets in which the entity has continuing involvement. The entity shall indicate if a gain or loss on derecognition arose because the fair values of the components of the previously recognised asset (ie the interest in the asset derecognised and the interest retained by the entity) were different from the fair value of the previously recognised asset as a whole. In that situation, the entity also discloses the extent to which the fair value calculations were dependent on Level 3 inputs in paragraph 27A of IFRS 7 (as amended in March 2009).

Appendix C (Based on IAS 39 requirements)

Proposed amendments to guidance on implementing
IFRS 7 *Financial Instruments: Disclosures*

After paragraph IG40 a heading and paragraph IG40A are added.

Derecognition (paragraph 42A–42F)

IG40A The following examples illustrate some possible ways to meet the quantitative disclosure requirements relating to derecognition in IFRS 7.

Transferred financial assets that are not derecognised

Illustrating the application of paragraph 42B(c) and (e)

	Class of financial asset				
	Financial assets at fair value through profit or loss		**Loans and receivables**		**Available-for-sale financial assets**
CU million	Trading securities	Trading derivatives	Mortgages	Consumer loans	Equity investments
Carrying amount of assets	X	X	X	X	X
Carrying amount of associated liabilities	(X)	(X)	(X)	(X)	(X)
For those liabilities that have recourse only to specific assets:					
Fair value of assets	X	X	X	X	X
Fair value of associated liabilities	(X)	(X)	(X)	(X)	(X)
Net position	X	X	X	X	X

Transferred financial assets that are derecognised

Illustrating the application of paragraph 42D(a)–(e)

Continuing involvement with transferred financial assets that have been derecognised					
CU million	Fair value of transferred (derecognised	Cash outflows to repurchase transferred	Carrying amount of continuing involvement in	Fair value of continuing	Maximum exposure

	assets)	(derecognised assets)	statement of financial position		involvement	to loss
Type of continuing involvement			Assets	Liabilities		
Repurchase agreements	X	(X)	X	(X)	X	X
Written put options	X	(X)		(X)	X	X
Purchased call options	X	(X)	X		X	X
Securities lending	X	(X)	X	(X)	X	X
Servicing	X		X	(X)	X	X
Total			X	(X)	X	X

Carrying amount of continuing involvement in the statement of financial position		
CU million	Total	
Class of asset or liability	Assets	Liabilities
Held for trading	X	
Available-for-sale financial assets	X	
Financial liabilities at fair value through profit or loss		(X)
Total	X	(X)

Illustrating the application of paragraph 42D(f)

Undiscounted cash flows to repurchase transferred assets							
CU million	Maturity of continuing involvement						
Type of continuing involvement	Total	<1 month	<3 month	<6 month	<1 years	1–2 years	>2 years
Repurchase agreements	X	X	X	X	X	X	

Written put options	X		X	X	X	X	
Purchased call options	X			X	X	X	X
Securities lending	X	X	X				