



Project **Derecognition**

Topic **FASB discussion summary of the IASB derecognition model**

Introduction

1. On May 11, 2010, the FASB held an education session to discuss FASB Memo 2 and IASB Memo 4 prepared by the staff summarizing the comments made by Board members during small group meetings related to the IASB's proposed derecognition model. The considerations identified below represent the views of individual Board members and not that of the FASB Board. No decisions were made.

Individual Board member considerations

2. The Board members discussed and reiterated some of the concerns captured in Agenda Paper 4 (FASB Paper 2). This list is intended to be a supplement to that paper. The following list represents additional considerations highlighted by individual Board members:
 - a. The three primary areas of concern with the IASB derecognition model are:
 - i. Due to the current mixed attribute model the IASB's derecognition model could lead to greater earnings manipulation potential as more assets will qualify for derecognition.
 - ii. Net versus gross presentation
 - iii. More research needs to be performed with regard to the use of an entity to determine if scenarios exist that could change the

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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 FASB or the IASB.

Comments made in relation to the application of IFRSs or U.S. GAAP do not purport to be acceptable or unacceptable application of IFRSs or U.S. GAAP.

The tentative decisions made by the FASB or the IASB at public meetings are reported in FASB *Action Alert* or in IASB *Update*. Official pronouncements of the FASB or the IASB are published only after each board has completed its full due process, including appropriate public consultation and formal voting procedures.

Staff paper

accounting if an entity is involved (e.g. SPEs or defeasance trusts).

- b. The proposed model is more of a recognition model than a derecognition model. Additionally, concern was noted on whether an entity would be able to recognize and measure what they were getting back (i.e. implicit obligations) when there is a sale of a portion of a financial asset.
 - c. The model does not consider continuing involvement or effective control. Also, some form of legal analysis has to be performed which should be considered in determining whether to derecognize the asset.
 - d. There may be ability to derecognize assets without transfer/surrender of the underlying asset.
 - e. Further consideration may be helpful in identifying any inconsistencies that may exist with the proposals in the joint consolidation project.
3. In addition to the FASB Board discussion of their initial reactions to the IASB derecognition model, the Board members also discussed their individual thoughts on how to proceed related to derecognition. As previously noted, the following comments were noted by individual Board members and do not represent the view of the FASB Board. The following comments were noted:
- a. The FASB issued Statement No. 166, *Accounting for Transfers of Financial Assets*, in June 2009. Sufficient time has not elapsed to undergo a post-implementation review in order to understand how the model is being applied in practice and whether there are practice issues that may exist.
 - b. A way forward for convergence may be reconciling differences between current FASB and IASB derecognition guidance. The FASB Board would need to understand whether U.S. investors would view the IASB's approach as an improvement.