STAFF PAPER

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IFRS Interpretations Committee Meeting

Project	**Disclosures-Transfers of Financial Assets (Amendments to IFRS 7)**
Paper topic	Servicing agreements

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Introduction

1. The IASB issued *Disclosures-Transfers of Financial Assets* (Amendments to IFRS 7) (the "transfer disclosures") in October 2010. The transfer disclosures include the addition of paragraphs 42A-H to IFRS 7 *Financial Instruments: Disclosures* and are effective for annual periods beginning on or after 1 July 2011.

2. The transfer disclosures were published to enable users of financial statements:

   (a) to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and

   (b) to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets.[1]

3. IFRS 7 defines 'a transfer of a financial asset'[2] and 'continuing involvement in a transferred financial asset'[3] for the purpose of applying the transfer disclosures requirements.

4. The transfer disclosures requirements supplement the other disclosure requirements of IFRS 7. An entity shall provide the required disclosures for all

[1] IFRS 7 paragraph 42B.

[2] IFRS 7 paragraph 42A.

[3] IFRS 7 paragraph 42C.

transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset.

5. In October 2012 the IFRS Interpretations Committee (the Interpretations Committee) received a request to seek clarification through an annual improvement on whether servicing rights and obligations are continuing involvement for the purpose of the transfer disclosures.

6. The objective of this paper is:

   (a) to provide a brief analysis of the submission and the issue; and

   (b) ask the Interpretations Committee for its view on that analysis.

Issue

7. In many cases an entity may transfer a financial asset that qualifies for derecognition, but may retain the right to *service* the financial asset for a fee. Depending on whether the fee to be received is expected to compensate the entity adequately for performing the servicing, an entity may recognise a servicing right or a servicing obligation in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*[4].

8. Irrespective of whether the fee is expected to adequately compensate for the servicing, the submitter has asked the Interpretations Committee to clarify whether servicing rights and obligations are considered continuing involvement for the purposes of the 'transfers of financial assets' disclosures in IFRS 7, and therefore whether they are subject to the disclosures for transferred financial assets that are derecognised in their entirety. For the purpose of the disclosure requirements an entity has continuing involvement in a transferred financial asset[5] if, as part of the transfer, it either:

   (a) retains any of the contractual rights /obligations inherent in the transferred financial asset; or

[4] IAS 39 paragraphs 24 and 25 (to be replaced by IFRS 9 *Financial Instruments* paragraphs 3.2.10 and 3.2.11).

[5] IFRS 7 paragraph 42C.

(b) obtains any new contractual rights or obligations relating to the transferred financial asset.

9. The submitter has provided a technical analysis with two alternative views on this issue (included in Appendix C). Following are an excerpt of the submitter's views and analysis.

View 1 – servicing rights/obligations do NOT constitute continuing involvement

10. In this view the submitter does not believe that the IASB intended a servicing right/obligation to constitute continuing involvement (and is therefore not subject to the disclosures for transferred financial assets that are derecognised in their entirety). The submitter references various items to support this view, including:

(a) a webcast in October 2010 where the IASB staff introduced the amendments to IFRS 7;

(b) discussions in the Exposure Draft 2009/3 *Derecognition proposed amendments to IAS 39 and IFRS 7*; and

(c) Agenda Paper 10 that was presented in the July 2010 Board meeting.

11. The submitter also makes reference to paragraph 42C(c) of IFRS 7. Paragraph 42C(c) states that a pass-through arrangement that meets all three of the conditions in paragraph 19 of IAS 39 *Financial Instruments: Recognition and Measurement* [6](paragraph 3.2.5 of IFRS 9 *Financial Instruments*) does not constitute continuing involvement.

[6] When an entity retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), the entity treats the transaction as a transfer of a financial asset if, and only if, all of the following three conditions are met.

(a) The entity has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset. Short-term advances by the entity with the right of full recovery of the amount lent plus accrued interest at market rates do not violate this condition.

(b) The entity is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows.

(c) The entity has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the entity is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents (as defined in IAS 7 *Statement of Cash Flows*) during the short settlement period from the collection date to the date of required remittance to the eventual recipients, and interest earned on such investments is passed to the eventual recipients.

12. The submitter argues that a right or obligation to service for a fee is in substance a pass-through arrangement plus the receipt of a fee. While IFRS 7 does not specifically state whether a servicing right/obligation constitutes continuing involvement, the submitter believes that it could analogise a servicing agreement to a pass-through arrangement (based on paragraphs 10 and 11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates, and Errors* where an entity can apply the IFRS requirements dealing with similar and related issues). In accordance with paragraph 42C(c) such analogy would then result in the exclusion of servicing rights/obligations from the definition of continuing involvement for the purpose of the transfer disclosures.

View 2 – servicing rights/obligations constitute continuing involvement

13. In this view the submitter notes the IFRS 7 definition of continuing involvement for the transfer disclosures-that is, that an entity has continuing involvement in a transferred financial asset if, as part of the transfer, it either:

    (a) retains any of the contractual rights /obligations inherent in the transferred financial asset; or

    (b) obtains any new contractual rights/obligations relating to the transferred financial asset. [7]

14. The submitter notes that the definition of continuing involvement does not distinguish between contractual rights or obligations that are financial instruments and those that are not, nor is there an explicit scope exception for servicing rights/obligations. In this view a servicing right/obligation constitutes continuing involvement for the purposes of the transfers of financial assets disclosures and therefore is subject to the transfer disclosures requirements.

Staff analysis

15. The terms of servicing agreements may vary. Therefore whether servicing agreements and the related rights/obligations therein meet the definition of

[7] IFRS 7 paragraphs 42C and B30.

continuing involvement for the transfer disclosures depends on the terms of each servicing agreement.

16. As noted in paragraph 4 above, an entity shall provide the required transfer disclosures for all transferred financial assets that are not derecognised and for any continuing involvement in a transferred financial asset, existing at the reporting date, irrespective of when the related transfer transaction occurred. The transfer disclosure requirements supplement the other disclosure requirements of IFRS 7.[8] IFRS 7 also specifically excludes some contractual rights and obligations as forms of continuing involvement but servicing agreements are not included within that list[9].

17. As noted in the submitter's analysis (in View 2), the definition of continuing involvement for the transfer disclosures does not distinguish between contractual rights or obligations that are financial instruments and those that are not, and there is no explicit scope exception for servicing rights/obligations.

18. This is consistent with the Basis for Conclusions[10] which states that the IASB concluded that when an asset is derecognised information should be provided about the risks to which an entity is exposed to enable an assessment to be made of the amount, timing and uncertainty of future cash flows.

Outreach request

19. The staff also sent a request for information to the International Forum of Accounting Standard Setters (IFASS) and various securities regulators in order to help assess the Interpretations Committee's agenda criteria as summarised in Appendix B. However, the only feedback the staff received as of the date of this paper was from one region stating that servicing agreements are not common/material and therefore have not been considered for the transfer disclosures.

[8] IFRS 7 paragraph 42A.

[9] IFRS 7 paragraph 42C.

[10] IFRS 7 paragraph BC65J.

Staff recommendation

20. Whether servicing rights and obligations should be included in the transfer disclosures can be derived from the current IFRS 7 disclosure requirements without the need for further guidance or amendments. For example, disclosure should be provided about servicing rights and obligations for a transferred financial asset if the terms of the servicing agreements meet the IFRS 7 definition of continuing involvement.

21. Consequently, changes to or formal interpretations of the new IFRS 7 transfer disclosure requirements are not needed. Hence, the staff consider that the Interpretations Committee's agenda criteria[11] are not met and recommend that the Interpretations Committee should not take this issue onto its agenda.

Questions for the Committee:
1. Does the Interpretations Committee agree with the staff's analysis of the scope of the disclosure requirements? 2. Does the Interpretations Committee agree with the draft tentative agenda decision in Appendix A? 3. Does the Interpretations Committee want to take any other action (ie other than publishing a tentative draft agenda decision)?

[11] The agenda criteria are set out in Appendix B for reference.

Appendix A—Proposed wording for tentative agenda decision

A1 The staff propose the following wording for the tentative agenda decision:

***Disclosures-Transfers of Financial Assets* (Amendments to IFRS 7)**

The IASB issued *Disclosures-Transfers of Financial Assets* (Amendments to IFRS 7) (the transfer disclosures) in October 2010. The transfer disclosures include the addition of paragraphs 42A-H to IFRS 7 *Financial Instruments: Disclosures* and are effective for annual periods beginning on or after 1 July 2011.

In October 2012 the IFRS Interpretations Committee received a request to seek clarification through an annual improvement on whether servicing rights and obligations are continuing involvement for the purpose of the transfer disclosures.

The Interpretations Committee noted that whether servicing rights and obligations should be included in the transfer disclosures can be derived from the current IFRS 7 disclosure requirements without the need for further guidance or amendments. For example, IFRS 7 paragraph 42A requires an entity to provide the transfer disclosures for all transferred financial assets that are not derecognised and for any continuing involvement in a transferred financial asset, existing at the reporting date, irrespective of when the related transfer transaction occurred. The transfer disclosure requirements supplement the other disclosure requirements of IFRS 7.

The Interpretations Committee further noted that while IFRS 7 specifically excludes some contractual rights and obligations as forms of continuing involvement, servicing agreements are not included within that list. Therefore, disclosure should be provided about servicing rights and obligations for a transferred financial asset if the terms of the servicing agreements meet the IFRS 7 definition of continuing involvement.

The Interpretations Committee considered that in the light of its analysis of the existing IFRS requirements neither an amendment nor an Interpretation was necessary and consequently [decided] not to add the issue to its agenda.

Appendix B

I. Criteria for Including an Item in the Annual Improvements Process

(a) The proposed amendment has one or both of the following characteristics:

(i) clarifying—the proposed amendment would improve IFRSs by:

- clarifying unclear wording in existing IFRSs, or
- providing guidance where an absence of guidance is causing concern.

A clarifying amendment maintains consistency with the existing principles within the applicable IFRSs. It does not propose a new principle, or a change to an existing principle.

The current requirements in IFRS 7 are clear. No annual improvement deemed necessary.

(ii) correcting—the proposed amendment would improve IFRSs by:

- resolving a conflict between existing requirements of IFRSs and providing a straightforward rationale for which existing requirement should be applied, or
- addressing an oversight or relatively minor unintended consequence of the existing requirements of IFRSs.

A correcting amendment does not propose a new principle or a change to an existing principle.

(b) The proposed amendment is well-defined and sufficiently narrow in scope such that the consequences of the proposed change have been considered.

(c) It is probable that the IASB will reach conclusion on the issue on a timely basis. Inability to reach a conclusion on a timely basis may indicate that the cause of the issue is more fundamental than can be resolved within annual improvements.

(d) If the proposed amendment would amend IFRSs that are the subject of a current or planned IASB project, there must be a need to make the amendment sooner than the project would.

II. Criteria for Including an Item on the Agenda

(a) The issue is widespread and has practical relevance.

(b) The issue indicates that there are significantly divergent interpretations (either emerging or already existing in practice). The Committee will not add an item to its agenda if IFRSs are clear, with the result that divergent interpretations are not expected in practice.

The current requirements in IFRS 7 are clear and therefore adding an agenda item is not necessary.

(c) Financial reporting would be improved through elimination of the diverse reporting methods.

(d) The issue can be resolved efficiently within the confines of existing IFRSs and the Framework, and the demands of the interpretation process.

(e) It is probable that the Committee will be able to reach a consensus on the issue on a timely basis.

(f) If the issue relates to a current or planned IASB project, there is a pressing need to provide guidance sooner than would be expected from the IASB's activities. The Committee will not add an item to its agenda if an IASB project is expected to resolve the issue in a shorter period than the Committee requires to complete its due process.

Appendix C-Submission

Request to clarify within the annual improvements project whether servicing rights and obligations are continuing involvement for the purposes of the 'transfers of financial assets' disclosures

We are writing to you to request that the Board clarify within the annual improvements project whether servicing rights and obligations are considered continuing involvement for the purposes of the 'transfers of financial assets' disclosures in IFRS 7 *Financial Instruments: Disclosures* (IFRS 7). In the remainder of this letter we introduce the issue on which we provide alternative views in the 'technical analysis' section. Finally we evaluate the issue against the criteria to assess whether it would qualify to be addressed within the annual improvements project.

Introduction

In many cases, entities – especially financial institutions and particularly banks – retain the right/obligation to service for a fee transferred financial assets that qualify for derecognition in their entirety. Depending on whether the fee to be received is expected to compensate the entity adequately for performing the servicing, an entity may recognise a servicing asset or a servicing liability. However, the fee is often expected to adequately compensate the entity for the servicing in which case no servicing asset/liability would be presented in the statement of financial position.[12] Irrespective of whether the fee is expected to adequately compensate for the servicing, the question arises whether a servicing right/obligation constitutes continuing involvement[13] and is subject to the disclosures for transferred financial assets that are derecognised in their entirety[14].

Technical analysis

View 1 – servicing rights/obligations do NOT constitute continuing involvement

The following commentary suggests that the IASB‟s intention was that a servicing right/obligation does not constitute continuing involvement and is therefore not subject to the disclosures for transferred financial assets that are derecognised in their entirety:

- A webcast on 11 October 2010 in which IASB staff introduced *Disclosures – Offsetting Financial Assets and Financial Liabilities* Amendments to IFRS 7. The staff indicated that derecognised transferred financial assets for which an entity retains the right/obligation to service the financial asset for a fee are not 'caught' by the disclosure requirements because servicing assets/liabilities are not financial instruments.

[12] Refer to IAS 39.24.

[13] As defined in IFRS 7.42C for the purposes of the 'transfers of financial asset' disclosures.

[14] The relevant disclosure requirements are included in IFRS 7.42E-H.

- Paragraph 18A of the Exposure Draft 2009/3 *Derecognition proposed amendments to IAS 39 and IFRS 7* (the ED) explicitly stated that “the retention of the right to service the Asset in a fiduciary or agency relationship” from continuing involvement does not constitute continuing involvement, (see Appendix 1 for the complete text of paragraph 18A).

- Agenda paper 10 on the Derecognition – Disclosures Amendments to IFRS 7 was presented by the IASB staff during the Board’s redeliberations of the ED on 20 July 2010. In that agenda paper the staff recommended that the Board not include detailed disclosure requirements for servicing assets and liabilities like the ones that were included in *Statement No. 166 Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140* (SFAS 166), to which the Board agreed, (see Appendix 2 for the complete text of the relevant paragraphs).

Also, paragraph 42C(c) of IFRS 7 states that a pass-through arrangement that meets all three of the conditions in paragraph 19 of IAS 39 does not constitute continuing involvement. A right/obligation to service for a fee is in substance a pass-through arrangement plus the receipt of a fee. Furthermore, IFRS 7 does not specifically address whether a servicing right/obligation constitutes continuing involvement. Based on paragraphs 10 and 11 of IAS 8 an entity applies the IFRS requirements dealing with similar and related issues. Therefore, paragraph 42C(c) of IFRS 7 is applied by analogy to servicing rights/obligations and consequently they do not constitute continuing involvement.

View 2 – servicing rights/obligations constitute continuing involvement

Paragraphs 42C and B30 of IFRS 7 define continuing involvement for the purposes of the ‘transfer of financial assets’ disclosures and refer to “any of the contractual rights or obligations inherent in the transferred financial asset” and “any new contractual rights or obligations relating to the transferred financial asset.” These paragraphs do not distinguish between contractual rights or obligations that are financial instruments and those that are not, nor do they contain an explicit scope exception for servicing rights/obligations. As such, although IFRS 7 as amended does not include specific detailed disclosure requirements for servicing assets/liabilities, it does not reflect what was indicated in the IASB webcast or in the ED. Therefore, based on the current wording of IFRS 7, it appears that a servicing right/obligation constitutes continuing involvement for the purposes of the ‘transfers of financial asset’ disclosures and therefore is subject to the disclosure requirements in IFRS 7.42E-H. Hence, if the Board still believes that a servicing right/obligation does not constitute continuing involvement, then we recommend the Board provide clarification on this issue by amending paragraph 42C of IFRS 7.

Criteria to assess whether an issue should be addressed within the annual improvements project

In our view, the issue described above is widespread as many entities, especially financial institutions and particularly banks, retain the right/obligation to service for a fee transferred financial assets that qualify for derecognition in their entirety. There is currently no established practice because *Disclosures – Transfers of Financial Assets* Amendments to IFRS 7 are only just recently effective (annual periods beginning on or after 1 July 2011). However, we are aware that divergent views exist. Therefore, we believe that the issue has practical relevance. Also, the issue may become more widespread as more jurisdictions transfer to IFRS.

Based on paragraph 65A of your *Due Process Handbook for the IASB*, we suggest the Board address the issue by amending IFRS 7 within the annual improvements project because:

- An amendment to IFRS 7 would improve IFRS by providing clear guidance on whether a servicing right/obligation constitutes continuing involvement without introducing a new principle or a change to an existing principle.
- The issue is self-contained and of a conceptual nature and therefore:
  - could be addressed through an amendment that is well-defined and sufficiently narrow in scope;
  - it is probable that the IASB will be able to reach a conclusion on the issue on a timely basis.
- The proposed amendment does not relate to a current or planned IASB project. *Disclosures – Transfers of Financial Assets* Amendments to IFRS 7 originated from the IASB"s and the FASB"s decision to improve and achieve convergence on their requirements on the derecognition of financial instruments[15]. However, at present the nature and direction of any further efforts related to the original project are unclear. Also, derecognition of financial instruments is not part of the IAS 39 replacement project that focuses on classification and measurement, impairment and hedge accounting.

Appendix 1: Paragraph 18A of Exposure Draft 2009/3 Derecognition Proposed amendments to IAS 39 and IFRS 7

A transferor has no continuing involvement in the Asset if, as part of the transfer, it neither retains any of the contractual rights or obligations inherent in the Asset nor obtains any new contractual rights or obligations relating to the Asset. None of the following constitutes continuing involvement:

a) normal representations and warranties relating to fraudulent transfer and concepts of reasonableness, good faith and fair dealings that could invalidate a transfer as a result of legal action;

b) the retention of the right to service the Asset in a fiduciary or agency relationship; or

c) forward, option and other contracts associated with reacquiring the Asset for which the contract (or exercise) price is the fair value of the transferred Asset.

[15] Sources from IFRS 7.BC65A-C.

Appendix 2: Paragraphs 11-17 of agenda paper 10 on the Derecognition – Disclosures Amendments to IFRS 7 that was discussed by the Board on 20 July 2010:

Difference between amended IASB disclosure requirements and the guidance in SFAS 166

11. After detailed analysis, the staff believes that the two sets of disclosure requirements will be broadly similar. (This should not be surprising as the staff liaised with the FASB team whilst developing the disclosure requirements proposed in the Derecognition ED).

12. Although broadly similar, the requirements differ in terms of location of the respective provisions (i.e. in geography). However the combination of the detailed provisions, application guidance and implementation guidance requires similar information to be disclosed by entities. ***(Obviously, to the extent that the derecognition models are different, the statement of financial position and the associated disclosures will be different depending on which of the guidance is applied).***

13. The only major difference (or perhaps the only difference) between the two disclosure guidance is that SFAS 166 has detailed disclosure requirements for servicing assets and liabilities whereas IFRS 7 does not require such disclosures.

14. IAS 39 only provides guidance on initial recognition of servicing assets and liabilities (following a derecognition event) but does not provide any guidance on subsequent measurement or accounting for such assets or liabilities (strictly they are not in the scope of IAS 39 or IFRS 9 *Financial Instruments* as they do not meet the definition of a financial instrument).

15. There is some divergence in practice with respect to the accounting for such items. Some carry such items at fair value through profit or loss. Others believe that those items are intangible assets and hence are accounted for subsequently under IAS 38, *Intangible assets*. Others see such items as purely revenue contracts and hence apply the revenue recognition guidance.

16. The staff believes that the appropriate accounting for such items are beyond the scope of this project.

17. Although the staff believes that such disclosures might be useful for investors, the staff does not recommend that the Board include such disclosures in IFRS 7 for the following reasons:

    a) Servicing assets and liabilities are not financial instruments and hence fall outside the scope of this project

    b) There is probably a need to develop comprehensive guidance (including associated disclosures) for such items when the Board has opportunity

    c) Inclusion of similar guidance, as in SFAS 166, would be a major change to the requirements exposed by the Board and hence would necessitate re-exposure of the proposed amendments.

Does the Board agree with the staff recommendation in paragraph 17?

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

Appendix D-Excerpt of IFRS 7 disclosure requirements

Disclosures-Transfers of Financial Assets
(Amendments to IFRS 7)

Transfers of financial assets

42A The disclosure requirements in paragraphs 42B–42H relating to transfers of financial assets supplement the other disclosure requirements of this IFRS. An entity shall present the disclosures required by paragraphs 42B–42H in a single note in its financial statements. An entity shall provide the required disclosures for all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset, existing at the reporting date, irrespective of when the related transfer transaction occurred. For the purposes of applying the disclosure requirements in those paragraphs, an entity transfers all or a part of a financial asset (the transferred financial asset) if, and only if, it either:

(a) transfers the contractual rights to receive the cash flows of that financial asset; or

(b) retains the contractual rights to receive the cash flows of that financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement.

42B An entity shall disclose information that enables users of its financial statements:

(a) to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and

(b) to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets.

42C For the purposes of applying the disclosure requirements in paragraphs 42E–42H, an entity has continuing involvement in a transferred financial asset if, as part of the transfer, the entity retains any of the contractual rights or obligations inherent in the transferred financial asset or obtains any new contractual rights or obligations relating to the transferred financial asset. For the purposes of applying the disclosure requirements in paragraphs 42E–42H, the following do not constitute continuing involvement:

(a) normal representations and warranties relating to fraudulent transfer and concepts of reasonableness, good faith and fair dealings that could invalidate a transfer as a result of legal action;

(b) forward, option and other contracts to reacquire the transferred financial asset for which the contract price (or exercise price) is the fair value of the transferred financial asset; or

(c) an arrangement whereby an entity retains the contractual rights to receive the cash flows of a financial asset but assumes a contractual obligation to pay the cash flows to one or more entities and the conditions in paragraph 3.2.5(a)–(c) of IFRS 9 are met.

Transferred financial assets that are not derecognised in their entirety

42D An entity may have transferred financial assets in such a way that part or all of the transferred financial assets do not qualify for derecognition. To meet the objectives set out in paragraph 42B(a), the entity shall disclose at each reporting date for each class of transferred financial assets that are not derecognised in their entirety:

(a) the nature of the transferred assets.

(b) the nature of the risks and rewards of ownership to which the entity is exposed.

(c) a description of the nature of the relationship between the transferred assets and the associated liabilities, including restrictions arising from the transfer on the reporting entity's use of the transferred assets.

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

(e) when the entity continues to recognise all of the transferred assets, the carrying amounts of the transferred assets and the associated liabilities.

(f) when the entity continues to recognise the assets to the extent of its continuing involvement (see paragraphs 3.2.6(c)(ii) and 3.2.16 of IFRS 9), the total carrying amount of the original assets before the transfer, the carrying amount of the assets that the entity continues to recognise, and the carrying amount of the associated liabilities.

Transferred financial assets that are derecognised in their entirety

42E To meet the objectives set out in paragraph 42B(b), when an entity derecognises transferred financial assets in their entirety (see paragraph 3.2.6(a) and (c)(i) of IFRS 9) but has continuing involvement in them, the entity shall disclose, as a minimum, for each type of continuing involvement at each reporting date:

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

(b) the fair value of the assets and liabilities that represent the entity's continuing involvement in the derecognised financial assets.

(c) the amount that best represents the entity's maximum exposure to loss from its continuing involvement in the derecognised financial assets, and information showing how the maximum exposure to loss is determined.

(d) the undiscounted cash outflows that would or may be required to repurchase derecognised financial assets (eg the strike price in an option agreement) or other amounts payable to the transferee in respect of the transferred assets. If the cash outflow is variable then the amount disclosed should be based on the conditions that exist at each reporting date.

(e) a maturity analysis of the undiscounted cash outflows that would or may be required to repurchase the derecognised financial assets or other amounts payable to the transferee in respect of the transferred assets, showing the remaining contractual maturities of the entity's continuing involvement.

(f) qualitative information that explains and supports the quantitative disclosures required in (a)–(e).

42F An entity may aggregate the information required by paragraph 42E in respect of a particular asset if the entity has more than one type of continuing involvement in that derecognised financial asset, and report it under one type of continuing involvement.

42G In addition, an entity shall disclose for each type of continuing involvement:

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

(b) income and expenses recognised, both in the reporting period and cumulatively, from the entity's continuing involvement in the derecognised financial assets (eg fair value changes in derivative instruments).

(c) if the total amount of proceeds from 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):

(i) when the greatest transfer activity took place within that reporting period (eg the last five days before the end of the reporting period),

(ii) the amount (eg related gains or losses) recognised from transfer activity in that part of the reporting period, and

(iii) the total amount of proceeds from transfer activity in that part of the reporting period.

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

Supplementary information

42H An entity shall disclose any additional information that it considers necessary to meet the disclosure objectives in paragraph 42B.

Application guidance: Derecognition (paragraphs 42C–42H)

Continuing involvement (paragraph 42C)

B29 The assessment of continuing involvement in a transferred financial asset for the purposes of the disclosure requirements in paragraphs 42E–42H is made at the level of the reporting entity. For example, if a subsidiary transfers to an unrelated third party a financial asset in which the parent of the subsidiary has continuing involvement, the subsidiary does not include the parent's involvement in the assessment of whether it has continuing involvement in the transferred asset in its separate or individual financial statements (ie when the subsidiary is the reporting entity). However, a parent would include its continuing involvement (or that of another member of the group) in a financial asset transferred by its subsidiary in determining whether it has continuing involvement in the transferred asset in its consolidated financial statements (ie when the reporting entity is the group).

B30 An entity does not have a continuing involvement in a transferred financial asset if, as part of the transfer, it neither retains any of the contractual rights or obligations inherent in the transferred financial asset nor acquires any new contractual rights or obligations relating to the transferred financial asset. An entity does not have continuing involvement in a transferred financial asset if it has neither an interest in the future performance of the transferred financial asset nor a responsibility under any circumstances to make payments in respect of the transferred financial asset in the future.

B31 Continuing involvement in a transferred financial asset may result from contractual provisions in the transfer agreement or in a separate agreement with the transferee or a third party entered into in connection with the transfer.

Transferred financial assets that are not derecognised in their entirety (paragraph 42D)

B32 Paragraph 42D requires disclosures when part or all of the transferred financial assets do not qualify for derecognition. Those disclosures are required at each reporting date at which the entity continues to recognise the transferred financial assets, regardless of when the transfers occurred.

Types of continuing involvement (paragraphs 42E–42H)

B33 Paragraphs 42E–42H require qualitative and quantitative disclosures for each type of continuing involvement in derecognised financial assets. An entity shall aggregate its continuing involvement into types that are representative of the entity's exposure to risks. For example, an entity may aggregate its continuing involvement by type of financial instrument (eg guarantees or call options) or by type of transfer (eg factoring of receivables, securitisations and securities lending).

Maturity analysis for undiscounted cash outflows to repurchase transferred assets (paragraph 42E(e))

B34 Paragraph 42E(e) requires an entity to disclose a maturity analysis of the undiscounted cash outflows to repurchase derecognised financial assets or other amounts payable to the transferee in respect of the derecognised financial assets, showing the remaining contractual maturities of the entity's continuing involvement. 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).

B35 An entity shall use its judgement to determine an appropriate number of time bands in preparing the maturity analysis required by paragraph 42E(e). For example, an entity might determine that the following maturity 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 six months;

(d) later than six months and not later than one year;

(e) later than one year and not later than three years;

(f) later than three years and not later than five years; and

(g) more than five years.

B36 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 is permitted to pay.

Qualitative information (paragraph 42E(f))

B37 The qualitative information required by paragraph 42E(f) 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 in the derecognised financial assets.

(b) whether the entity is required to bear losses before other parties, and the ranking and amounts of losses borne by parties whose interests rank lower than the entity's interest in the asset (ie its continuing involvement in the asset).

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

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

B38 Paragraph 42G(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 disclose 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 shall also disclose whether the fair value measurements included significant inputs that were not based on observable market data, as described in paragraph 27A.

Supplementary information (paragraph 42H)

B39 The disclosures required in paragraphs 42D–42G may not be sufficient to meet the disclosure objectives in paragraph 42B. If this is the case, the entity shall disclose whatever additional information is necessary to meet the disclosure objectives. The entity shall decide, in the light of its circumstances, how much additional information it needs to provide to satisfy the information needs of users and how much emphasis it places on different aspects of the additional information. It is necessary to strike a balance between burdening financial statements with excessive detail that may not assist users of financial statements and obscuring information as a result of too much aggregation.