

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

Question:

What is the objective of the amendments to IFRS 7 *Financial Instruments: Disclosures*?

Answer:

The objective is to provide users of financial statements with information to help them to evaluate:

- the risk exposures related to transfers of financial assets, and
- the effect of those risks on an entity's financial position.

The amendments do so by requiring disclosures about both:

- *transferred financial assets that are not derecognised in their entirety, and*
- *transferred financial assets that are derecognised in their entirety, but in which the transferor has some continuing involvement.*

The amendments will also increase the comparability of IFRSs and US GAAP disclosure requirements for transferred financial assets.

Question:

How do the amendments change current IFRS 7 requirements?

Answer:

IFRS 7 currently requires entities to disclose certain information about *transferred financial assets that are not derecognised in their entirety*. The amendments to IFRS 7 retain these disclosures, and expand the scope of transfers to include transactions that might not have been subject to the original disclosure requirements (such as some pass-through arrangements). For transferred financial assets not derecognised in their entirety, the amendments will also require:

- a description of the nature of the relationship between transferred financial assets and associated liabilities (including restrictions on use of assets).
- if there is recourse only to the transferred assets, disclosure of the fair value of the transferred assets, associated liabilities and net position.

The amendments will also require disclosures about continuing involvement in *transferred financial assets that are derecognised in their entirety*.

These disclosures are:

- the carrying amount, fair value of and maximum exposure to loss from continuing involvement;
 - undiscounted cash flows that could be required to repurchase assets and a maturity analysis of these outflows;
 - the gain or loss at date of derecognition as well as income and expense from continuing involvement;
 - information about transfer activity not evenly distributed in reporting period; and
 - qualitative information that supports the quantitative information.
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Question:

Why did the IASB require additional disclosures for transferred financial assets that are not derecognised in their entirety?

Answer:

When financial assets are transferred but not derecognised, there has been an exchange transaction that is not reflected as such in the financial statements as a result of the accounting requirements. Users of financial statements need to understand the relationship between the transferred financial assets and the associated liabilities in order to assess an entity's cash flow needs as well as the cash flows available to the entity from its assets. The additional disclosures will:

- inform users of the extent to which the economic benefits generated from assets of an entity cannot be used in an unrestricted manner.
 - provide information about liabilities that will be settled entirely from the proceeds received from the transferred assets, and thus identify 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, provide information about the cash flow relationship between those assets and liabilities and a means of understanding the net exposure of an entity following a transfer transaction that fails derecognition.
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Question:

Why did the IASB add disclosure requirements on transferred assets that are derecognised in their entirety when the transferor retains some continuing involvement in the transferred assets?

Answer:

The disclosure requirements respond directly to the specific concerns raised by users and others about the lack of information for these types of transactions. Before the

amendments, IFRS 7 did not require disclosures about transferred assets that have been derecognised. The IASB believes that by providing disclosures of transferred assets derecognised in their entirety, it is 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.

Question:

Why did the IASB require disclosure of transfer activity that is not evenly distributed throughout the reporting period?

Answer:

If transfer activity is concentrated around the end of reporting periods, disclosure of this fact would provide an indication of whether transfer transactions are undertaken for the purpose of altering the appearance of the statement of financial position rather than for an ongoing commercial or financing purpose.

Question:

Why did the IASB require a maturity analysis of the amounts that could or will be required to purchase transferred financial assets?

Answer:

Disclosures should provide information about the timing of the return and the value of financial assets that have been derecognised but may or will be recognised in an entity's statement of financial position in the future.

Users told the Board that disclosure of fair value, undiscounted cash flows and contractual maturities of derecognised assets where an entity has continuing involvement in such assets is essential to understanding the future cash outflows and the liquidity position of the entity.

Question:

Why is the IASB requiring disclosure of gains or losses at the date of derecognition as well as income and expenses from continuing involvement?

Answer:

Information about an entity's gain or loss on derecognition and the timing of recognition of that gain or loss provides information about the proportion of an entity's profit or loss that arises from transferring financial assets in which the entity also retains continuing

involvement. Such information is useful in assessing the extent to which an entity generates profits from transferring financial assets while retaining some form of continuing involvement and thus exposure to risk.

Question:

How do these amendments fit into the IASB's project on derecognition and the exposure draft issued in March 2009?

Answer:

In April 2005 the IASB added a project to its research agenda to improve the derecognition requirements of IAS 39 *Financial Instruments: Recognition and Measurement*. This project was also subsequently included in the Memorandum of Understanding between the IASB and the US Financial Accounting Standards Board (FASB) because of the different approaches in IFRSs and US GAAP.

In response to the global financial crisis and the recommendations of the certain constituents, the IASB decided to move the project to its active agenda as part of its comprehensive review of off balance sheet activities. This resulted in the publication of an exposure draft in March 2009 which proposed improvements to the accounting derecognition requirements in IAS 39 and to the associated disclosure requirements in IFRS 7.

Question:

Why did the IASB change the scope of the project to deal with disclosures only?

Answer:

- In March 2009, the IASB published an exposure draft with proposals to replace the derecognition requirements of IAS 39, including improved disclosure requirements of the transfer of financial assets and liabilities.
- Many respondents to the exposure draft expressed the view that existing IFRS derecognition requirements had withstood well the global financial crisis, and that the IASB should develop an alternative model described in the exposure draft with an objective of finalising with the FASB common IFRS and US GAAP requirements. Many respondents also suggested that the IASB should, in the interim, consider improving disclosure requirements about transferred financial assets and the residual exposure that transferors face.
- In May 2010, as part of the comprehensive review of their Memorandum of Understanding projects, the IASB and the FASB reconsidered their strategies and plans for derecognition. This was a result of:

- their joint discussions of the alternative derecognition model described in the exposure draft;
 - the June 2009 amendments by the FASB improving requirements for derecognition of financial assets and liabilities (which reduced the differences between IFRSs and US GAAP); and
 - feedback the IASB received from national standard-setters on the largely favourable effects of IAS 39 derecognition requirements during the financial crisis.
- As a result, in June 2010 the IASB and the FASB agreed that their near-term priority was on increasing the transparency and comparability of their standards by improving and aligning IFRS and US GAAP disclosure requirements for transferred financial assets. The IASB and the FASB will conduct additional research and analysis, including a post-implementation review of the FASB's recently amended requirements, before determining any further work to be undertaken.