AASB Staff Issues Paper on IASB Conceptual Framework Discussion Paper

Derecognition of the Elements of Financial Statements

Introduction

1 This AASB Staff Issues Paper provides the focus for the Board's non-deliberative high-level 'educational' session at the forthcoming AASB meeting on the 'Derecognition' sub-section of the IASB Conceptual Framework Discussion Paper (DP). That sub-section is comprised of paragraphs 4.28 – 4.51 of the DP (included in the attached extracts from the DP: see Agenda Paper 9.5).

2 This paper supersedes paragraphs 22 – 29 and related Question 4 in Agenda Paper 14.3 for the AASB's July 2013 meeting (M132). Due to time constraints, those paragraphs on Derecognition were not discussed at that Board meeting. Because this paper is significantly different from those paragraphs, a comparison of the two is not included in this paper.

3 This paper includes the questions that AASB members will be asked to discuss regarding the above-mentioned extract from the IASB DP. Those questions are:

(a) the IASB's Question 9 on its preliminary views on page 83 of Agenda Paper 9.5 (separated into Questions 1 and 2 in this paper); and

(b) in relation to which derecognition concepts should be included in the IASB Conceptual Framework (Question 3) and any other derecognition issues (Question 4).

Aim of Derecognition Principles

4 AASB project staff agree with the statement in paragraph 4.34 of the IASB DP that:

> "The aim of accounting requirements for a transaction that may result in derecognition should be to represent faithfully both:
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> (a) the resources and obligations remaining after the transaction; and
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> (b) the changes in the resources and obligations as a result of the transaction."

This aim underpins the analysis of derecognition issues in this paper.

5 Because this paper is concerned only with the derecognition concepts that should be included in the IASB Conceptual Framework, it focuses on concepts rather than requirements. Some aspects of derecognition requirements in IFRSs might need to differ from derecognition concepts, to address practical issues (such as the difficulty sometimes of obtaining representationally faithful measures of rights or obligations retained when a transaction eliminates some, but not all, of the rights or obligations composing an asset or a liability[1]). This paper notes some derecognition requirements

[1] As noted in paragraph 34(a) below, this difficulty might arise in applying a conclusion that a 'partial derecognition approach' is the conceptually ideal approach in particular circumstances.

in IFRSs as background information, but does not seek to identify whether and to what extent those requirements should be amended.

6 AASB project staff also agree with the comment in paragraph 4.35 of the DP that derecognition is straightforward if:

(a) an entity disposes of an entire asset or entire liability; and

(b) if an entity disposes of a proportion of all features of an asset. (In the context of paragraph 4.36 of the IASB DP, it seems the DP also says derecognition is straightforward if an entity extinguishes a proportion of all features of a liability.)

7 An example of the apparently straightforward nature of derecognition in the circumstances described in paragraph 6(b) above is found in paragraph 3.2.2(a) of IFRS 9 *Financial Instruments*. It says the derecognition criteria in that Standard are applied to a part of a financial asset if, for example, "(iii) The part comprises only a fully proportionate share (pro rata) share of specifically identified cash flows from a financial asset … . For example, when an entity enters into an arrangement whereby the counterparty obtains rights to a 90 per cent share of interest cash flows from a financial asset, paragraphs 3.2.3 – 3.2.9 are applied to 90 per cent of those interest cash flows."[2]

8 In the context of paragraph 6 above, AASB project staff interpret the 'Derecognition' sub-section of the IASB DP (paragraphs 4.28 – 4.51) as indicating that less than straightforward conceptual issues regarding the approach to derecognition (i.e. control or risks-and-rewards) arise only if an entity:

(a) disposes part of an asset without disposing of a proportion of all features of the asset; or

(b) extinguishes part of a liability without extinguishing a proportion of all features of the liability.

9 Given the comment in paragraph 4.35 of the DP (noted in paragraph 6 above), logically the conceptual issues regarding whether to fully or partially derecognise an asset or a liability arise only in the circumstances described in paragraph 8 above.

Approach to Derecognition (control or risks-and-rewards)

10 AASB project staff support the IASB's preliminary view (in paragraph 4.50 and Question 9 of the IASB DP) that, in most cases, an entity should derecognise an asset or a liability when it no longer meets the recognition criteria (or no longer exists, or is no longer an asset or a liability of the entity). As Question 9 of the DP indicates, this

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2 Although IFRS 9 does not fully accord with the IASB DP's preliminary view that derecognition of an asset should occur when the entity loses control of the relevant resource (i.e. control of a transferred financial asset is considered in the context of derecognition only if the entity has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset: paragraph 3.2.6 of IFRS 9), that difference does not negate the principle of proportionality in relation to derecognition of financial assets. In addition, in the example in IFRS 9 quoted in this paragraph, basing derecognition of part of a financial asset on 'substantially all the risks and rewards of ownership' and 'control' should give rise to the same answer, which supports the comment in paragraph 4.35 of the IASB DP that derecognition is straightforward if an entity disposes of a proportion of all features of an asset.

is the 'control approach' described in paragraph 4.36(a) of the DP. The 'control approach' is intended to be read as applying to derecognition of assets and liabilities, although this paper discusses in more depth applying that approach to the derecognition of assets. To illustrate in general terms the application of the 'control approach' to the derecognition of liabilities, AASB staff think that, for financial liabilities, it would be consistent with the derecognition criteria in paragraphs 3.3.1 and B3.3.1 – B3.3.4 (in particular) of IFRS 9 *Financial Instruments*. Paragraph 3.3.1 of IFRS 9 says:

> "An entity shall remove a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished – ie when the obligation specified in the contract is discharged or cancelled or expires."

11 The 'control approach' has the advantage of being neutral between initial recognition and subsequent recognition (e.g. in assessing whether an element meets the criteria for recognition, it would be irrelevant whether the element had previously been recognised).

12 In relation to Examples 4.1 and 4.2 discussed in paragraphs 4.39 – 4.44 of the DP, the DP identifies concerns that derecognition of assets or liabilities using a control approach can lead to recognition of gains or losses from transactions that change neither the amount nor riskiness of the entity's expected future cash flows. In contrast, under a risks-and-rewards approach, when the entity retains sufficient risks and rewards in relation to the sold item, the sold item is not derecognised (i.e. sale of the item is not recognised) and no gain or loss is recognised. However, AASB project staff think that it can be a faithful representation to recognise changes in assets and liabilities without changes in the entity's risks. Criticism of a control approach because changes in assets and liabilities might be recognised without changes in the entity's risks implies a view that risks are pro rata to contractual rights and obligations—however, AASB project staff do not think such a pro rata relationship necessarily exists.

<u>Comparison with some extant requirements in IFRSs</u>

13 Adopting the control approach would differ from some extant requirements for derecognition in IFRSs. For example, IAS 18 *Revenue* (and, by reference, IAS 16 *Property, Plant and Equipment*[3] and IAS 38 *Intangible Assets*[4]) requires revenue from the sale of goods to be recognised when (among other things):

(a) the significant risks and rewards of ownership of the goods have transferred to the buyer; and

(b) the entity does not retain continuing managerial involvement with the goods to the degree usually associated with ownership (IAS 18, paragraph 14).

14 In relation to paragraph 13(a) above, the significant risks and rewards of ownership of goods might pass at a different time to the passage of control of those goods – in various cases, they would transfer later than control. For example, control and the

[3] See paragraphs 67(a) and 69 of IAS 16.

[4] See paragraphs 112(a) and 114 of IAS 38.

significant rewards of ownership of an item of property, plant and equipment sold might pass to the buyer while the seller retains significant risks (e.g. when the buyer has the right to put the goods back to the seller for a pre-determined price). In those cases, the seller would appear to be precluded from recognising revenues and, consequently, under paragraph 69 of IAS 16, would appear to be precluded from accounting for a disposal of the sold item[5].

15 Compared with the derecognition requirements in IAS 18, IAS 16 and IAS 38 (see paragraphs 13 – 14 above), the difference between a control approach and the derecognition requirements of IFRS 9 seems less stark in relation to the derecognition of transferred financial assets. A 'transferred' financial asset might not qualify for derecognition, wholly or partially, because a majority of risks and/or rewards of ownership had not been transferred and the entity retained control of the asset. This might be the case even though some rights composing the asset have been transferred (and not qualified for separate derecognition as a fully proportionate share or other specifically identified component). However, in those circumstances, the requirement in IFRS 9 to continue to recognise the financial asset would seem to be tempered by that Standard's requirement that the financial asset continues to be recognised to the extent of the entity's continuing involvement in that asset [IFRS 9, paragraph 3.2.6(c)(iii)], i.e. the extent to which the entity is exposed to changes in the value of the transferred asset (IFRS 9, paragraph 3.2.16).

Context of Question 1

16 Question 1 asks whether the control approach to derecognition should be applied, in the circumstances within the scope of the IASB's preliminary view (that scope is explained in paragraph 17 below). AASB project staff think that approach should apply in all circumstances. Whether there should be exceptions, in concept, from that principle is implicitly asked in Question 2 under paragraph 36 below.

Question for Board members [IASB DP, Q9 on page 83 (first part)]

Q1 What are your tentative leanings on the IASB's preliminary view that, in most cases, an entity should derecognise an asset or liability when it no longer meets the recognition criteria (i.e. it should apply the 'control approach')?

'Scope' of the IASB's above-mentioned preliminary view

17 It appears to us that the IASB's preliminary view (in Question 1 above) to apply the control approach to derecognition refers only to transactions that eliminate all, or proportionally all, of the rights or obligations composing an asset or a liability. If an entity retains a component of an asset or a liability, the IASB thinks it should determine when developing or revising particular Standards how the entity would best portray the changes that resulted from the transaction[6]. However, we think it would be

5 Based on the proposal in paragraph 31 of IASB ED/2011/6 *Revenue from Contracts from Customers*, the forthcoming Revenue IFRS (of the same title; targeted for approval by the IASB during the fourth quarter of 2013) would require recognition of revenue from transferring a good to a customer when the customer obtains control of the good.

6 In Example 4.1 ('Sale of receivables with partial recourse') and Example 4.2 ('Sale of a bond with repurchase agreement') discussed in paragraphs 4.39 – 4.44 of the IASB DP, the respective merits of the 'control' approach and the 'risks-and-rewards' approach are discussed in respect of transactions in which

ironic, and not very helpful, to note that derecognition is straightforward in the circumstances described in paragraph 6 above and then not enunciate a conceptual approach for derecognition in other circumstances.

18 We note that the conceptual analysis of derecognition can be inappropriately complicated by preliminary views on concepts for other levels of the Conceptual Framework. For example, in relation to when to apply a control approach to derecognition, paragraph 4.44 of the IASB DP says measuring all assets and liabilities at fair value or fair value less costs to sell would be a solution to concerns [noted in paragraph 4.41(a)] that derecognition of assets or liabilities using a control approach can lead to recognition of gains or losses from transactions that change neither the amount nor riskiness of the entity's expected future cash flows. AASB project staff agree with this comment, because gains or losses that might arise from transactions involving derecognition would not necessarily reflect the consequences of the transaction, but, rather, earlier unrecognised changes in the values of the assets or liabilities transferred. But paragraph 4.44 of the IASB DP also says: "However, … measuring all assets and liabilities on that basis in all circumstances would not provide users of financial statements with the most relevant information." We disagree with that comment because we think it is inappropriate to say a conceptual solution to derecognition concerns should not be set out in the Conceptual Framework because of implications for the measurement of elements. To us, it would be more appropriate to develop consistent measurement concepts for all assets and liabilities, based on a single concept of wealth.

19 In relation to paragraph 17, AASB project staff do not object to developing some derecognition guidance only at a Standards level, regarding an entity retaining a component of an asset or a liability (in this regard, see paragraph 34 below for examples of potential differences between concepts and Standards on Derecognition). However, AASB project staff think it is important that the IASB Conceptual Framework includes some general principles specifically on this issue, to facilitate a coherent and principles-based approach to derecognition in those circumstances (see paragraph 36 below for examples of derecognition concepts to potentially include in the IASB Conceptual Framework). Otherwise, ad hoc and/or inconsistent decisions might be made in different Standards-level projects.[7]

20 Some of the possible approaches identified in the IASB DP for consideration in Standards projects include:

(a) continuing to recognise the original asset or liability, and treating the proceeds received or paid for the transfer as a loan received or granted (paragraph 4.50(c) of the IASB DP); and

(b) applying a derecognition approach, being either:

(i) a full derecognition approach, under which the entire asset or liability is derecognised and a new asset or liability recognised (paragraph 4.51(a) of the IASB DP); or

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the entity retains a component that exposes the entity disproportionately to the remaining risks and rewards arising from the previously recognised asset or liability. No preliminary view seems to be provided regarding the treatment of such transactions.

7 This would not preclude departing from those concepts in Standards-level projects, where such departure is justified.

(ii) a partial derecognition approach, under which the components retained continue to be recognised (paragraph 4.51(b) of the IASB DP).

21 Depending on the circumstances, under a partial derecognition approach, the description and classification of the retained component might differ from the asset recognised under a full derecognition approach. Furthermore, in some cases, the measurement of the retained component would differ from the measurement of the corresponding asset recognised under a full derecognition approach because, under a full derecognition approach, the 'retained' component of a resource is treated as being disposed of and reacquired, whereas, under a partial derecognition approach, the 'retained' component is treated as not having been disposed of.[8]

<u>Which derecognition concepts should be included in the IASB Conceptual Framework?</u>

22 If, instead of reflecting the preliminary view referred to in paragraph 17 above, the IASB Conceptual Framework were to address transactions in which an entity retains a component of an asset or a liability, AASB project staff would not support continuing to recognise the original asset or liability. This is because that treatment would not seem to meet the aim in paragraph 4.34(a) of the DP that the financial statements represent faithfully the resources and obligations remaining after the transaction.

23 Of the two derecognition approaches described in paragraph 20(b) above, AASB project staff tentatively lean toward supporting the partial derecognition approach when an entity retains a component of an asset or a liability. This is because, in those circumstances, it seems most representationally faithful of the economics of the transfer to:

(a) depict the disposal of a component of the asset or liability; and

(b) depict that the remainder of the asset or liability was retained (rather than disposed of and reacquired).

This outcome would seem to most closely achieve the aim of the derecognition treatment, in paragraph 4.34(b) of the DP, to represent faithfully the changes in the resources and obligations as a result of the transaction.

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8 In this regard, the extent of a resource recognised upon derecognising an asset sold (in an arrangement in which the vendor has rights to part of the resource sold) would seem to be consistent under both a partial derecognition approach and a full derecognition approach. For example, as illustrated in Example 4.3 under paragraph 4.46 of the IASB DP, in the case of a sale and leaseback with a lease term shorter than the remaining useful life of the asset sold, the asset recognised (however described and measured) would be a right of use for the term of that lease. However, a difference in measurement of the right of use might occur under a partial derecognition approach and a full derecognition approach. This is because those approaches differ regarding whether they treat that right of use as being conveyed by the leaseback. Under a full derecognition approach, the right of use is treated in concept as being conveyed by the leaseback (and therefore different in nature from the right of use implicit in the owned asset before it was sold), and measured at the current present value of the lease rentals as at the date of the leaseback transaction. In contrast, under a partial derecognition approach, the right of use would be treated in concept as existing before the sale and measured accordingly, either on an historical cost basis or at a revalued amount. Depending on the circumstances, the measurements of the right of use under the two derecognition approaches might, but would not necessarily, be different.

Partial derecognition approach

24 For financial assets, the types of rights that might be transferred wholly or proportionately to other entities are all of one kind: they are rights to contractual cash flows. Therefore, for them, applying a partial derecognition approach should be fairly straightforward. However, for non-financial assets, the types of rights or other sources of value that might compose an economic resource (asset) and potentially be transferred separately in a transaction might be diverse. For instance, paragraphs 3.4 – 3.6 of the DP identify that an economic resource may be composed of rights (or other sources of value) to:

(a) use the resource to produce goods or provide services, enhance the value of other assets, fulfil liabilities or reduce expenses;

(b) lease the resource to another party;

(c) sell or exchange the resource;

(d) receive services from the resource;

(e) pledge the resource to secure a loan; and/or

(f) hold the resource[9].

25 Consider, for example, the forward sale of a specialised facility, 'transfer' of which is due 18 months later (the vendor is winding down an operation in a staged manner). Assume that, due to the specialised nature of the facility, the consideration paid by the purchaser to secure the forward purchase, and the applicable laws, the purchaser of the facility can enforce specific performance of the vendor's promise and thus presently controls all rights to the facility other than the right to use it for the next 18 months. Accordingly, upon making the forward sale, the vendor (reporting entity) derecognises all economic resources over which it has lost control. AASB project staff think it would not represent the sale transaction in the most faithful manner to account for it as a sale of the facility in its entirety and recognise a corresponding inflow of the right to use the facility for the next 18 months. Therefore, we think applying a partial derecognition approach to this case would be appropriate.

26 In the example in paragraph 25, the nature of the asset retained might seem to have fundamentally changed, and this might be regarded as a reason to adopt a full derecognition approach (i.e. regarding the change in nature as an economic event that should be reported as outflows and inflows of economic resources). For example, paragraph 4.49 of the IASB DP says:

> "One other factor to be considered in such transactions is whether the component retained should be regarded as continuing to be a component of the original asset, or whether its character has changed so much that it should be regarded as an entirely new asset."[10]

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9 Financial assets, in the form of loan receivables, also convey many of these rights. However, for derecognition purposes, it generally seems unnecessary to look past the rights to receive cash flows from the counterparty.

10 AASB staff think "such transactions" in this quote means transactions that eliminate some but not all of the rights or obligations contained in an asset or a liability (as referred to in the first sentence of paragraph 4.45 of the DP). The meaning of those quoted words seems ambiguous.

However, while we agree with that quote, we think the character of the retained asset (right) would not have changed in this example, but would be separately identified for the first time. We think entirely new assets (the treatment of which is discussed in paragraphs 28 – 33 below) do not include retained rights, unless the involvement of the counterparty changes the risks associated with those retained rights (see examples of this in paragraphs 30 and 31 below).

27 We acknowledge that impediments to measuring separately component rights embodied in an economic resource could significantly impede the implementation of a partial derecognition approach. However, AASB project staff think that the IASB Conceptual Framework should assume there are no impediments to measuring separately component rights embodied in an economic resource. This is because we think implementation issues are not part of the conceptual ideal[11], and therefore should be regarded as Standards-level issues.

Full derecognition approach

28 It should be noted that applying a partial derecognition approach in the circumstances discussed in paragraph 25 above should not preclude applying a full derecognition approach in other circumstances (namely, when the entity does not retain any of the rights or obligations composing an asset or a liability it transfers to another entity). We think that, in those other circumstances, the entity should recognise in full any new rights or obligations created (subject to meeting the recognition criteria).

29 A clear-cut example of the creation of new rights or obligations is provided in paragraph 4.46(a) of the DP, which refers to:

> "when the terms of existing rights or obligations are changed by an agreement between two parties to amend a contract or by a change in the law. The modification may eliminate some of the existing rights or obligations and it may create new rights or obligations."

30 In addition, we think an entity does not retain any of the rights composing an asset it transfers to another entity when the character of those rights has changed so much that the rights should be regarded as an entirely new asset. Consider, for example, the sale of land to another entity that can use or dispose of that asset without restriction, but is obliged in return to pay the reporting entity (original vendor) the excess of any resale price over a specified amount. Before the sale by the reporting entity, the reporting entity held a right to that benefit (opportunity for gain), even though it would not have separately accounted for that right (i.e. it would have been an unidentified component of the asset recognised and described as 'land'). However, the character of that right has changed because of the newly created risk of counterparty non-performance, which creates a risk that the reporting entity might be prevented from fully benefiting from an increase in the land's selling price. Therefore, it would represent the sale transaction in the most faithful manner to account for it as a sale of the land in its

11 It is important that a Conceptual Framework identifies the principle that should be applied in the absence of impediments to implementation, so that the goal of an issue's treatment is identified and any modifications of the ideal treatment that are warranted for practical reasons have a clear reason and common starting point.

entirety and recognise a corresponding inflow of the right to gain from an increase in the land's value.

31 Another example is a sale and leaseback of an item of equipment (which is the subject of Example 4.3 within paragraph 4.46 of the DP). The vendor loses all of the rights listed in paragraph 20, apart from the right to use the equipment for a specified period to produce goods or provide services, fulfil liabilities or reduce expenses (which it retains). However, the enjoyment of that right of use is, as a result of the sale and leaseback, affected by the risk of non-performance by the lessor in providing quiet enjoyment of equipment that is properly maintained and therefore fit for purpose. Therefore, it seems that the character of that right of use has changed so much that the right should be regarded as an entirely new asset—i.e. a full derecognition approach would seem appropriate.

32 Our comments on the sale and leaseback example in paragraph 31 seem consistent with the view expressed by the AASB in its submission (dated 10 December 2010) on IASB ED/2010/9 *Leases*. In that submission, the AASB argued for a full derecognition approach to lessor accounting.[12] The AASB's reasons given for arguing for a full derecognition approach instead of a partial derecognition approach are noted in the footnote below[13]. The first reason noted below seems consistent with our comment that the introduction of counterparty risk normally would fundamentally change the character of a component right of use; the other reasons seem to be Standards-level in nature.

33 AASB project staff suspect that, due to the creation of counterparty risk in many transactions in which some component rights to economic resources are 'retained', a full derecognition approach would more commonly be appropriate than a partial derecognition approach.

Potential differences between concepts and Standards on Derecognition

34 AASB project staff think the following issues might warrant a difference between derecognition concepts and derecognition requirements in IFRSs:

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[12] Whether a full or partial derecognition approach should be adopted in relation to lessor accounting was not discussed by the AASB in its more recent submission (dated 17 September 2013) on IASB ED/2013/6 *Leases*.

[13] The AASB's submission said the Board supports the full derecognition approach for lessor accounting because:

- "the 'full' derecognition approach better reflects the economics of a lease transaction;
- it is more consistent with the proposed approach to lease accounting (easier/more intuitive for sublessors and consolidations);
- the Basis for Conclusions states that avoiding day one profit/loss is one of the reasons for proposing a partial rather than full derecognition approach. However, the partial derecognition approach may result in day one profit/loss anyway, so this is not a valid argument for the partial derecognition approach instead of using the full derecognition approach;
- partial derecognition does not give intuitive outcomes when the fair value of the residual asset is greater than its carrying amount, as a profit may be recognised at the end of the lease contract if the residual asset is subsequently revalued;
- the lessor is required to obtain the fair value of the underlying asset to be able to apply the partial derecognition approach, yet it is the fair value of the residual asset that lessors current focus on in managing their business, so 'full' derecognition is likely to be less costly for lessors to apply;".

(a) in relation to rights retained when an entity transfers an economic resource, the cost of obtaining sufficient information to faithfully represent those components separately from the bundle of rights after the transaction (including additional rights obtained through the transaction) might exceed the resulting benefits to users of financial statements. For example, the bundle of rights after the transaction might be measured with much less cost and effort (due to observable market information) than the rights in the transferred asset retained by the entity. Therefore, on cost grounds, it might be concluded that IFRSs should specify the full derecognition approach for particular types of transactions. (An equivalent liability example might be where both the nature and volume of an entity's performance obligations to a customer are modified and it is considered impractical or excessively costly to require separate measurement of the retained components of those obligations.); and

(b) it might be concluded, on grounds of relevance or cost (for example), that the unit of account for a bundle of rights after a transaction (including retained rights and newly acquired rights) should differ from the unit of account for the retained rights, and therefore, as a practical measure, that IFRSs should specify the full derecognition approach to reflect that different unit of account for particular types of transactions (particularly if different measurement bases were applied to the different units of account).

35 AASB staff think considerations like those in paragraph 34 above should be assessed on a topic-by-topic basis and therefore should be addressed in IFRSs rather than the IASB Conceptual Framework.

AASB project staff's tentative recommendations on derecognition concepts

36 AASB project staff tentatively recommend that the Board suggests that the IASB should include the following derecognition concepts in the IASB Conceptual Framework:

(a) in all cases, an entity should derecognise an asset or liability when the asset or liability no longer meets the recognition criteria, i.e. the 'control approach' should always be applied (see Question 1 under paragraph 16 above);

(b) it should be clarified that, as a consequence of (a) immediately above, if a transaction eliminates some but not all of the rights or obligations composing an asset or a liability, the entity:

(i) should not:

(A) continue to recognise (in full) the original asset or liability; and

(B) treat the proceeds received or paid for the transfer as a loan received or granted; but instead,

(ii) should apply a partial derecognition approach unless the character of the 'retained' right or obligation changes significantly;

(c) if the entity does not retain any of the rights or obligations composing an asset or a liability it transfers to another entity, or the character of a 'retained' right or obligation changes significantly, the entity should apply a full derecognition approach (and thus recognise in full any new rights or obligations created, subject to meeting the recognition criteria); and

(d) application of the concepts in (b)(ii) and (c) above should be subject to cost/benefit considerations assessed by the IASB on a Standard-by-Standard basis.

Question for Board members [IASB DP, Q9 on page 83 (second part)]

Q2 What are your tentative leanings on the IASB's preliminary view that, if an entity retains a component of an asset or a liability, the IASB should determine when developing or revising particular Standards how the entity would best portray the changes that resulted from the transaction? In this regard, possible approaches identified in the DP include:

(a) enhanced disclosure;

(b) presenting any rights or obligations retained on a line item different from the line item that was used for the original rights or obligations, to highlight the greater concentration of risk; or

(c) continuing to recognise the original asset or liability and treating the proceeds received or paid for the transfer as a loan received or granted.

37 AASB project staff think possible approaches '(a)' and '(b)' identified in IASB Question 9 immediately above are intended as potential complements to applying either a full or partial derecognition approach, whichever is adopted at a Standards level.

38 In answering Question 2 above, Board members are asked to consider their views on Question 3 below.

Additional questions for Board members [not in IASB DP]

Q3 What are your tentative leanings on the AASB project staff's recommendations, in paragraph 36 above, regarding the derecognition concepts that should be included in the IASB Conceptual Framework?

Q4 Do you have any other comments on this paper's analysis of derecognition issues?