



To:	AASB members	Date:	13 October 2010
From:	Christina Ng	Agenda Item:	6.1
Subject:	Derecognition – Amendments to AASB 7	File:	--

Action

Consider for approval, the AASB 2010-X Amendments to Australian Accounting Standards *Disclosures – Transfers of Financial Assets* (Amendments to AASB 7) [Agenda paper 6.3].

Decide if the Board is prepared to issue the Amendments to AASB 7 before determining the Tier 2 disclosures (Agenda paper 6.2).

Background

1. The IASB issued *Disclosures – Transfers of Financial Assets* (Amendments to IFRS 7) [Agenda paper 6.4] on 7 October 2010. The Amendments to IFRS 7 result from the IASB proposals that were contained in ED/2009/3 *Derecognition* (or AASB ED 177) published in March 2009.
2. The Amendments to IFRS 7 do not change the existing IAS 39 derecognition requirements, rather, they are aimed at providing additional information to users of financial statements regarding the risk exposures relating to transfers of financial assets, particularly those that involve securitisation of financial assets, and the effect of those risks on an entity's financial position.
3. The Amendments to IFRS 7 apply to annual reporting periods beginning on or after 1 July 2011 and are available for early adoption. Comparative information is not required in the first year of applying the Amendments.
4. In its response to ED/2009/3, the AASB was concerned that the significant level of proposed disclosures might result in less useful information to users of financial statements. In particular, the AASB was concerned that some of the proposed disclosures "... would require the reporting entity to obtain data to enable the entity's financial statements to be constructed as if transferred assets continued to be recognised", and "... believes that it is inappropriate to presume that information relating to a transferee's assets and liabilities is readily available to the transferor, and sufficiently reliable to include in the transferor's financial statements"¹.

¹ AASB comment letter on ED/2009/3 *Derecognition*, page 8, dated 31 July 2009

5. In its deliberations, the IASB considered the overall proposed disclosures and decided to remove a number of the proposed disclosures based on cost benefit grounds. In addition, the Amendments to IFRS 7:
- (a) require disclosures on transferred financial assets that are both not derecognised and derecognised (to capture off-balance sheet transactions). For example, pass-through² transactions that qualify for derecognition under IAS 39 would necessitate disclosures under the Amendments to IFRS 7. Currently, IFRS 7 only requires disclosures on transferred financial assets that are not derecognised;
 - (b) provide guidance relating to circumstances when an entity qualifies for transfer of all of, or a part of, a financial asset and when an entity retains continuing involvement in a financial asset, in the body of the Amendments to IFRS 7 (paragraphs 42A and 42C); and
 - (c) retain existing disclosure requirements in IFRS 7 [paragraphs 42D(a), (b), (e) and (f)].

Next steps

6. At the October 2010 meeting, the Board should consider whether to issue the Amendments to AASB 7 prior to finalising Tier 2 considerations, which will involve exposing an AASB Tier 2 supplement on Amendments to AASB 7. That process of finalising Tier 2 disclosure requirements is likely to take at least until early 2011.
7. The Board will be asked to vote on making Amendments to AASB 7 out of session. Voting forms will be distributed via e-mail.

Attachments

- Agenda paper 6.2 Staff analysis of Tier 2 disclosures on Amendments to Australian Accounting Standard *Disclosures – Transfers of Financial Assets* (Amendments to AASB 7)
- Agenda paper 6.3 AASB 2010-X Amendments to Australian Accounting Standards *Disclosures – Transfers of Financial Assets* (Amendments to AASB 7)
- Agenda paper 6.4 IASB's *Disclosures – Transfers of Financial Assets* (Amendments to IFRS 7) and FAQs

2 That is, where an entity retains contractual rights to receive cash flows of a financial asset, and at the same time, assumes an obligation to pay those cash flows from the financial asset to eventual recipients (paragraph 19 of IAS 39)