

Department of Treasury and Finance

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Mr Bruce Porter
Acting Chairman
Australian Accounting Standards Board
PO Box 204
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Dear Mr Porter

Bruce

ED 177 DERECOGNITION (PROPOSED AMENDMENTS TO AASB 139 AND AASB 7)

The Heads of Treasuries Accounting and Reporting Advisory Committee welcomes the opportunity to provide comments to the Australian Accounting Standards Board on the International Accounting Standards Board Exposure Draft: ED 177 *Derecognition (Proposed Amendments to AASB 139 and AASB 7)*.

HoTARAC supports the proposed changes to AASB 139 *Financial Instruments: Recognition and Measurement* as they result in a more simplified approach to the derecognition of financial instruments. The additional disclosure requirements in AASB 7 *Financial Instruments: Disclosures* for entities that have transferred financial assets that are derecognised, but have continuing involvement, provides more decision-useful information and are not considered to be onerous.

HoTARAC does not consider the introduction of the new term "practical ability" necessary in evaluating whether a financial asset is derecognised. HoTARAC considers "control" to be more appropriate in the consideration of substance over form.

HoTARAC is not aware of any regulatory impediments to implementation of the changes. HoTARAC offers no comment about whether the changes are in the best interests of the Australian economy.

Comments by HoTARAC on selected questions from the Exposure Draft are attached.

If you have any queries regarding HoTARAC's comments, please contact Peter Gibson from the Australian Department of Finance and Deregulation on 02 6215 3551.

Yours sincerely

A handwritten signature in black ink, appearing to read 'D W Challen', written in a cursive style.

D W Challen

CHAIR

HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

29 June 2009

Encl

Contact: Amy Huxley
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HoTARAC Response to AASB ED 177 Derecognition (Proposed Amendments to AASB 139 and AASB 7)

Question 2 – Determination of ‘the Asset’ to be assessed for derecognition

HoTARAC generally supports the criteria proposed in Paragraph 16A. A concern of HoTARAC is in relation to the clarity of the second sentence “If there are two or more transferees, no transferee is required to have a proportionate share of the cash flows ... provided that the transferring entity has a proportionate share”. While HoTARAC acknowledges that such a concept does already exist in IAS 139, HoTARAC recommends that, during this amendment process, the IASB takes the opportunity to clarify the meaning of this, at least, in new Paragraph 16A.

Question 5 – ‘Practical ability to transfer for own benefit’ test

HoTARAC does have some concern about the transferor’s ability to determine limitations on the transferee’s “practical ability to transfer” in all circumstances. For example, if certain economic constraints specific to the transferee (refer to Paragraph AG52E(e)) prevent the transferee from effectively transferring the asset, it is arguably unreasonable to expect an independent transferor to be aware of this.

Question 6 – Accounting for retained interests

While it is acknowledged that it is an approach already developed (for example, Paragraph 28 of existing IAS 39), HoTARAC has concerns about the basis of allocating carrying amounts based on relative fair values of the transferred part versus the retained part, as referred to in two places in Paragraph 21A. As many financial assets would be measured at amortised cost (as noted in Paragraph 24A and acknowledged in Paragraph BC82), the use of fair value in Paragraph 21A is arguably inconsistent. Also, it imposes an additional requirement on reporting entities to obtain fair values on the date of transfer, which are not otherwise required if the asset continues to be measured at amortised cost.

Paragraph 22A refers to purchasing an interest in a transferee that gives the transferor the “right to receive some of the cash flows from that asset or group of assets”. HoTARAC considers that this needs to be clarified as to whether such a right should be evidenced by a specific arrangement in respect of specific assets. (In a broad sense, purchasing an interest in an entity normally gives a right to distributions from the entity that ultimately are derived, at least partly, from its assets).

HoTARAC also questions the practicality of an independent transferor apportioning an interest purchased in a transferee between the part that relates to assets transferred to the transferee (Paragraph 22A(a)) and the part that relates to other assets and liabilities of the transferee (Paragraph 22A(b)).

Question 9 – Derecognition of financial liabilities

HoTARAC believes most of the criteria and accompanying guidance for transfers and derecognition of financial assets is also applicable to financial liabilities. Therefore, for consistency in approach, HoTARAC recommends that the amendments to IAS 39 include symmetrical criteria and guidance for financial liabilities, as far as applicable.

As mentioned in response to Question 6 above, HoTARAC has concerns about the allocation of carrying amounts based on relative fair values of the derecognised part versus the retained part, as described in Paragraph 42A. As many financial liabilities would be measured at amortised cost, the use of fair value for this purpose is arguably inconsistent. Also, HoTARAC considers that it imposes an additional requirement on reporting entities to obtain fair values on the date of transfer, which are not otherwise required if the liability continues to be measured at amortised cost.

Editorial Matters

HoTARAC considers the issues in the following Paragraphs need to be clarified and strengthened:

- Paragraph 9 definition of “derecognition” – given the last sentence of Paragraph 16A describes the scope of what “the Asset” may entail (in the context of these amendments), it is recommended that this definition refer to the broad way in which the term “financial asset” can be interpreted as described in Paragraph 16A.
- Paragraph 40A – as Paragraphs 15-24 will be deleted via these amendments, the third last line of this Paragraph should refer to “ ... the criteria in Paragraphs 15A-18A.”
- Paragraph 41A – for clarity, it is recommended that the first line read “If an entity derecognises an entire financial liability...”.