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MACQUARIE

Sir David Tweedie
International Accounting Standards Board
30 Canon Street, London, EC4M 6XH
United Kingdom

By Electronic Submission at: www.iasb.org

CC:
Mr. Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West
Melbourne, VIC, 8007

30 July 2009

IASB Exposure Draft *Derecognition*

Dear David,

We are responding to the IASB Exposure Draft *Derecognition*.

We are supportive of the Board's work to revisit the derecognition requirements for financial instruments. However, we do not support the Board's proposals in the exposure draft. We favour the alternative view expressed by the five dissenting board members.

We do not consider the form of the asset (ie financial asset) should create unique rules for derecognition that do not exist for other types of assets (eg property). For example, we do not consider the 'practical ability to transfer the asset for the transferee's benefit' to be a conceptually based criterion for establishing whether a financial asset should be derecognised. Restrictions on transfer may impact the value of the asset but it does not in our view invalidate the control of the asset. This can be seen when a property is gifted to another party and the terms restrict that party from ever passing on the use of the property to anyone else, or when a restriction from transferring a share for a period of time after acquiring that share.

We agree with the alternative view that the proposals continue to incorporate a risks & rewards approach, and while we acknowledge some complexity would be removed through the proposals (ie continuing involvement model under current IAS39), we consider the proposals would continue to be unnecessarily complex and give rise to practical interpretive difficulties. Both the current requirements in IAS39 and the proposals in the exposure draft require the transferee to somewhat understand the original accounting treatment by the transferor when it originally received the asset sometime earlier. We consider the time has come for the derecognition rules to align with the recognition rules – ownership history should not affect whether different parties with the same exposure apply different accounting treatments. For example, a purchased call option at a fixed price would normally be a derivative carried at fair value, however, if the underlying asset was carried on the balance sheet of the option holder and the option holder were to transfer that asset in conjunction with purchasing the option then the underlying asset remains on the balance sheet (assuming the underlying asset is 'not readily obtainable') and the derivative is ignored.

Our responses to the questions included within the discussion paper are provided in the attached Appendix.

If you have any questions in relation to this submission, or would like our assistance, please do not hesitate to contact myself (+61 2 8232 8670) or Frank Palmer (+61 2 8232 5193).

Yours sincerely

Frank Palmer

pp. Stuart Dyson
Group Financial Controller
Macquarie Group

About Macquarie Group

Macquarie Group ('Macquarie') is a global provider of banking, financial, advisory, investment and funds management services. Macquarie's main business focus is making returns by providing a diversified range of services to clients. Macquarie acts on behalf of institutional, corporate and retail clients and counterparties around the world.

Macquarie Group Limited is listed in Australia (ASX: MQG) and is regulated by APRA, the Australian banking regulator, as it is the parent of Macquarie Bank Limited, an authorised deposit taker. Macquarie also owns a bank in the UK, Macquarie Bank International, which is regulated by the FSA. In addition, Macquarie's activities are subject to scrutiny by other regulatory agencies around the world.

As an owner and manager of significant community assets, Macquarie works closely with governments around the world to deliver important services including transport, roads, airports and utilities.

Founded in 1969, Macquarie operates in more than 60 offices locations in 27 countries. Macquarie employed approximately 12,800 people at 31 January 2009 and had assets under management of AUD 242 billion at 31 December 2008.

APPENDIX

Question 1—Assessment of 'the Asset' and 'continuing involvement' at reporting entity level

Do you agree that the determination of the item (ie the Asset) to be evaluated for derecognition and the assessment of continuing involvement should be made at the level of the reporting entity (see paragraphs 15A, AG37A and AG47A)? If not, why? What would you propose instead, and why?

Yes.

Question 2—Determination of 'the Asset' to be assessed for derecognition

Do you agree with the criteria proposed in paragraph 16A for what qualifies as the item (ie the Asset) to be assessed for derecognition? If not, why? What criteria would you propose instead, and why?
(Note: The criteria proposed in paragraph 16A are the same as those in IAS 39.)

No. Financial assets carry a bundle of rights. We consider it possible to unbundle these rights in many ways – just as the markets do. The financial markets are able to assess the rights transferred and value them accordingly for many purposes (including risk management), and transfers are clearly documented so both parties are fully aware of the rights transferred (eg the first $100 of cash flows are transferred). We consider the Board's decision (ie specifically identifiable cash flows or a proportionate share) to be an arbitrary line as an anti-avoidance measure rather than any conceptual reason.

Question 3—Definition of 'transfer'

Do you agree with the definition of a transfer proposed in paragraph 9? If not, why? How would you propose to amend the definition instead, and why?

We agree that a transfer should not be limited by its form – sales, assignments, giving collateral, etc. However, we are concerned that practical interpretive difficulties will arise in determining the scope of arrangements considered to be a transfer.

Question 4—Determination of 'continuing involvement'

Do you agree with the 'continuing involvement' filter proposed in paragraph 17A(b), and also the exceptions made to 'continuing involvement' in paragraph 18A? If not, why? What would you propose instead, and why?

As mentioned in our covering letter, we favour the alternative view expressed by the five dissenting board members. While we agree with the outcome that no continuing involvement means asset derecognition, we consider the continuing involvement filter incorporates a risks & rewards approach, we consider the proposals remain unnecessarily complex and without conceptual support. We consider the time has come for the derecognition rules to align with the recognition rules – ownership history should not affect whether different parties with the same exposure apply different accounting treatments. For example, a purchased call option at a fixed price would normally be a derivative carried at fair value, however, if the underlying asset was carried on the balance sheet of the option holder and the option holder were to transfer that asset in conjunction with purchasing the option then the underlying asset remains on the balance sheet (assuming the underlying asset is 'not readily obtainable') and the derivative is ignored.

On the basis that the Board progresses with its proposals, we agree with the clarifications in paragraph 18A of situations not considered to give rise to a continuing involvement. We consider the agency guidance proposed in paragraph AG49A should be aligned with recent proposals in the ED10 - Consolidated Financial Statements.

Question 5—'Practical ability to transfer for own benefit' test

Do you agree with the proposed 'practical ability to transfer' derecognition test in paragraph 17A(c)? If not, why? What would you propose instead, and why?

(Note: Other than the 'for the transferee's own benefit' supplement, the 'practical ability to transfer' test proposed in paragraph 17A(c) is the same as the control test in IAS 39.)

Do you agree with the 'for the transferee's own benefit' test proposed as part of the 'practical ability to transfer' test in paragraph 17A(c)? If not, why? What would you propose instead, and why?

No. As mentioned in our covering letter, we favour the alternative view expressed by the five dissenting board members. We do not consider the 'practical ability to transfer the asset for the transferee's benefit' to be a conceptually based criterion for establishing whether a financial asset should be derecognised. Restrictions on transfer may impact the value of the asset but it does not in our view invalidate the control of the asset.

Question 6—Accounting for retained interests

Do you agree with the proposed accounting (both recognition and measurement) for an interest retained in a financial asset or a group of financial assets in a transfer that qualifies for derecognition (for a retained interest in a financial asset or group of financial assets, see paragraph 21A; for an interest in a financial asset or group of financial assets retained indirectly through an entity, see paragraph 22A)? If not, why? What would you propose instead, and why?

(Note: The accounting for a retained interest in a financial asset or group of financial assets that is proposed in paragraph 21A is not a change from IAS 39. However, the guidance for an interest in a financial asset or group of financial assets retained indirectly through an entity as proposed in paragraph 22A is new.)

As mentioned in our covering letter, we favour the alternative view expressed by the five dissenting board members.

On the basis that the Board progresses with its proposals, we:

- *agree with the treatment of the retained interest where transfer of part of a financial asset meets the derecognition criteria (para 21A).*
- *disagree with the treatment of the retained interest where a transfer of an <u>entire</u> financial asset meets the derecognition criteria (para 22A). We consider ownership history should not affect whether different parties with the same exposure (one through a retained interest as a result of derecognising an asset, and one through the same retained interest acquired directly without involving an asset derecognition) present different accounting treatments. This outcome would not be a faithful representation.*

Question 7—Approach to derecognition of financial assets

Having gone through the steps/tests of the proposed approach to derecognition of financial assets (Questions 1–6), do you agree that the proposed approach as a whole should be established as the new approach for determining the derecognition of financial assets? If not, why? Do you believe that the alternative approach set out in the alternative views should be established as the new derecognition approach instead, and, if so, why? If not, why? What alternative approach would you propose instead, and why?

As mentioned in our covering letter, we favour the alternative view expressed by the five dissenting board members for the following reasons:

- *we do not consider the form of the asset (ie financial asset) should create unique rules for derecognition that do not exist for other types of assets (eg property).*

- *we do not consider the 'practical ability to transfer the asset for the transferee's benefit' to be a conceptually based criterion for establishing whether a financial asset should be derecognised. Restrictions on transfer may impact the value of the asset but it does not in our view invalidate the control of the asset.*
- *we consider the proposals continue to incorporate a risks & rewards approach, and time has come for the derecognition rules to align with the recognition rules – ownership history should not affect whether different parties with the same exposure apply different accounting treatments.*

Question 8—Interaction between consolidation and Derecognition

In December 2008, the Board issued an exposure draft ED 10 *Consolidated Financial Statements*. As noted in paragraphs BC28 and BC29, the Board believes that its proposed approach to derecognition of financial assets in this exposure draft is similar to the approach proposed in ED 10 (albeit derecognition is applied at the level of assets and liabilities, whereas consolidation is assessed at the entity level).

Do you agree that the proposed derecognition and consolidation approaches are compatible? If not, why? Should the Board consider any other aspects of the proposed approaches to derecognition and consolidation before it finalises the exposure drafts? If so, which ones, and why? If the Board were to consider adopting the alternative approach, do you believe that that approach would be compatible with the proposed consolidation approach?

We consider that control of an entity is different to control of an asset. We do not consider it necessary, nor necessarily appropriate, for an asset to pass derecognition tests but to then never be recognised in consolidated financial statements. Consistent with Question 1, the level of the reporting entity is an important first consideration, and so different outcomes (derecognition from separate financial statements but recognition in consolidated financial statements) are possible.

Question 9—Derecognition of financial liabilities

Do you agree with the proposed amendments to the principle for derecognition of financial liabilities in paragraph 39A? If not, why? How would you propose to amend that principle instead, and why?

We do not consider the changes will have any meaningful impact, because the outcome will generally be the same as under the current IAS39.

Question 10—Transition

Do you agree with the proposed amendments to the transition guidance in paragraphs 106 and 107? If not, why? How would you propose to amend that guidance instead, and why?

We support the proposed transition guidance, and in particular the requirement to apply the amendments prospectively to transactions.

Question 11—Disclosures

Do you agree with the proposed amendments to IFRS 7? If not, why? How would you propose to amend those requirements instead, and why?

We do not agree with the proposed disclosures transferred assets that are derecognised, because this information suggests the judgement exercised in determining whether the asset is appropriately derecognised may not have been correct. We do not consider this information appreciates the entity's exposure is limited to its *continuing involvement, not the entire asset. If the Board is confident it has developed appropriate derecognition requirements, then the disclosures should flow from this. We disagree with the following disclosure proposals:*

- *the fair value of derecognised financial assets in which the entity has a continuing involvement (para 42D(d);*
- *the undiscounted cash outflows to repurchase derecognised financial assets (para 42D(e)), and a maturity analysis of such cash outflows (para 42D(f));*
- *a sensitivity analysis showing the possible effect on the fair value of the continuing involvement of changes in the relevant risk variables (para 42D(g)); and*
- *income and expenses recognised from the entity's continuing involvement (e.g. servicing fees and fair value changes in derivative instruments) (para 42E(b))*

As an aside, we consider it could be difficult to gather the information for these disclosures as the underlying instruments could have been transferred to entities where there are legal restrictions preventing access to the information, or differences in reporting dates between the reporting entity and the entity holding the instrument, entities.