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IFRS Global office
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IFRS in Focus
IASB amends disclosures about transfers of financial assets

Contents

The Bottom Line

- The amendments increase the disclosure requirements for transactions involving transfers of financial assets. The derecognition guidance in IAS 39 *Financial Instruments: Recognition and Measurement* is unchanged.

- The amendments to IFRS 7 *Financial Instruments: Disclosures* require enhancements to the existing disclosures in IFRS 7 where an asset is transferred but is not derecognised and introduce new disclosures for assets that are derecognised but the entity continues to have a continuing exposure to the asset after the sale.

- The amendments are applicable for annual periods beginning on or after 1 July 2011.

- Disclosures are not required for comparative periods before the date of initial application of the amendments.

The proposal

On 7 October 2010, the International Accounting Standards Board (IASB) issued *Disclosures – Transfers of Financial Assets (Amendments to IFRS 7 Financial Instruments: Disclosures)* that increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions where a financial asset is transferred but the transferor retains some level of continuing exposure (referred to as 'continuing involvement') in the asset. The amendments also require disclosure where transfers of financial assets are not evenly distributed throughout the period (e.g., where transfers occur near the end of a reporting period). This is intended to create transparency around transactions that may be motivated by window dressing.

The derecognition project was added to the agendas of the IASB and US Financial Accounting Standards Board (FASB) in July of 2008 in response to the recent financial crisis. This led to the IASB publishing ED/2009/3 *Derecognition* (ED) in March 2009 which proposed a new derecognition model and an alternative model, both based on control of the transferred assets, which were not well received by constituents. Consequently, the Boards agreed in June 2010 as part of the re-prioritisation of their joint workplan to delay the development of a new derecognition model and instead to focus on derecognition disclosures. As a result, the IASB issued amendments to IFRS 7 which comprise the proposed disclosures included in the ED and are similar to those currently required under US GAAP.

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

Transfers of financial assets

Disclosures about transfers of financial assets should be presented in a single note in an entity's financial statements. The disclosures are required for all transferred financial assets where the transferor retains continuing involvement in the transferred asset, whether the asset is derecognised or not. The disclosures will apply in the period when the asset is transferred, as well as in future periods as long as the transferor retains a continuing involvement in the asset.

The amendments clarify that the disclosure requirements apply to transfers of all or a part of a financial asset if the entity:

- "transfers contractual rights to receive cash flows of that financial asset; or

- retains contractual rights to receive cash flows of that financial asset, but assumes a contractual obligation to pay the cash flows to other recipients in an arrangement".

An entity has continuing involvement in a transferred financial asset if it "retains any of the contractual rights or obligations inherent in the transferred financial asset or obtains any new contractual rights or obligations relating to the transferred financial asset." Normal representations and warranties relating to fraudulent transfers as well as forwards, options and other contracts to reacquire the transferred financial asset for which the contract price (or exercise price) is the fair value of the transferred financial asset do not constitute continuing involvement.

Observation

The disclosure requirements required by the amendments are much broader than those currently required. Further, the amendments introduce a definition of a transfer and continuing involvement for disclosure purposes that is broader than currently applied in IAS 39. The definition of a transfer described above does not require an entity to have passed the 'pass-through' tests in IAS 39 for it to be considered a transfer for disclosure purposes. Similarly, the amendments to IFRS 7 use the term 'continuing involvement', however, this is not restricted to the occasions where IAS 39 requires continuing involvement accounting for certain assets that are not fully derecognised. The meaning of continuing involvement for disclosure purposes is broader so as to capture any transfer where following the transfer the transferor retains some exposure to the asset transferred.

Transfers of financial assets that are not derecognised in their entirety

For transfers of financial assets that do not qualify for derecognition, an entity discloses information that enables users to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities.

For each class of financial asset (as determined in accordance with IFRS 7), the entity is required to disclose:

(a) the nature of the assets;

(b) the nature of the risks and rewards of ownership to which the entity is exposed;

(c) a description of the nature of the relationship between the assets and the associated liabilities, including any restrictions arising from the transfer on the entity's use of the transferred assets;

(d) when the counterparty to the associated liabilities has recourse only to the transferred assets, a schedule that sets out the fair value of the transferred assets, the fair value of the associated liabilities and the net position;

(e) when the entity continues to recognise all of the transferred assets, the carrying amounts of the transferred assets and of the associated liabilities; and

(f) when the entity continues to recognise the assets to the extent of its continuing involvement, the total carrying amount of the original assets before the transfer, the carrying amount of the assets that the entity continues to recognise, and the carrying amount of the associated liabilities.

Observation
The above disclosures are broadly similar to those required by IFRS 7 prior to the amendments. The main additional disclosures compared to the current standard are the disclosures described in (c) and (d) above.

Transfers of financial assets that are derecognised in their entirety

For transfers of financial assets that result in full derecognition, but where the entity has continuing involvement in the assets, the entity discloses information that allows users to evaluate the nature of and risks associated with the entity's continuing involvement in derecognised financial assets. The assessment of continuing involvement is made at the level of the reporting entity. As indicated above, 'continuing involvement' is not restricted to the occasions where IAS 39 requires continuing involvement accounting, and may result from contractual provisions in the transfer agreement or in a separate agreement with the transferee or a third party entered into in connection with the transfer.

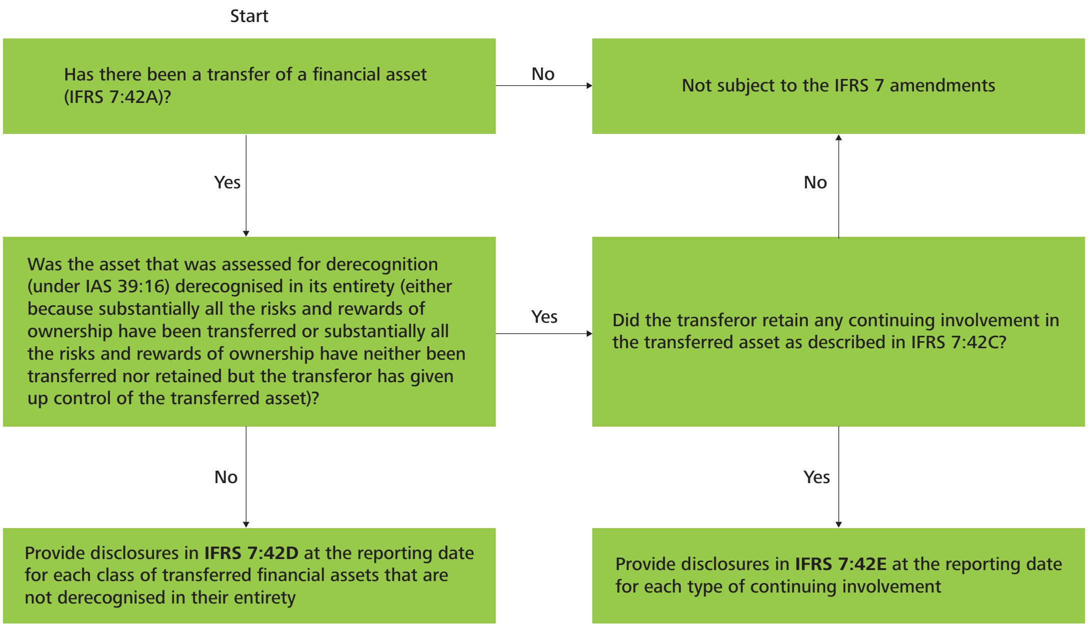
An entity is required to disclose information at the reporting date for each class of continuing involvement (aggregating its continuing involvement into types representative of the exposure to risks) including:

- the carrying amounts and fair values of the assets and liabilities that represent the entity's continuing involvement in the derecognised financial assets;
- the maximum exposure to loss from continuing involvement;
- the undiscounted cash flows that would or may be required to repurchase derecognised financial assets along with a maturity analysis of those cash flows;
- any gain or loss recognised at the date of the transfer of the assets;
- any income and expenses recognised in the reporting period from the entity's continuing involvement in the derecognised financial assets; and
- qualitative information that explains and supports the quantitative disclosures.

The amendments require further disclosures where transfers that qualify for derecognition are not evenly distributed throughout the reporting period. In that case, an entity is required to disclose when in the reporting period the greater transfer activity took place, the amounts (e.g. related gains or losses) recognised and the total transfer proceeds from the transfer activity during that part of the reporting period.

Observation
Many of the disclosure requirements for assets that are derecognised are new to IFRS 7. The focus in IFRS 7 currently is on those assets that fail to be derecognised, as opposed to those that are derecognised.
The amendments to IFRS 7 redress that balance by requiring the transferor to explain to what extent it continues to be exposed to an asset that is no longer recognised on its statement of financial position. Entities will need to consider whether current information systems are capable of capturing the necessary information, particularly as the additional disclosures are required for as long as the entity retains a continuing exposure.

Disclosures related to the distribution of transfer activity in the reporting period, e.g. whether there is a concentration of transfer activity around the end of reporting periods, are intended to provide more insightful information about the timing of activities to address concerns around "window dressing".



Illustrative examples

The amendments to IFRS 7 also include illustrative examples that illustrate a possible way to present the quantitative disclosures both for an entity applying IAS 39 as well as entity early adopting IFRS 9 *Financial Instruments*.

Effective date and transition

These amendments are effective for annual periods beginning on or after 1 July 2011. Early application of the amendments is permitted. Disclosures are not required for any period presented that begins before the date of initial application of the amendments.

Observation

Entities with calendar year reporting periods will be required to prepare these disclosures for the first time as at 31 December 2012. Comparative information for 2011 is not required.

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