



Derecognition (Proposed Amendments to IAS 39 and IFRS 7)

May 2009

**COMMENTS TO THE IASB MUST BE RECEIVED BY
JULY 31, 2009**

**COMMENTS TO THE AcSB MUST BE RECEIVED BY
AUGUST 31, 2009**

This Exposure Draft of proposed International Financial Reporting Standards reflects proposals made by the IASB that the AcSB intends to adopt as Canadian generally accepted accounting principles.

Individuals and organizations are invited to send written comments on the Exposure Draft proposals. Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

Comments are most helpful if they are related to a specific paragraph or group of paragraphs, and, when expressing disagreement with the Exposure Draft, they clearly explain the problem, and include a suggested alternative supported by specific reasoning. All comments received by the AcSB will be available on its website at www.acsbcanada.org 10 days after the comment deadline, unless confidentiality is requested.

To be considered, comments to the AcSB must be received by August 31, 2009, addressed to:

**Peter Martin, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, Ontario M5V 3H2**

**For ease of handling, we prefer comments to be sent by e-mail (in Word format) to:
ed.accounting@cica.ca**

Highlights

The Accounting Standards Board (AcSB) proposes, subject to comments received following exposure, to incorporate into Canadian GAAP the final standard on derecognition of financial assets and financial liabilities resulting from the Exposure Draft recently issued by the International Accounting Standards Board (IASB). The final standard will be incorporated as part of the IFRSs to be adopted by publicly accountable enterprises in 2011. The proposed amended standard would replace the derecognition requirements in IAS 39, *Financial Instruments: Recognition and Measurement*, and IFRS 7, *Financial Instruments: Disclosures*.

Background

The AcSB's strategy for publicly accountable enterprises is to adopt International Financial Reporting Standards (IFRSs) as Canadian GAAP for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011.¹ The IASB has recently issued for comment its Exposure Draft, "Derecognition" (the ED). Consistent with its strategy, the AcSB intends to adopt the proposed derecognition requirements in the ED instead of the corresponding requirements in IAS 39, *Financial Instruments: Recognition and Measurement*, and IFRS 7, *Financial Instruments: Disclosures* that were exposed in the AcSB's April 2008 Exposure Draft, "[Adopting IFRS in Canada](#)."

IASB Exposure Draft

The IASB's ED, "[Derecognition](#), Proposed Amendments to IAS 39 and IFRS 7," is available on the IASB website.

Main features

Following the recommendations of the Financial Stability Forum and in response to the global financial crisis, the IASB decided to accelerate the publication of the ED. The IASB explains that the proposed amended standard is intended to improve financial reporting by addressing the following:

- *Complexity* — The approach is an improvement to the current derecognition model in IAS 39. While the proposed approach is similar in many respects, it does not combine elements of several derecognition concepts (risks and rewards, control and continuing involvement) but rather focuses on a single element (control).
- *Convergence* — The approach is similar in some respects to proposed amendments to US Financial Accounting Standard No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SFAS 140)*.
- *Market environment and user's requests* — The IASB believes that the approach will be less complex to understand and apply than the existing requirements in IAS 39.
- *Divergent views* — By focusing on control of the asset by the transferee (i.e., the "practical ability to transfer for its own benefit" test) and drawing a line if it is unclear which entity has control, the proposed approach reflects the divergent

¹ The AcSB's [Strategic Plan](#) and [Implementation Plan for Incorporating International Financial Reporting Standards into Canadian GAAP](#) are available on the AcSB's website at www.acsbcanda.org.

views on the substance of transfer transactions, especially transfers involving financial assets that are not readily obtainable and in which the transferor has continuing involvement after the transfer.

The ED addresses derecognition of financial assets and financial liabilities. FINANCIAL INSTRUMENTS — RECOGNITION AND MEASUREMENT, Section 3855, is presently converged with IAS 39 on derecognition of financial liabilities, but does not address derecognition of financial assets. ACCOUNTING GUIDELINE AcG-12, Transfers of Receivables, provides guidance on derecognition of receivables, in particular transactions that result in the transferor having some continuing interest in the transferred receivables. AcG-12 is based on a different approach from that being proposed. The main differences are set out below.

Financial assets

The proposed amendments would replace the approach to derecognition of financial assets in AcG-12 with an approach that is similar in that it is control-based — an entity would derecognize a financial asset when it no longer controls that asset. However, the models differ in a number of ways. The main differences are:

- the proposal does not include a legal isolation test, which is a fundamental part of the model in AcG-12;
- what qualifies as a part of the asset to be derecognized; and
- AcG-12 focuses on control of the legal title to a financial asset, whereas the proposal focuses on control of economic benefits.

The alternative view

The IASB was divided on the appropriate approach to derecognition of financial assets. Five IASB members preferred an alternative approach. Like the proposed approach, the alternative approach bases the decision on derecognizing a transferred financial asset on whether the entity has surrendered control of the asset. However, unlike the proposed approach, the alternative approach assesses control differently, and with that, has a different perspective on the asset that is the subject of the transfer. Among other reasons, those who support the alternative view consider that the proposed approach is not operational. The alternative approach is described in more detail as part of the five IASB members' alternative views in the Basis for Conclusions in the ED.

Financial liabilities

The proposed amendments would also revise IAS 39's approach to derecognizing financial liabilities to be more consistent with the definition of a liability in the IASB "Framework for the Preparation and Presentation of Financial Statements." The definition of a liability in existing Canadian GAAP and the existing IASB Framework is generally consistent.

Disclosures

The proposed amendments to IFRS 7 would enhance the disclosures in that standard, to improve the evaluation of risk exposures and performance in respect of an entity's transferred financial assets.

Consolidation

Some transfers of financial assets can give rise to both derecognition issues and consolidation issues. The IASB concluded that derecognition should be evaluated at the level of the reporting entity. Thus, in its consolidated financial statements, an entity that transfers financial assets must first consider the consolidation

requirements in IAS 27 and SIC-12, “Consolidation — Special Purpose Entities,” and then the derecognition requirements in the proposed standard.

The proposed derecognition approach for financial assets is similar to the approach proposed by the IASB in the recently published Exposure Draft ED 10,² “Consolidated Financial Statements,” (although derecognition is applied at the level of assets and liabilities, whereas consolidation is assessed at the entity level). ED 10 focuses on control of an entity and defines “control” as follows: “A reporting entity controls another entity when the reporting entity has the power to direct the activities of that other entity to generate returns for the reporting entity.”

The IASB’s proposed approach to derecognition of financial assets is also based on control. Control in the context of financial assets is (a) the ability to obtain (access) the underlying future economic benefits and (b) the ability to restrict others’ access to those benefits (i.e., the ability to access the benefits for one’s own benefit). Thus parts (a) and (b) in the control definition in the ED are similar to the “power to direct activities of another entity to generate returns” and “for the reporting entity” parts, respectively, in the control definition in ED 10.

Convergence with US GAAP

The FASB published an ED in September 2008 proposing amendments to SFAS 140 as a result of the financial crisis and requests by the US Securities and Exchange Commission. In its ED, the FASB explained that, consistent with the [Memorandum of Understanding](#) with the IASB, it viewed the proposed amendments as a short-term solution and that it intended to join the IASB in producing a single standard on derecognition.

The IASB and FASB have agreed to the following:

- the FASB would complete its short-term project of amending SFAS 140 by issuing a final statement in 2009;
- they would jointly deliberate the comments the IASB receives on its ED with the objective of reaching common conclusions; and
- at the conclusion of those deliberations, the IASB would issue a standard amending the derecognition requirements in IAS 39 and the FASB would expose the IASB’s amendment of IAS 39 to its constituents for public comment.

In accordance with its strategic plan, the AcSB intends to adopt the IASB proposals, rather than those of the FASB.

Timing of adoption in Canada and transitional provisions

While the IASB has not yet determined the effective date of the proposed amended IFRS, it currently expects to issue it in final form some time in 2010. Assuming this timetable is met, the AcSB intends to incorporate the amended standard into Canadian GAAP as part of the IFRSs to be adopted by publicly accountable enterprises in 2011.

The proposed amendments to IAS 39 and IFRS 7 would apply prospectively to transactions entered into after the mandatory effective date (expected to be some time in 2011 or the beginning of 2012). Disclosures in IFRS 7 would be required for some transactions entered into prior to the effective date. Early adoption will be permitted

² ED 10 was also issued as an AcSB [ED](#) in February 2009.

in certain instances. Amendments are also proposed to IFRS 1, *First-time Adoption of IFRSs*.

Publicly accountable enterprises and other entities choosing to adopt IFRSs are encouraged to review and consider the implications of the proposed transitional provisions and amendments to IFRS 1 in planning their initial adoption of IFRSs and in commenting on the proposals.

Other material

The IASB has published a Basis for Conclusions for the proposed amendments to IAS 39 and IFRS 7. Although this document is not part of the AcSB's ED, stakeholders are encouraged to refer to it, in particular, the alternative view presented and the basis for that view.

Comments requested

The AcSB encourages Canadian stakeholders to respond to the IASB on its ED since the proposed amended IFRS will become part of Canadian GAAP for publicly accountable enterprises when finalized. Specific questions on which the IASB would like input are provided in the Invitation to Comment in the ED. The AcSB requests that comment letters be sent directly to the IASB with a copy to the AcSB.

The AcSB has identified additional questions regarding the proposed amended standard on which it would like input from Canadian respondents.

1. The proposed amended standard has been developed by the IASB for application by entities around the world. Assuming the ED proposals are approved by the IASB, do you believe that there are aspects of the proposed amended standard that make some or all of it inappropriate for Canadian entities, even though it is appropriate for entities in the rest of the world? If so, please specify which aspects and what circumstances make the accounting requirements proposed in the ED inappropriate for Canadian entities.
2. The AcSB has determined that it will generally not issue application or interpretative guidance on IASB standards. An exception might be when an aspect of a standard needs interpreting in light of specific Canadian legal, tax, regulatory or other circumstances that do not apply in other countries and, therefore, will not be addressed by the IASB. Do the proposals in the ED require such application or interpretative guidance? If so, please specify the issue giving rise to the need for additional material, the reasons additional guidance is required and the nature of that guidance.

Responses to these additional questions should be sent directly to the AcSB.

The deadline for commenting to the IASB on its ED is July 31, 2009. The deadline for responding to the AcSB on the additional questions set out above is August 31, 2009.