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Straight away

IFRS bulletin from PricewaterhouseCoopers

IASB enhances disclosures relating to transferred financial assets

What is the issue?

The IASB has issued an amendment to IFRS 7, Financial Instruments: Disclosures, to require additional disclosures of risk exposures arising from transferred financial assets. The amendment is derived from the IASB's March 2009 exposure draft, Derecognition. In addition to enhancing disclosures, the exposure draft proposed changes to the accounting for transferred financial assets. However, many commentators were not supportive of the proposed accounting changes; therefore, that element of the exposure draft is not included in the final amendment. Instead, the IASB decided to defer further consideration of any accounting changes until after June 2011.

Key Provisions

Currently, IFRS 7 requires certain disclosures related to transfers of financial assets that do not qualify for derecognition in their entirety. The amendment not only enhances disclosures for those transfers, but also adds a new set of disclosures for transfers of financial assets where derecognition is achieved in their entirety.

Transfers that do not qualify for derecognition in their entirety

For transfers of financial assets that do not qualify for derecognition in their entirety, the amendment requires disclosure (by class of asset) of the nature of the assets, their carrying amount, and a description of the risks and rewards of ownership to which the entity is exposed. Disclosures are also required to enable users to understand the amount of any associated liabilities and the relationship between the financial assets and associated liabilities.

Transfers that qualify for derecognition in their entirety

Where financial assets have been fully derecognised but the transferor is still exposed to risks and rewards associated with the transferred assets, additional disclosures are required to enable the effects of those risks to be understood. The disclosures include:

- The carrying amount and fair value of recognised assets or liabilities that give rise to the ongoing involvement in the transferred asset
- Information showing the maximum exposure to loss
- The timing and amount of potential and contractual cash outflows that may be necessary as a result of the ongoing involvement

The disclosures should be presented by type of ongoing involvement. For example, the retained exposure could be presented by type of financial instrument (e.g., guarantees, call options, put options), or by type of transfer (e.g., factoring of receivables, securitizations).

Transfer activity

The gain or loss on the transferred assets and any income and expenses recognised on any retained interest in those assets should be disclosed. Additional disclosures are required where the total amount of proceeds from transfer activity that qualifies for derecognition is not evenly distributed throughout the reporting period (e.g., where a substantial portion of the activity occurs at the end of the period).

What's the effective date?

The amendment is effective for annual periods beginning on or after July 1, 2011, with earlier application permitted. Comparative information is not required in the first year of application.

Am I affected?

The amendment may require additional disclosures for those entities that prepare their financial statements in accordance with IFRS and sell, factor, securitize, lend or otherwise transfer financial assets to other parties.

What do I need to do?

Management should consider the extent of any ongoing interest in transferred financial assets, and whether it needs to implement additional processes to be able to compile the information needed to comply with the additional disclosure requirements.

If you have questions about this issue, please contact PwC IFRS team.

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