



## Solution 83A.6

<b>Component</b>	Derecognition of financial assets for banks
<b>Index</b>	Pass through arrangements
<b>Short title</b>	Transfer of a disproportionate share in a pass through arrangement

**Attention:** This guidance is based on the revised standards and interpretations that are mandatory for accounting periods commencing 1 January 2005. A company may early adopt an individual revised standard, but only in its entirety. Guidance based on the previous version of the standards is included in the “Applying IFRS 2004” guidance.

### Issue

An entity transfers a financial asset if it retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions for pass-through arrangements [IAS39R.18(b)].

Can the transfer of a disproportionate share of the cash flows from a loan meet the conditions for a pass-through arrangement?

### Background

Bank Z originates a five-year interest-bearing loan of 100. Bank Z then enters into an agreement with entity C in which, in exchange for a cash payment of 90, Z agrees to pass to C the first 90 of all principal and interest payments collected from the loan. Bank Z accepts no obligation to make any payments to C other than the first 90 collected. Bank Z is prohibited by the terms of the agreement from selling or pledging the original asset and has to remit the collected cash flows without material delay to C.

### Solution

Yes. The transfer of a disproportionate share of cash flows can qualify as a pass through arrangement. Bank Z will determine what part of the asset should be assessed for derecognition before deciding whether the transaction represents a transfer. Bank Z will have to assess the entire loan for derecognition since a disproportionate share of cash flows will be transferred.

Derecognition is appropriate only if the structure meets the conditions of a pass-through arrangement. The three conditions for a pass-through arrangement are met; Z has an obligation to pay the cash flows collected from the loan to the eventual recipients without material delay and Z has no right to sell or pledge the transferred asset.

Bank Z is able to assess whether the assets can be derecognised following the remaining steps in the derecognition flow chart since the arrangement meets the criteria for a transfer.