8 October 2010

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 in respect of risk exposures arising from transferred financial assets. The amendments are derived from the April 2009 exposure draft 'Derecognition'. They are intended to address concerns raised during the financial crisis by the G20, among others, that financial statements did not allow users to understand the ongoing risks the entity faced due to derecognised receivables and other financial assets. 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. This element of the exposure draft is being deferred until after June 2011 as part of the IASB and FASB's revised strategy and work plan for projects included in the Memorandum of Understanding.

The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities.

Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. These 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; and
- the timing and amount of potential and contractual cash outflows that may be necessary as a result of the ongoing involvement.

These disclosures should be presented by type of ongoing involvement. For example, the retained exposure could be presented by type of financial instrument (for example, guarantees, call options or put options), or by type of transfer (for example, factoring of receivables, securitisations or securities lending).

The gain or loss on the transferred assets and on any retained interest in those assets should also 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.

Am I affected?

The amendment may require additional disclosures for those entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. The amendment will be effective for annual periods beginning on or after 1 July 2011, with earlier application permitted. These disclosures are not required for any period presented that begins before the date of initial application of the amendments.

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 your PwC engagement partner. Engagement teams that have questions should contact their Global Accounting Consulting Services Contact.

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