



OICV-IOSCO

Organización Internacional de Comisiones de Valores
International Organisation of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores

September 8, 2009

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH
United Kingdom

RE: Derecognition Exposure Draft

Dear IASB Members:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (Standing Committee No. 1) thanks you for the opportunity to provide our comments regarding the International Accounting Standards Board (IASB or the Board) Derecognition Exposure Draft (the ED).

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Standing Committee No. 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of Standing Committee No. 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

We present below our general observations regarding the proposed approach and the alternative approach set out in the ED. We did not attempt to respond to the specific questions in the ED.

General Observations

Project Timing

We support the Board's decision to review the derecognition requirements of IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) and share the Board's concern that these requirements are unduly complex. Although we support a review, we note that derecognition is a complex and difficult issue and therefore have concern

Calle Oquendo 12
28006 Madrid
ESPAÑA
Tel.: (34.91)
417.55.49 • Fax: (34.91)
555.93.68
mail@oicv.iosco.org
• www.iosco.org

regarding whether substantial changes can be successfully implemented on a 'fast-track' basis.

The Exposure Draft does not clearly state the objectives of the proposals other than to address perceived complexity. The introduction summarizes the areas of complexity, but it is unclear as to whether all of these areas are substantially changed by the proposals. If these existing complexities are reduced, then other difficulties seem to be introduced. Given that difficulties continue to exist in the new models proposed, it would seem that further conceptual debate or debate of the principle is needed.

We appreciate that the financial crisis has identified off-balance sheet as an important issue. We are also aware that the Financial Stability Board (FSB) and leaders from the Group of Twenty have requested the IASB and FASB to accelerate their convergence efforts to improve the accounting guidance in these areas. However, we believe that due to the complexity of the issue and the magnitude of the proposed changes to the existing model, the IASB should allow for a more comprehensive discussion and debate among the constituents. We believe many of the concerns that have been raised by the FSB and others (i.e., perceived need for greater transparency, provide decision-useful information to users of financial statements, etc.) may be addressed immediately by focusing on improved disclosure requirements and allow for a time appropriate project to address substantive changes to the derecognition model.

Complexity

While we agree that reducing complexity of the current IAS 39 derecognition guidance is a worthy goal, we believe that the proposed approach in the ED has its own complexities. The ED is unclear about how to interpret new requirements such as determining 'continuing involvement', whether an asset is 'readily available' or whether the counterparty has the 'practical ability to transfer for [its] own benefit.'

- Continuing Involvement - The continuing involvement filter appears to be a form of a risks and rewards test. The implication of this is that the model will still be a mixed model of risks and rewards and control which will continue to be a source of complexity. Further, paragraph 18(A) introduces exceptions, such as fair value based forwards, options and other contracts and certain servicing contracts. If exceptions need to be created, this implies that the principle underpinning the model needs more work.
- Readily Obtainable - We understand that in certain circumstances under the proposed model derecognition is critically dependent on whether a financial asset is "readily obtainable". However, the ED does not include a clear definition of what constitutes "readily obtainable" and will likely result in diversity of application.
- Practical Ability to Transfer for Own Benefit - The derecognition model proposed in the ED places emphasis on whether the other party has the practical ability to transfer the asset for its own benefit rather than on the rights and obligations of the transferring party, which is the reporting entity.

This emphasis may not be appropriate and may be difficult to understand and apply in practice given the need for information about another party's circumstances.

Further, we believe the requirements in the proposed approach, particularly those related to whether the transferee has the practical ability to transfer that asset "for [its] own benefit", are not easily understood by preparers, auditors, or regulators and will likely result in difficulties and inconsistency in application. For example, readily obtainable assets used as collateral for secured financing arrangements would likely be deconsolidated on the premise that the collateral could be sold on a temporary basis, which could satisfy the "for own benefit" criteria, even though the collateral would be required to be returned at some point in the future. We believe that such an expansive interpretation of the phrase *for its own benefit* does not appropriately represent the economics of certain transactions.

Repurchase transactions

We understand that under the proposed approach the accounting for repurchase commitments involving transfers of readily obtainable assets will change from secured financing accounting to being accounted for as sales with recognition of a separate obligation to repurchase. We do not believe this change represents improved financial reporting or provides greater transparency when the substance of the transaction is more consistent with a borrowing.

Definition of 'transfer'

We are concerned that a very broad definition of a transfer may have unintended consequences. For example, paragraph 17A(c) of the ED requires derecognition if the transferor has continuing involvement but the transferee has the "practical ability to transfer [the asset] for [the transferee's] own benefit". We are concerned that since many types of arrangements appear to meet the definition of a transfer, the transferee's practical ability to transfer the asset for the transferee's own benefit may result in derecognition in circumstances not intended. For example, it is not clear how a 'provision of collateral' qualifies as a transfer. If provision is merely the referencing of collateral we believe this should not qualify as a transfer.

Alternative Approach

Although we do see some merit in the alternative approach, we do not believe that there is enough information provided in the ED to draw a conclusion about it. The alternative model appears to be less complex (i.e., assessment of when control is surrendered does not depend on the continuing involvement test and does not include the practical ability to transfer for own benefit test, which could be difficult to apply) and attempts to portray the transferor's future rights and obligations following a transfer transaction. However, as we understand the current presentation of the alternative approach, whenever the transferor no longer has access to all of the cash flows of a financial asset, that asset will be derecognized and any retained interest in that asset will be recognized as a new asset at

fair value. We are concerned that this approach may lead to structuring in which fair value recognition of the full gain or loss inherent in the transferred asset can result from the transferor transferring minimal cash flows.

If the IASB moves forward with the alternative approach, we believe due process related to building out the approach is very important. We do not believe that there is currently enough information provided in the ED about the alternative approach for constituents to provide complete feedback on this alternative.

Financial Instruments: Replacement of IAS 39

Our comments on the ED are provided in the context of the existing requirements of IAS 39. We note that the IASB is currently revisiting many key aspects of financial instrument accounting in a separate project. Given the importance of financial instrument classification and measurement guidance to accounting for transactions that qualify for derecognition (i.e., concerns regarding timing of gain recognition would change depending on the ongoing classification and measurement of certain financial assets), we believe that it is important that potential changes resulting from the project to replace IAS 39 be considered as part of derecognition deliberations.

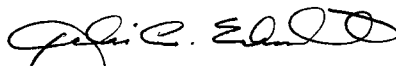
Field testing

We believe that the approaches proposed in the current derecognition ED should be evaluated through some field testing prior to issuance of a final standard. We encourage the Board to determine the effect implementation of a new model might have on current practice. As noted above we are concerned that the approaches will have unintended consequences and believe that it is very important that prior to issuance of a final standard the IASB have practical insights into the changes that would result.

* * * *

We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact me at 202-551-5300.

Sincerely,



Julie A. Erhardt

Chairman

IOSCO Standing Committee No. 1