

HKFRSs / IFRSs UPDATE

2010/20

16 November 2010

AMENDMENTS TO HKFRS 7 *FINANCIAL INSTRUMENTS: DISCLOSURES*

Background

The International Accounting Standards Board has issued Disclosures – Transfers of Financial Assets (Amendments to IFRS 7 *Financial Instruments: Disclosures*). The amendments enhance the disclosure requirements for transactions that involve the transfer of financial assets, and result from proposals that were set out in the exposure draft Derecognition (Proposed Amendments to IAS 39 and IFRS 7) that was published in March 2009.

The changes mean that the disclosures required by IFRS and US GAAP for transferred assets are closely aligned.

Requirements

The amendments replace certain existing requirements of HKFRS 7, and have been driven by experience from the recent global financial crisis. The previous disclosures covered financial assets which, while transferred to other parties, did not satisfy the derecognition requirements of HKAS 39 *Financial Instruments: Recognition and Measurement* (whether in whole or in part). The new requirements increase the extent of the disclosures, and extend them to cover all transferred assets where the transferor retains continuing exposure to them, regardless of the extent to which the assets are derecognised. These are supplemented by a requirement, where transfers do not occur evenly throughout the reporting period, for this to be disclosed (for example, where transfers occur near the end of a reporting period). This latter amendment is aimed at highlighting 'window dressing' transactions that an entity might enter into around its reporting period end.

The disclosures are required to be presented in a single note to the financial statements, meaning that all of the information will be grouped together. They apply to the period in which the assets are transferred, and to all future periods during which the transferor retains continuing involvement in the assets.

The amendments cover the following:

- Transfers of financial assets;
- Overall disclosure requirements;
- Transferred financial assets that are not derecognised in their entirety;
- Transferred financial assets that are derecognised in their entirety; and
- Supplementary information.

STATUS

Final

EFFECTIVE DATE

Annual periods beginning on/after 1 July 2011

ACCOUNTING IMPACT

Enhanced disclosures for transfers of financial assets

Transfers of financial assets

A transfer of a financial asset takes place where an entity:

- transfers the contractual rights to receive the cash flows of that financial asset; or
- retains the contractual rights to receive the cash flows of that financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement.

The disclosure requirements apply where an entity has continuing involvement in a transferred asset. This is where 'the entity retains any of the contractual rights or obligations inherent in the transferred financial asset or obtains any new contractual rights or obligations relating to the transferred financial asset'. The focus is on whether there is any retained or potential new exposure to the performance of the asset. It is noted that continuing involvement does not arise from normal representations and warranties relating to fraudulent transfers, together with forwards, options and other contracts to reacquire the financial asset for which the contract or exercise price is the fair value of the transferred financial asset.

Overall disclosure requirements

In a single note to its financial statements, an entity is required to provide disclosures for all transferred financial assets where it retains any continuing involvement at the reporting date, irrespective of when the related transfer transaction occurred or whether the financial assets have been derecognised (in whole or in part). The disclosures are required to be sufficient to enable users of financial statements:

- to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and
- to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets.

Transferred financial assets that are not derecognised in their entirety

For transfers of financial assets that do not qualify for derecognition in their entirety, information is required to be disclosed that enables users of its financial statements to understand the relationship between those transferred financial assets and the associated liabilities. This information comprises:

- the nature of the transferred assets;
- the nature of the risks and rewards of ownership to which the entity is exposed;
- a description of the nature of the relationship between the transferred assets and the associated liabilities, including restrictions arising from the transfer on the reporting entity's use of the transferred assets;
- when the counterparty (counterparties) to the associated liabilities has (have) recourse only to the transferred assets, a schedule that sets out the fair value of the transferred assets, the fair value of the associated liabilities and the net position (the difference between the fair value of the transferred assets and the associated liabilities);
- when the entity continues to recognise all of the transferred assets, the carrying amounts of the transferred assets and the associated liabilities; and
- when the entity continues to recognise the assets to the extent of its continuing involvement (paragraphs 20(c)(ii) and 30 of HKAS 39 provide guidance for determining this continuing involvement), the total carrying amount of the original assets before the transfer, the carrying amount of the assets that the entity continues to recognise, and the carrying amount of the associated liabilities.

It should be noted that the meaning of 'continuing involvement' for the purposes of HKAS 39, where it is used to determine the carrying amount to be included in an entity's financial statements, may be different from the meaning for the purposes of the HKFRS 7 disclosures as these focus on the extent of potential exposure, regardless of the extent to which the related assets have been derecognised.

Transferred financial assets that are derecognised in their entirety

For transfers of financial assets that do qualify for full derecognition, but where the entity retains continuing involvement in the assets, information is required to be disclosed that enables users of its financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in the derecognised financial assets. This information comprises, at a minimum:

- a) the carrying amount of the assets and liabilities that are recognised in the entity's statement of financial position and represent the entity's continuing involvement in the derecognised financial assets, and the line items in which the carrying amount of those assets and liabilities are recognised;
- b) the fair value of the assets and liabilities that represent the entity's continuing involvement in the derecognised financial assets;
- c) the amount that best represents the entity's maximum exposure to loss from its continuing involvement in the derecognised financial assets, and information showing how the maximum exposure to loss is determined;
- d) the undiscounted cash outflows that would or may be required to repurchase derecognised financial assets (eg the strike price in an option agreement) or other amounts payable to the transferee in respect of the transferred assets. If the cash outflow is variable then the amount disclosed should be based on the conditions that exist at each reporting date;
- e) a maturity analysis of the undiscounted cash outflows that would or may be required to repurchase the derecognised financial assets or other amounts payable to the transferee in respect of the transferred assets, showing the remaining contractual maturities of the entity's continuing involvement; and
- f) qualitative information that explains and supports the quantitative disclosures required in (a)–(e).

Additional information is required to be disclosed for each type of continuing involvement, including the gain or loss recognised on transfer of the financial assets, and the amount of income and expenses recognised (both for the current period and cumulatively) from the entity's continuing involvement in the derecognised financial assets. In addition, if the total amount of proceeds from transfers of financial assets is not evenly distributed throughout the reporting period, disclosures are required of the period during which the greatest transfer activity took place, and the related gains or losses recognised from those transfers together with the amount of proceeds received. There is an explicit requirement for this information to be disclosed for each period for which a statement of comprehensive income is presented.

Supplementary information

An entity is required to disclose any additional information that it considers necessary to meet the disclosure objectives of an understanding of the relationship and evaluation of the nature and risk associated with the derecognised financial assets. The amount, if any, of additional information disclosed is assessed in the context of the information needs of users of financial statements, and how much emphasis the entity places on different aspects of the additional information.

Application guidance and illustrative examples

The amendments include comprehensive application guidance which expands on the new requirements set out in HKFRS 7, together with illustrative examples that show how the quantitative disclosures might be made, whether the entity reports in accordance with HKAS 39 or has early adopted HKFRS 9 *Financial Instruments*.

Amendments to other standards

The amendments also include changes to HKFRS 1 to allow first time adopters to apply the transitional provisions in HKFRS 7.

Effective date and transition

The amendments apply to annual periods beginning on or after 1 July 2011. Earlier application is permitted. If an entity applies the amendments from an earlier date, it is required to disclose that fact. Disclosures required by the amendments do not need to be given for any period presented that begins before the date of their initial application, meaning that in the first year of application comparative information is not required.

BDO's support and assistance on HKFRSs

For any support and assistance on HKFRSs, please talk to your usual BDO contact or Stephen Chan, Partner and Head of Technical & Training at +852 2853 5820 or email StephenChan@bdo.com.hk

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