

**Disclosures—Transfers of
Financial Assets**

(Amendments to SB-FRS 107)

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Introduction

This document sets out amendments to SB-FRS 107 *Financial Instruments: Disclosures*.

The amendments will help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position and will promote transparency in the reporting of transfer transactions, particularly those that involve securitisation of financial assets.

Entities are required to apply the amendments for annual periods beginning on or after 1 July 2011. In the first year of application, an entity need not provide comparative information for the disclosures required by the amendments for periods beginning before 1 July 2011. Earlier application is permitted.

Amendments to SB-FRS 107 *Financial Instruments: Disclosures*

In the Introduction, paragraph IN5B is added.

Introduction

Main features of the SB-FRS

IN5B *Disclosures—Transfers of Financial Assets* (Amendments to SB-FRS 107), issued in October 2010, amended the required disclosures to help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position.

The heading before paragraph 13 and paragraph 13 are deleted. After paragraph 42, headings and paragraphs 42A–42H are added.

Transfers of financial assets

42A The disclosure requirements in paragraphs 42B–42H relating to transfers of financial assets supplement the other disclosure requirements of this SB-FRS. An entity shall present the disclosures required by paragraphs 42B–42H in a single note in its financial statements. An entity shall provide the required disclosures for all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset, existing at the reporting date, irrespective of when the related transfer transaction occurred. For the purposes of applying the disclosure requirements in those paragraphs, an entity transfers all or a part of a financial asset (the transferred financial asset), if, and only if, it either:

- (a) transfers the contractual rights to receive the cash flows of that financial asset; or
- (b) 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.

42B An entity shall disclose information that enables users of its financial statements:

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

42C For the purposes of applying the disclosure requirements in paragraphs 42E–42H, an entity has continuing involvement in a transferred financial asset if, as part of the transfer, 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. For the purposes of applying the disclosure requirements in paragraphs 42E–42H, the following do not constitute continuing involvement:

- (a) normal representations and warranties relating to fraudulent transfer and concepts of reasonableness, good faith and fair dealings that could invalidate a transfer as a result of legal action;
- (b) forward, option and other contracts to reacquire the transferred financial asset for which the contract price (or exercise price) is the fair value of the transferred financial asset; or

- (c) an arrangement whereby an entity retains the contractual rights to receive the cash flows of a financial asset but assumes a contractual obligation to pay the cash flows to one or more entities and the conditions in paragraph 19(a)–(c) of SB-FRS 39 are met.

Transferred financial assets that are not derecognised in their entirety

42D An entity may have transferred financial assets in such a way that part or all of the transferred financial assets do not qualify for derecognition. To meet the objectives set out in paragraph 42B(a), the entity shall disclose at each reporting date for each class of transferred financial assets that are not derecognised in their entirety:

- (a) the nature of the transferred assets.
- (b) the nature of the risks and rewards of ownership to which the entity is exposed.
- (c) 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.
- (d) 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).
- (e) when the entity continues to recognise all of the transferred assets, the carrying amounts of the transferred assets and the associated liabilities.
- (f) when the entity continues to recognise the assets to the extent of its continuing involvement (see paragraphs 20(c)(ii) and 30 of SB-FRS 39), 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.

Transferred financial assets that are derecognised in their entirety

42E To meet the objectives set out in paragraph 42B(b), when an entity derecognises transferred financial assets in their entirety (see paragraph 20(a) and (c)(i) of SB-FRS 39) but has continuing involvement in them, the entity shall disclose, as a minimum, for each type of continuing involvement at each reporting date:

- (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.

- (f) qualitative information that explains and supports the quantitative disclosures required in (a)–(e).

42F An entity may aggregate the information required by paragraph 42E in respect of a particular asset if the entity has more than one type of continuing involvement in that derecognised financial asset, and report it under one type of continuing involvement.

42G In addition, an entity shall disclose for each type of continuing involvement:

- (a) the gain or loss recognised at the date of transfer of the assets.
- (b) income and expenses recognised, both in the reporting period and cumulatively, from the entity's continuing involvement in the derecognised financial assets (eg fair value changes in derivative instruments).
- (c) if the total amount of proceeds from transfer activity (that qualifies for derecognition) in a reporting period is not evenly distributed throughout the reporting period (eg if a substantial proportion of the total amount of transfer activity takes place in the closing days of a reporting period):
 - (i) when the greatest transfer activity took place within that reporting period (eg the last five days before the end of the reporting period),
 - (ii) the amount (eg related gains or losses) recognised from transfer activity in that part of the reporting period, and
 - (iii) the total amount of proceeds from transfer activity in that part of the reporting period.

An entity shall provide this information for each period for which a statement of comprehensive income is presented.

Supplementary information

42H An entity shall disclose any additional information that it considers necessary to meet the disclosure objectives in paragraph 42B.

Effective date and transition

Paragraph 44M is added.

44M *Disclosures—Transfers of Financial Assets* (Amendments to SB-FRS 107), issued in October 2010, deleted paragraph 13 and added paragraphs 42A–42H and B29–B39. An entity shall apply those amendments for annual periods beginning on or after 1 July 2011. Earlier application is permitted. If an entity applies the amendments from an earlier date, it shall disclose that fact. An entity need not provide the disclosures required by those amendments for any period presented that begins before the date of initial application of the amendments.

Appendix B

Application guidance

After paragraph B28, headings and paragraphs B29–B39 are added.

Derecognition (paragraphs 42C–42H)

Continuing involvement (paragraph 42C)

- B29 The assessment of continuing involvement in a transferred financial asset for the purposes of the disclosure requirements in paragraphs 42E–42H is made at the level of the reporting entity. For example, if a subsidiary transfers to an unrelated third party a financial asset in which the parent of the subsidiary has continuing involvement, the subsidiary does not include the parent's involvement in the assessment of whether it has continuing involvement in the transferred asset in its stand-alone financial statements (ie when the subsidiary is the reporting entity). However, a parent would include its continuing involvement (or that of another member of the group) in a financial asset transferred by its subsidiary in determining whether it has continuing involvement in the transferred asset in its consolidated financial statements (ie when the reporting entity is the group).
- B30 An entity does not have a continuing involvement in a transferred financial asset if, as part of the transfer, it neither retains any of the contractual rights or obligations inherent in the transferred financial asset nor acquires any new contractual rights or obligations relating to the transferred financial asset. An entity does not have continuing involvement in a transferred financial asset if it has neither an interest in the future performance of the transferred financial asset nor a responsibility under any circumstances to make payments in respect of the transferred financial asset in the future.
- B31 Continuing involvement in a transferred financial asset may result from contractual provisions in the transfer agreement or in a separate agreement with the transferee or a third party entered into in connection with the transfer.

Transferred financial assets that are not derecognised in their entirety

- B32 Paragraph 42D requires disclosures when part or all of the transferred financial assets do not qualify for derecognition. Those disclosures are required at each reporting date at which the entity continues to recognise the transferred financial assets, regardless of when the transfers occurred.

Types of continuing involvement (paragraphs 42E–42H)

- B33 Paragraphs 42E–42H require qualitative and quantitative disclosures for each type of continuing involvement in derecognised financial assets. An entity shall aggregate its continuing involvement into types that are representative of the entity's exposure to risks. For example, an entity may aggregate its continuing involvement by type of financial instrument (eg guarantees or call options) or by type of transfer (eg factoring of receivables, securitisations and securities lending).

Maturity analysis for undiscounted cash outflows to repurchase transferred assets (paragraph 42E(e))

- B34 Paragraph 42E(e) requires an entity to disclose a maturity analysis of the undiscounted cash outflows to repurchase derecognised financial assets or other amounts payable to the transferee in respect of the derecognised financial assets, showing the remaining contractual maturities of the entity's continuing involvement. This analysis distinguishes cash flows that are

required to be paid (eg forward contracts), cash flows that the entity may be required to pay (eg written put options) and cash flows that the entity might choose to pay (eg purchased call options).

B35 An entity shall use its judgement to determine an appropriate number of time bands in preparing the maturity analysis required by paragraph 42E(e). For example, an entity might determine that the following maturity time bands are appropriate:

- (a) not later than one month;
- (b) later than one month and not later than three months;
- (c) later than three months and not later than six months;
- (d) later than six months and not later than one year;
- (e) later than one year and not later than three years;
- (f) later than three years and not later than five years; and
- (g) more than five years.

B36 If there is a range of possible maturities, the cash flows are included on the basis of the earliest date on which the entity can be required or is permitted to pay.

Qualitative information (paragraph 42E(f))

B37 The qualitative information required by paragraph 42E(f) includes a description of the derecognised financial assets and the nature and purpose of the continuing involvement retained after transferring those assets. It also includes a description of the risks to which an entity is exposed, including:

- (a) a description of how the entity manages the risk inherent in its continuing involvement in the derecognised financial assets.
- (b) whether the entity is required to bear losses before other parties, and the ranking and amounts of losses borne by parties whose interests rank lower than the entity's interest in the asset (ie its continuing involvement in the asset).
- (c) a description of any triggers associated with obligations to provide financial support or to repurchase a transferred financial asset.

Gain or loss on derecognition (paragraph 42G(a))

B38 Paragraph 42G(a) requires an entity to disclose the gain or loss on derecognition relating to financial assets in which the entity has continuing involvement. The entity shall disclose if a gain or loss on derecognition arose because the fair values of the components of the previously recognised asset (ie the interest in the asset derecognised and the interest retained by the entity) were different from the fair value of the previously recognised asset as a whole. In that situation, the entity also shall disclose whether the fair value measurements included significant inputs that were not based on observable market data, as described in paragraph 27A.

Supplementary information (paragraph 42H)

B39 The disclosures required in paragraphs 42D–42G may not be sufficient to meet the disclosure objectives in paragraph 42B. If this is the case, the entity shall disclose whatever additional information is necessary to meet the disclosure objectives. The entity shall decide, in the light of its circumstances, how much additional information it needs to provide to satisfy the information needs of users and how much emphasis it places on different aspects of the additional information. It is necessary to strike a balance between burdening financial statements with

excessive detail that may not assist users of financial statements and obscuring information as a result of too much aggregation.

Amendments to guidance on implementing SB-FRS 107 *Financial Instruments: Disclosures*

After paragraph IG40 a heading and paragraphs IG40A–IG40C are added.

Derecognition (paragraphs 42D and 42E)

IG40A The following examples illustrate some possible ways to meet the quantitative disclosure requirements in paragraphs 42D and 42E.

IG40B **Transferred financial assets that are not derecognised in their entirety**

Illustrating the application of paragraph 42D(d) and (e)

	Financial assets at fair value through profit or loss		Amortised cost		Fair value through other comprehensive income
	CU million		CU million		CU million
	Trading assets	Derivatives	Mortgages	Consumer loans	Equity investments
Carrying amount of assets	X	X	X	X	X
Carrying amount of associated liabilities	(X)	(X)	(X)	(X)	(X)
For those liabilities that have recourse only to the transferred assets:					
Fair value of assets	X	X	X	X	X
Fair value of associated Liabilities	(X)	(X)	(X)	(X)	(X)
Net position	X	X	X	X	X

Transferred financial assets that are derecognised in their entirety

Illustrating the application of paragraph 42E(a)–(d)

Type of continuing involvement	Cash outflows to repurchase transferred (derecognised) assets	Carrying amount of continuing involvement in statement of financial position			Fair value of continuing involvement		Maximum exposure to loss
	CU million	CU million			CU million		CU million
		Financial assets at fair value through profit or loss	Financial assets at fair value through comprehensive income	Financial liabilities at fair value through profit or loss	Assets	Liabilities	
Written put options	(X)			(X)		(X)	X
Purchased call options	(X)	X			X		X
Securities lending	(X)			(X)	X	(X)	X
Total		X		(X)	X	(X)	X

Illustrating the application of paragraph 42E(e)

Undiscounted cash flows to repurchase transferred assets								
Type of continuing involvement	Maturity of continuing involvement							
	Total	less than 1 month	1-3 months	3-6 months	6 months-1 year	1-3 years	3-5 years	more than 5 years
Written put options	X		X	X	X	X		
Purchased call options	X			X	X	X		X
Securities lending	X	X	X					

IG40C Transferred financial assets that are not derecognised in their entirety

Illustrating the application of paragraph 42D(d) and (e)

	Financial assets at fair value through profit or loss		Loans and receivables		Available-for-sale financial assets
	CU million		CU million		CU million
	Trading securities	Derivatives	Mortgages	Consumer loans	Equity investments
Carrying amount of assets	X	X	X	X	X
Carrying amount of associated liabilities	(X)	(X)	(X)	(X)	(X)
For those liabilities that have recourse only to the transferred assets:					
Fair value of assets	X	X	X	X	X
Fair value of associated liabilities	(X)	(X)	(X)	(X)	(X)
Net position	X	X	X	X	X

Transferred financial assets that are derecognised in their entirety

Illustrating the application of paragraph 42E(a)–(d)

Type of continuing involvement	Cash outflows to repurchase transferred (derecognised) assets	Carrying amount of continuing involvement in statement of financial position			Fair value of continuing involvement		Maximum exposure to loss
	CU million	CU million			CU million		CU million
		Held for trading	Available-for-sale financial assets	Financial liabilities at fair value through profit or loss	Assets	Liabilities	
Written put options	(X)			(X)		(X)	X
Purchased call options	(X)	X			X		X
Securities lending	(X)		X	(X)	X	(X)	X
Total		X	X	(X)	X	(X)	X

Illustrating the application of paragraph 42E(e)

Undiscounted cash flows to repurchase transferred assets								
Type of continuing involvement	Maturity of continuing involvement							
	Total	less than 1 month	1-3 months	3-6 months	6 months-1 year	1-3 years	3-5 years	more than 5 years
Written put options	X		X	X	X	X		
Purchased call options	X			X	X	X		X
Securities lending	X	X	X					

Amendment to SB-FRS 101 *First-time Adoption of International Financial Reporting Standards*

Paragraph 39F is added.

Effective date

39F *Disclosures—Transfers of Financial Assets* (Amendments to SB-FRS 107), issued in October 2010, added paragraph E4. An entity shall apply that amendment for annual periods beginning on or after 1 July 2011. Earlier application is permitted. If an entity applies the amendment for an earlier period, it shall disclose that fact.

Appendix E Short-term exemptions from SB-FRSs

Paragraph E4 and a footnote are added.

Disclosures about financial instruments

E4 A first-time adopter may apply the transitional provisions in paragraph 44M of SB-FRS 107. *

* Paragraph E4 was added as a consequence of *Disclosures—Transfers of Financial Assets* (Amendments to SB-FRS 107) issued in February 2011. To avoid the potential use of hindsight and to ensure that first-time adopters are not disadvantaged as compared with current SB-FRS preparers, first-time adopters should be permitted to use the same transition provisions permitted for existing preparers of financial statements prepared in accordance with SB-FRSs that are included in *Disclosures—Transfers of Financial Assets* (Amendments to SB-FRS 107).