Amendments to HKFRS 7 *Financial Instruments: Disclosures* – Disclosures – Transfers of Financial Assets

HKICPA Standard Setting Department Staff Summary (November 2010)

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The HKICPA Standard Setting Department welcomes your comments and feedback, which should be sent to commentletters@hkicpa.org.hk.

Introduction

1. Amendment to HKFRS 7 *Financial Instruments: Disclosures* – Disclosures – Transfers of Financial Assets 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 securitization of financial assets.

2. 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.

Reasons for issuing amendments to HKFRS 7

3. The objective of the Hong Kong Institute of Certified Public Accountants (HKICPA) in issuing amendments to HKFRS 7 is to maintain international convergence arising from the issuance of amendments to IFRS 7 by the International Accounting Standards Board's (IASB).

4. HKFRS 7 currently requires an entity to disclose limited information on transfers of financial assets (principally for transferred assets which did not qualify for derecognition in their entirety). The amendments enhance existing required disclosures for transferred financial assets that are not derecognized, and require additional disclosures on an entity's continuing involvement in derecognized assets.

Main features of amendments

5. An entity that has transferred financial assets will be required to disclose information that enables users of its financial statements:

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

involvement in derecognized financial assets.

Entities must also provide additional disclosures if transfer activity is not evenly distributed in a reporting period (eg if transfer activity is concentrated around the end of reporting periods). This requirement addresses concerns over 'window-dressing' of the balance sheet.

Financial assets not derecognized in their entirety

6. For each class of transferred financial assets that are not derecognized in their entirety, the entity is required to disclose:

   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 to the associated liabilities has 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;

   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 then entity continues to recognise the assets to the extent of its 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.

Financial assets derecognized in their entirety but entity retains continuing involvement

7. For those financial assets that are derecognized in their entirety, but where the entity has a continuing involvement in them, the entity is required to disclose:

   a. The carrying amount and fair value 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 derecognized financial assets;

   b. The entity's estimate of the maximum exposure to loss and information showing how the maximum exposure is determined;

   c. The undiscounted cash outflows that would or may be required to repurchase derecognized financial assets or other amounts payable to the transferee in respect of the transferred assets, together with a maturity analysis of those cash flows;

   d. The gain or loss recognised at the date of transfer of the assets;

e. Income and expenses recognised, both in the reporting period and cumulatively, from the entity's continuing involvement;

f. Qualitative information that explains and supports the above-mentioned quantitative disclosures;

g. Further disclosures 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.

Other references on Amendments to IFRS 7

1. BDO HKFRS Update on amendments to financial instruments disclosures
http://www.bdo.com.hk/news_detail.php?id=147&refresh=1&time=20101018152121

2. Deloitte IFRS in Focus on disclosures about transfers of financial assets
http://www.iasplus.com/iasplus/1010transfers.pdf

3. Ernst & Young "Supplement to IFRS outlook" on new disclosures for derecognition of financial instruments
http://www.ey.com/Publication/vwLUAssets/Supplement_85_GL_IFRS/$File/Supplement_85_GL_IFRS.pdf

4. KPMG IFRS Briefing Sheet on Disclosures – Transfers of Financial Assets
http://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Newsletters/IFRS-Briefing-Sheet/Documents/IFRS-Briefing-Sheet-O-1010-216.pdf

5. PricewaterhouseCoopers HKFRS News on IASB enhances disclosures relating to transferred financial assets
http://www.pwchk.com/webmedia/doc/634251576704955327_hkfrs_news_nov2010.pdf

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