Federation of European Accountants
Fédération des Experts comptables Européens

3 August 2009

Sir David Tweedie
Chairman
International Accounting Standards Board
Cannon Street
GB – LONDON EC4M 6XH

E-mail: commentletters@iasb.org

Ref.: BAN/HvD/SS/LF/SR

Dear Sir David,

Re.: FEE Comments on IASB Exposure Draft *Derecognition – Proposed amendments to IAS 39 and IFRS 7*

FEE (the Federation of European Accountants) is pleased to provide you below with its comments on the IASB Exposure Draft *Derecognition – Proposed amendments to IAS 39 and IFRS 7* (the "ED").

As a founding organisation of EFRAG we have also contributed to the EFRAG consultation process by submitting on 24 July the FEE comments on EFRAG's Draft Comment Letter of 15 June 2009. EFRAG has issued its final comment letter on 31 July 2009. We have considered the EFRAG Final Comment Letter in our response and made reference to the EFRAG comments where relevant.

A summary of our positions is presented below, whereas the responses to the questions are included in the appendix to this letter:

The proposed approach to derecognition of financial assets

(i) Overall, in our opinion neither the proposed model nor the alternative model in its current form constitute a significant enough improvement to merit changing the current requirements and both create structuring opportunities.

(ii) A key weakness in the proposals is the derecognition of an asset even when the transferor retains substantial risks and rewards of that asset, e.g. the derecognition of repo transactions. We recommend that own benefits and exposure to risks be integrated into the control principle, since control without risks and rewards indicates rather an agency relationship than beneficiary control.

(iii) For similar reasons we are – like EFRAG – against the Alternative Approach being implemented at this time.

We appreciate that this model recognises only assets in respect of which future cash will flow to the entity and ensures that two entities with same cash flows will account for such asset consistently regardless whether one of them previously owned the transferred asset. However, it results in derecognition of assets if only small portion of the cash flows is transferred. Many of the detailed comments below on the ED may be equally applicable to the Alternative Approach.

(iv) We support EFRAG's call for a more comprehensive project on derecognition, addressing the conceptual level and aligning the derecognition model more closely to the asset definition.

(v) We have recommended at earlier stages that the IASB should first sort out its Conceptual Framework Project before progressing with individual standards, in particular where they address fundamental issues, in order to avoid inconsistencies. For example the IASB's Conceptual Framework Project puts great emphasis on the definitions of assets and liabilities without having a reasoned analysis for the purpose of a balance sheet (statement of financial position). This has related implications for recognition and derecognition. Agreement on the purpose of the balance sheet may give the opportunity to reduce complexity in financial reporting and reduce the multitude of different ways to recognise and derecognise assets and liabilities.

(vi) We agree with EFRAG that the IASB's work on derecognition should for the time being focus on crisis-related issues arising from the existing derecognition model. We agree with EFRAG's understanding that the main crisis-related issues arising from the existing derecognition model relate to disclosures. As previously indicated in several occasions to the IASCF and IASB, FEE is concerned about the IASB agenda setting and priorities in its work plan. We believe that the IASCF should submit the IASB work plan to an annual public consultation process. Completion of such a public consultation would also assist in getting the priorities right and may help to address the problem of heaviness of the current agenda. Finally, before issues are added to the agenda, a needs analysis, including an initial cost/benefit analysis, should be carried out to demonstrate that there is a genuine need for a new or revised standard in areas not already covered by an existing standard or interpretation. The current financial and economic crises require a reconsideration of priorities and timing of current and already planned projects, such as the project on derecognition.

(vii) The current model seems to work reasonably well (i.e. it is well understood and consistently applied) and there seems to be no urgent reason for changing the current model other than US convergence driven considerations and the complexities of the current continuing involvement solution. Instruments that are complex in nature require certain complexity in reporting in order to give a fair presentation of the instruments.

(viii) Regarding the objective of achieving convergence, we reiterate FEE's views that only genuine improvements to financial reporting should be considered and although a level playing field between IFRS and US GAAP is important, this risks driving global financial reporting towards the lowest common denominator. FEE supports the principle of seeking convergence, provided that this leads to higher quality accounting solutions and goes where needed beyond existing standards.

(ix) Considering the above issues and the pressure from the policy-makers and the banking industry to ensure fair competition, we believe it is fundamental that IASB and FASB work together on the new derecognition project so that comments from both exposure drafts are considered before a new derecognition standard is issued by any of the two key standard setters.

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(x) We would also appreciate to get a better understanding how the derecognition project is envisaged to fit with the three stage revision of IAS 39. Furthermore, the outcome of the proposals must also be consistent with the proposed standard on consolidation.

(xi) Our observations and comments below are provided, based on the assumption that IASB will go forward with the proposed amendments despite our recommendation not to continue the project on the proposed basis.

Comparison with existing IAS 39 model

(xii) The ED allows for derecognition of items that the current model would not allow but combines the derecognition with detailed disclosures. The new control model may have a significant impact on the results of financial institutions; i.e. by using only the definition of control (particularly if narrowly defined as the ability of transferee to sell the transferred assets rather then considering whether the transferor's control exists) to determine whether assets should be derecognised.

Control versus risk and rewards

(xiii) The eventual standard should be principles-based but should not focus on control in isolation. We support the principle of "control for own benefits", which will need to incorporate the "risks and rewards" or substance over form as an integral part of this principle. If the transferor has not retained some risks and rewards, he exercises the control only as an agent. On the other hand, if he did not pass any risks and rewards, he retains in substance also the control.

(xiv) The fundamental question of what is an asset (or liability) and whether or not you have an asset, needs to be considered in conjunction with the purpose of the balance sheet (as detailed in (v)), to determine whether it should be derecognised or not. We are concerned that the outcome of the proposals will not be consistent with the substance of transactions and asset definition. Therefore, we support the principle of control in a broader sense more consistent with that used in the IASB Exposure Draft on Consolidated Financial Statements, rather than through the narrowly defined rule of transferee's ability to sell.

(xv) On the one hand, the proposed model will result in more financial instruments remaining on the balance sheet than under the present model, where they would be derecognised (for example, factoring and securitisation), and on the other hand in instruments that will be derecognised which remain on the balance sheet under the current model (for example, repo transactions). This is fundamentally changing the 'landscape' and will result in a different picture of the balance sheet with, in our view, inconsistent and counterintuitive results and increased restructuring possibilities. Moreover, the resulting standard should not be drafted solely as an anti-abuse measure.

Need for a Disclosure Framework

(xvi) The balance sheet and income statement are the primary financial statements. In our opinion, note disclosure is not the same as showing elements on the face of the balance sheet. It can be questioned if it is appropriate in the current crisis climate to make derecognition "easier". In a way this is counterintuitive since one may expect more severe derecognition requirements. We share EFRAG's concerns about the extensive disclosures and would prefer a more principle-based approach focused on disclosure of significant retained interest in derecognised assets which affect or might affect entity's position, performance and/or cash-flows.

(xvii) In our view, a fundamental concern regarding the excessive disclosure proposals in this ED (and in general in other projects) is that there is no disclosure framework on which to base the decision of whether a particular disclosure should be required or not. A separate project that the IASB should consider in the medium term is the development of a disclosure framework with clear criteria and principles to be applied to decide on whether disclosure amendments are appropriate.

Other observations

(xviii) The proposed and alternative models need to be further investigated for tainting implications (HTM and repo transactions). If the proposed narrowly defined control rules are retained, the tradeable debt securities categorised as held-to-maturity commonly used in repo transactions would cause tainting of the HTM category in contrast with same transactions using less tradeable instruments. Our comment should be seen in the context of our earlier comment (x) concerning consistency with other standards and projects.

Our responses to the questions in the Invitation to comment of the ED are included as an Appendix to this letter.

For further information on this letter, please contact Ms. Saskia Slomp, Technical Director.

Yours sincerely,

Hans van Damme
President

Appendix - Comments and responses to the questions in the Invitation to comment of the IASB Exposure Draft *Derecognition – Proposed amendments to IAS 39 and IFRS 7*

Question 1—Assessment of 'the Asset' and 'continuing involvement' at reporting entity level

Do you agree that the determination of the item (ie the Asset) to be evaluated for derecognition and the assessment of continuing involvement should be made at the level of the reporting entity (see paragraphs 15A, AG37A and AG47A)? If not, why? What would you propose instead, and why?

(1) We agree with EFRAG and with the proposal that the determination of the item (i.e. the Asset) to be evaluated for derecognition and the assessment of continuing involvement, if that concept is retained in the final standard, should be made at the level of the reporting entity.

Question 2—Determination of 'the Asset' to be assessed for derecognition

Do you agree with the criteria proposed in paragraph 16A for what qualifies as the item (ie the Asset) to be assessed for derecognition? If not, why? What criteria would you propose instead, and why?

(Note: The criteria proposed in paragraph 16A are the same as those in IAS 39.)

(2) Like EFRAG, FEE does not support significant changes being made to the derecognition approach in existing standards unless such change is needed to address a crisis-related issue. We also refer to our observations on the Conceptual Framework and the purpose of the balance sheet (see paragraphs (iv) to (vi) of our general observations). Below we present our detailed comments on the asset definition.

<u>Proposed changes in the area of the definition of the asset</u>

INTEREST RATE SWAPS

(3) We agree with the concerns expressed by EFRAG in paragraphs 16 and 17 of its final comment letter in relation to paragraph 16A of the ED and paragraph AG41A of the proposed guidance and the need for clarification on the treatment of interest rate swaps.

GROUPS OF FINANCIAL ASSETS

(4) We agree with the concerns expressed by EFRAG in paragraphs 18 to 20 of its final comment letter on groups of (similar) financial assets and the need for clarification. We are concerned about creating opportunities to "structure around" other parts of the derecognition model. We agree with EFRAG that, if this is an intentional change to the existing requirements, it is a change that needs to be explored further.

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(5) The proposed application guidance (AG42A) specifies that, for a transfer of a group of financial assets, "the assets shall be evaluated for derecognition as a group to the extent that none of the assets in the group is an instrument that can be an asset or liability over its life". We note that this is in contrast with the current IAS 39 requirements, where it is specified that the assets have to be "similar" to be evaluated for recognition. The word "similar" is no longer in the proposed guidance and the application of this part of the new requirements might be difficult. Clarification is needed on how to determine the extent that none of the assets in the group is an instrument that can be an asset or liability over its life.

THE PERFORMANCE OF THE PART RETAINED NOT DEPENDING ON THE PERFORMANCE OF THE PART TRANSFERRED

(6) We agree with EFRAG that the wording in paragraph 16A of the ED i.e. "the performance of the part retained does not depend on the performance of the part transferred and vice-versa" constitutes a new criterion that requires further examination and support EFRAG's request for clarification.

A MORE COMPREHENSIVE PIECE OF WORK ON THIS ASPECT OF THE DERECOGNITION MODEL WOULD BE WELCOME

(7) We refer to our general observations and share EFRAG's call on the IASB to continue its work on a robust principles-based approach on the derecognition requirements at a more fundamental and conceptual level. We in particular refer to our comments on the Conceptual Framework in the general observations paragraph (v).

Question 3—Definition of 'transfer'

Do you agree with the definition of a transfer proposed in paragraph 9? If not, why? How would you propose to amend the definition instead, and why?

(8) The proposed definition of "transfer" is broader than the existing definition. However, we are, like EFRAG, not aware that the existing definition creates any crisis-related weaknesses. We also refer to other general observations and share EFRAG's concerns that:

- the proposed amendment may not simplify application of the derecognition requirements;
- in a time of crisis broadening the definition may not be appropriate, to the extent the proposed amendment results in increased derecognition;
- more emphasis will be placed on the derecognition test.

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(9) In particular, we think that the provision of a collateral (specifically quoted in the proposed definition as falling within the scope) should not be included, since collateral is provided as a credit enhancement of a borrowing in line with the usual current business models of many financial institutions. In that respect we propose that linked transactions are considered as substantially being one transaction for the definition of "transfer". This would result in a situation where transactions in which the transferred or substantially same asset is required to be returned should not lead to derecognition and would not meet the transfer definition.

Question 4—Determination of 'continuing involvement'

Do you agree with the 'continuing involvement' filter proposed in paragraph 17A(b), and also the exceptions made to 'continuing involvement' in paragraph 18A? If not, why? What would you propose instead, and why?

(10) We understand that the objective of the proposed "continuing involvement" filter is to clarify what is seen as "clear sales" from a control test. We agree with the consequences of the 'continuing involvement' filter as proposed in 17A(b) although conceptually this creates an additional filter to the control concept different from the concept of "control for own benefit".

(11) However, we have a concern with the proposed "continuing involvement" in 17A(c) in that the degree of "continuing involvement" is not taken into account.

By this we consider that it would be helpful to clarify in the case of "insignificant" continuing involvement in the Asset when the entity transfers it, the Asset qualifies for derecognition, as opposed to a situation in which there is significant "continuing involvement" where, in our view, it is open to question whether derecognition would apply. Additionally, please, see our comments to the transfer definition regarding repurchase transactions in our response to Question 3.

(12) Therefore, we share EFRAG's concern about downplaying the notion of risks and rewards and eliminating the "substantially all the risks and rewards retained" test and agree with EFRAG that if the transferor has retained substantially all the risks and rewards of ownership of the transferred asset, in principle it retains beneficial control and shall continue to recognise that asset. A clearer explanation of beneficial control may be a solution to our concerns.

(13) Permitting a degree of "continuing involvement" to be considered poses a practical challenge, in other words; how to decide what is significant and what is insignificant. We encourage the IASB to review this part of the proposal and consider the Framework asset definition as a principal guideline. See also our response to Question 5.

(14) Regarding the exceptions to 'continuing involvement' in paragraph 18A, we believe that these are needed and we acknowledge that they are missing in the current model.

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Eliminating the 'substantially all the risks and rewards retained' test

The question of the risks and rewards assessment

(15) We understand that the basis of the proposed approach is to look at the assets that an entity controls for its own benefit and, on the basis of what is an asset, determine what are the assets that belong to the entity to decide whether they should be derecognised or not. We favour to incorporate the risks and rewards into the beneficial ownership concept in line with the proposals presented in the IASB Exposure Draft on Consolidated Financial Statements.

(16) If the reason for not having risks and rewards as a part of the derecognition concept is that there is no explicit consideration of risks and rewards in the definition of an asset, it seems inconsistent to use the proposed conditions of "continuing involvement" and "practical ability", since these are also not referred to in the definition of an asset. We agree with EFRAG's observations in paragraphs 33 to 37 of its final letter.

The meaning of 'a continuing involvement'

(17) Consistently with our comments in paragraphs 15 and 16 we support the comments made by EFRAG in paragraphs 40 - 46, since the continuing involvement is the most troublesome concept in the current IAS 39 derecognition model and has no background in the asset definition or beneficial control concepts. Some of the specific items might be treated as a part of the explicit Application guidance which would ensure consistent application of the standard, however, the treatment of the repurchase transactions should be amended.

Question 5—'Practical ability to transfer for own benefit' test

Do you agree with the proposed 'practical ability to transfer' derecognition test in paragraph 17A(c)? If not, why? What would you propose instead, and why?

(Note: Other than the 'for the transferee's own benefit' supplement, the 'practical ability to transfer' test proposed in paragraph 17A(c) is the same as the control test in IAS 39.)

Do you agree with the 'for the transferee's own benefit' test proposed as part of the 'practical ability to transfer' test in paragraph 17A(c)? If not, why? What would you propose instead, and why?

(18) Like EFRAG, the proposed "practical ability to transfer" is one aspect of the proposals where we have particular concerns.

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(19) In particular, we have a concern that pass-through arrangements – in which economically the benefits of the cashflows are transferred but the legal title is kept - would always fail this test – although the retained asset would in most cases fail the framework asset definition and the control for own benefit criterion. In addition, if the intention of the proposals is that the filter in 17A(b) prevents pass-through arrangements from getting to 17A(c) on the basis that the entity transfers the asset and has no continuing involvement, in our view it remains unclear whether 17A(b) prevails over 17A(c). If this is the intention of the proposals it would be helpful to clarify explicitly in the standard that 17A(b) prevails.

(20) In a situation where all benefits are transferred to the transferee which has not the practical ability to sell but has to recognise the benefits through holding, derecognition would in our opinion be fully appropriate. In this relation we also agree with the views presented in paragraphs 48 to 50 of the EFRAG final comment letter.

<u>It is necessary to determine whether the transferee controls the asset</u>

(21) Like EFRAG, in our opinion one of the key issues is what are the criteria that should apply to determine whether an entity controls or not an asset in the case of 17A(c). The answer to this question might be to go back to the definition of an asset; i.e. if it continues to be an asset for the entity in line with that definition then it should not be derecognised. We think that the practical ability to transfer the asset for the transferee's own benefit is irrelevant in this context and a beneficial interest filter could help in determining the entity that should recognise the asset. Furthermore, we believe that entities with the same contractual rights and obligations should account for an asset consistently, irrespective of whether one of them previously owned the asset transferred.

<u>If the transferor has a continuing involvement in the asset, the transferee controls the asset only if it has a practical ability to transfer the asset for its own benefit</u>

(22) We support the practical concerns raised in paragraph 53 of the final EFRAG letter. An issue that results from the "practical ability to transfer the Asset for the transferee's own benefit" test is that it is not clear how the transferor can appropriately assess factors that are linked to the transferee. We query the relevance of the practical ability to transfer an asset from the perspective of the transferee to decide on the financial reporting of the transferor. Some of the factors that the proposal suggests to consider in assessing "practical ability to transfer" are difficult to apply in practice. These are in particular (i) the transferee's ability to obtain the full economic benefits of the Asset and (ii) economic constraints.

(23) The fact that an entity might have restrictions attached to an asset does not mean that the entity should not recognise the asset. For example, in the case of a loan with a restriction on sale to a third party, it would appear inappropriate not to recognise that loan. In our view, the same principle should apply in the case of any other asset.

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(24) In addition, it does not seem appropriate to conclude that, because the transferee might not have the practical ability to transfer the asset, the transferor should account for that asset where the majority of the risks and rewards have been transferred to the transferee and the transferor has some degree of continuing involvement (to the extent that it has still some of the risks and rewards) but not the majority.

<u>Emphasis on the notion of ‘actively traded in the market’</u>

(25) Like EFRAG, in our opinion the focus on whether an asset is readily obtainable or not (and for instance the resulting consideration of whether a market is illiquid or liquid) to determine the accounting of its transfer (whether it should be derecognised or not) is one of the troubling aspects of the proposal. This would effectively mean that a transfer of a highly liquid asset and a transfer of an illiquid asset would result in a different accounting treatment when in both cases the transactions would be economically similar if not the same. It does not appear appropriate to account for these two transactions in such a fundamentally different way. We agree that (i) whether the entity has an asset or not and (ii) whether there has been a transfer, are relevant questions to look at in determining whether or not to derecognise an asset.

Question 6—Accounting for retained interests

Do you agree with the proposed accounting (both recognition and measurement) for an interest retained in a financial asset or a group of financial assets in a transfer that qualifies for derecognition (for a retained interest in a financial asset or group of financial assets, see paragraph 21A; for an interest in a financial asset or group of financial assets retained indirectly through an entity, see paragraph 22A)? If not, why? What would you propose instead, and why?

(Note: The accounting for a retained interest in a financial asset or group of financial assets that is proposed in paragraph 21A is not a change from IAS 39. However, the guidance for an interest in a financial asset or group of financial assets retained indirectly through an entity as proposed in paragraph 22A is new.)

(26) We agree with the proposed focus on the concept of “retained interest” (i.e. if interest is retained when an asset is sold that this is recognised as a separate asset), as a simplification to the current model, and we also agree with the EFRAG comments in paragraphs 66 and 67.

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Question 7—Approach to derecognition of financial assets

Having gone through the steps/tests of the proposed approach to derecognition of financial assets (Questions 1–6), do you agree that the proposed approach as a whole should be established as the new approach for determining the derecognition of financial assets? If not, why? Do you believe that the alternative approach set out in the alternative views should be established as the new derecognition approach instead, and, if so, why? If not, why? What alternative approach would you propose instead, and why?

(27) We are not convinced that the proposed approach should be favoured to the alternative approach or whether any of the two in its current form represent an improvement.

Proposed approach to derecognition of financial assets

(28) We have like EFRAG significant reservations about the approach proposed in the ED.

(29) Overall, in our opinion the proposed model in its current form does not represent a significant enough improvement to change the current requirements.

(30) There is a key weakness in the proposals if it would result in the derecognition of an asset even if the transferor retains substantial risks and rewards of that asset. We would like to integrate own benefits and exposure to risks into the control principle in line with the control for own benefit notion.

The Alternative View

(31) The alternative approach is not presented with the same level of detail as the proposed approach so there is some lack of clarify to enable an appropriate understanding of how it would work in practice. It would be helpful to have more information about the alternative approach to enhance our understanding.

(32) We think that it would be important to ensure that any amendments as a result of the derecognition project be considered for implications on the Financial Instruments Measurement project.

(33) We agree with EFRAG that it may be worthwhile to consider and examine the Alternative Approach as a possible longer-term solution, since the Alternative Approach might create a better basis for a further solution. The Alternative Approach needs to be developed in that repos should be excluded from the transfer definition and that issues like the unit of account and the purpose of the balance sheet are to be resolved. We therefore support the EFRAG's comments set out in paragraphs 68 to 73 of its final comment letter.

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Question 8—Interaction between consolidation and derecognition

In December 2008, the Board issued an exposure draft ED 10 *Consolidated Financial Statements*. As noted in paragraphs BC28 and BC29, the Board believes that its proposed approach to derecognition of financial assets in this exposure draft is similar to the approach proposed in ED 10 (albeit derecognition is applied at the level of assets and liabilities, whereas consolidation is assessed at the entity level). Do you agree that the proposed derecognition and consolidation approaches are compatible? If not, why? Should the Board consider any other aspects of the proposed approaches to derecognition and consolidation before it finalises the exposure drafts? If so, which ones, and why? If the Board were to consider adopting the alternative approach, do you believe that that approach would be compatible with the proposed consolidation approach?

(34) There appears to be an inconsistency between the definition of control in ED 10 on consolidated financial statements, based on power and returns, compared to the definition of control in the ED on derecognition based on the ability to sell. We strongly prefer the derecognition model to be in line with the control principle in ED 10 on Consolidation and the Revenue Recognition Discussion Paper. (See also our general remarks in the covering letter and the additional observations in this letter).

Question 9—Derecognition of financial liabilities

Do you agree with the proposed amendments to the principle for derecognition of financial liabilities in paragraph 39A? If not, why? How would you propose to amend that principle instead, and why?

(35) We do not expect major difficulties with the proposed amendments to the principle for derecognition of financial liabilities in paragraph 39A. This approach reflects what is current practice - if anything perhaps it might be easier to understand the principles with these proposals - so in general we agree with these proposals. Saying that, we generally agree with the technical arguments presented in paragraphs 79 and 80 of the final EFRAG letter.

Question 10—Transition

Do you agree with the proposed amendments to the transition guidance in paragraphs 106 and 107? If not, why? How would you propose to amend that guidance instead, and why?

(36) Although we generally favour retrospective application of standards, in this specific case, considering the practical consequences, we agree with the proposals to apply the amendments prospectively. In particular we note that in any case it would provide an option to apply the amended requirements prospectively from a defined date in the past and we support this proposal.

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Question 11—Disclosures

Do you agree with the proposed amendments to IFRS 7? If not, why? How would you propose to amend those requirements instead, and why?

Transferred financial assets that are not derecognised

(37) We have no significant concerns with the proposed amendments to IFRS 7 for transferred assets that are not derecognised. We understand that the changes proposed are not so much where no derecognition takes place but the focus of the amendments proposed is on new disclosures for items that qualify for derecognition and in particular where the transferor has continued involvement after the transfer. See our response below to the second part of Question 11 under *Transferred financial assets that are derecognised.* However, as indicated in our covering letter, we would favour a more principle-based approach to the required disclosures.

Transferred financial assets that are derecognised

(38) Whether having new disclosure requirements under IFRS 7 would be appropriate or whether the new model should aim at recognising the effect of transactions on the balance-sheet is a relevant question. We refer to our general remarks that notes disclosure cannot adequately replace accounting for assets on the face of the balance sheet, notably in providing a full picture of the risks to the user.

(39) In our view, having additional disclosures would not resolve the fundamental concerns raised that are linked with the proposed concepts of “continuing involvement” and “practical ability to transfer”.

(40) This question is even more important in the light of the current crisis where there has been a demand (mainly from regulators and financial institutions) to amend the current requirements in order to improve the accounting of financial instruments at two levels: (i) by enhancing the disclosures so that there is a better understanding of the transactions affecting the entity’s performance; and (ii) preventing entities from derecognising instruments which have an impact on their financial position and hence the balance-sheet.

(41) Having said this, recognition are complementary and the question should rather be what should be the level of disclosures and the appropriate principle for derecognition. Perhaps one should think of another question such as what is the best way of communicating financial information in order to address this issue.

(42) A fundamental concern regarding the disclosure proposals in this project (and in general in other projects) is that there is no disclosure framework on which to base the decision of whether a particular disclosure should be required or not. A separate project that the IASB should consider in the medium term is the development of a framework with clear criteria and principles to be applied to decide on whether disclosure amendments are appropriate.

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(43) In general, the proposed disclosures appear excessive. A possible consequence of the proposals is that entities might end up having to keep two separate “books”; one to account for the effects of the on balance sheet items as result of having a new derecognition model and another to account for off-balance sheet items to comply with new disclosures. Those disclosures appear to be required only to “compensate” and cover for the resulting derecognition of some of the instruments currently required under IAS 39.