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July 30, 2009

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

Re: Exposure Draft – De-recognition – Proposed amendments to IAS 39 and IFRS 7

The Committee on Corporate Reporting (CCR) of the Financial Executive International Canada (FEI Canada) is writing to provide its response to the International Accounting Standards Board (IASB) Exposure Draft ("ED") ED/2009/3 *De-recognition - Proposed amendments to IAS 39 and IFRS 7.*

FEI Canada is the all-industry professional membership association for senior financial executives. With eleven chapters across Canada and more than 2,000 members, FEI Canada provides professional development, thought leadership and advocacy services to its members. The association membership, which consists of Chief Financial Officers, Audit Committee Directors and senior executives in the Finance, Controller, Treasury and Taxation functions, represents a significant number of Canada's leading and most influential corporations.

The Committee on Corporate Reporting (CCR) is one of two national advocacy committees of FEI Canada. CCR comprises more than 25 senior financial executives representing a broad cross-section of the FEI membership and of the Canadian economy who have volunteered their time, experience and knowledge to consider and recommend action on a range of issues related to accounting, corporate reporting and disclosure. In addition to advocacy, CCR is devoted to improving the awareness and educational implications of the issues it addresses, and is focused on continually improving the standards and regulations impacting corporate reporting.

In general, we are not in support of the approach proposed in the ED. As noted in our response, there are several areas where we believe the proposals do not improve the reporting both from an economic substance view and a practical application view. We are more supportive of the alternative view presented, however would like to see more background discussion related to that view before endorsing it without reservation.

We are in agreement with application of the de-recognition process being applied at the reporting entity level and with the prospective transitional approach as proposed.

In response to the specific questions in the ED we have the following comments:

Question 1—Assessment of 'the Asset' and 'continuing involvement' at reporting entity level
Do you agree that the determination of the item (i.e. the Asset) to be evaluated for de-recognition 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?

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CCR supports this approach; however any assessment of continuing involvement is subject to the comments in question 4.

Question 2—Determination of 'the Asset' to be assessed for de-recognition
Do you agree with the criteria proposed in paragraph 16A for what qualifies as the item (i.e. the Asset) to be assessed for de-recognition? If not, why? What criteria would you propose instead, and why?

CCR is not in agreement with the criteria proposed. We do not agree that parts or components of financial assets can only be defined in terms of the cash flow definitions included in the ED; either specific cash flows or a proportionate share of cash flows. There may be cases where 99% of the cash flows are transferred and beyond the reach and control of the transferor, yet if there is some minor variability in the retained 1% proportion, under the ED, the asset must be assessed from the whole. In this case an economic transfer of a bundle of rights and obligations, relating to the majority of cash flows of a financial asset, has occurred which may not qualify for de-recognition. The ED appears to adopt an all or nothing approach by defining an arbitrary line with respect to the only type of cash flows allowed for the definition of "part of an asset". This does not reflect that cash flows can be identified and bundled in a variety of ways and may in practice then be transferred as such.

The approach outlined in the alternative view aligns better with our view of the asset to be considered.

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?

We do not agree with the definition of a transfer. It has been broadened to such an extent that sale and repurchase agreements along with securities lending agreements, which are in substance secured borrowings, would need to be de-recognized should other criteria in the ED be met. This accounting treatment would have a significant impact on the balance sheet resulting in the economic substance of the transaction not being reflected in the financial statements. If the IASB wishes to continue with the definition of a transfer as per the ED, some consideration should be given to specific exclusions related to sale and repurchase and securities lending agreements.

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?

CCR does not agree with the continuing involvement filter as proposed. Firstly, this concept resembles the "risks and rewards" test in the current IAS 39. The summary paragraphs to the ED state that the focus is on a single element (control). The addition of the continuing involvement criteria results in the continuation of a mixed concept model, rather than one just based on control.

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The definition of continuing involvement may also result in the retention of some of the practical interpretation issues experienced currently.

We believe that an insignificant degree of continuing involvement should not preclude de-recognition of a financial asset in the case where control has been relinquished. The ED tries to allow for this, though only to a partial degree, with the list of exceptions. However, our position would be that an exception list is not required with a control based test, such as proposed in the alternative view.

Question 5—'Practical ability to transfer for own benefit' test
Do you agree with the proposed 'practical ability to transfer' de-recognition 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?

CCR does not agree with the inclusion of the "practical ability to transfer for own benefit" test as we are not supportive of the continuing involvement filter to which this test is linked. We believe that the assessment of control should be the only definitive measure to determine if de-recognition is applicable. If the transferee's position is to remain within the de-recognition standard, then the IASB might consider the ability to "pledge or exchange" rather than the practical ability to transfer for own benefit. The ED suggests that transferring is the only way to determine if control has been assumed by the transferee and thus relinquished by the transferor. We are also concerned with the practical determination in assessing whether the transferee has in fact the ability to transfer for its own benefit.

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 de-recognition (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.)

CCR does agree with the proposed accounting treatment for a retained interest as proposed in paragraph 21A.

However, we do not support the proposed accounting for an interest retained indirectly per paragraph 22A. We agree with the views of the dissenters in that there may not be access to the required information.

Question 7—Approach to de-recognition of financial assets
Having gone through the steps/tests of the proposed approach to de-recognition 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 de-recognition 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 de-recognition approach instead, and, if so, why? If not, why? What alternative approach would you propose instead, and why?

As noted in our response to the earlier questions, CCR is not in support of the proposed approach as a whole for determining de-recognition of financial assets. We are in favour of the IASB's intent of moving to a principles based model that addresses the complexity in the current requirements. In our view this goal is not met in the ED. To summarize:

- The unit of account paragraph 16A proposes a definition that limits how assets may be considered as components in terms of the bundling of rights and obligations.
- The definition of transfer is so broad as to include transactions with the economic substance of secured borrowings.
- The inclusion of continuing involvement supports the continued application of a hybrid approach rather than following a control only approach.
- There is an over-reliance on information and understanding of the transferee's rights, obligations and accounting treatment, creating practical implementation difficulties.
- The inclusion of an asset on an entity's balance sheet where 99% of the cash flows are transferred may not result in an outcome that reflects the economic substance of the transaction and the financial position of the entity. This is a concern.

As noted throughout the response, the alternative view more appropriately reflects our views on the questions and issues asked. It is control based, would recognize the economic reality of the transaction, and also seems to be more practical in application. We do recognize that there is limited discussion in the ED on the alternative view relative to the proposed ED changes and further consideration may be required.

Question 8—Interaction between consolidation and de-recognition
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 de-recognition of financial assets in this exposure draft is similar to the approach proposed in ED 10 (albeit de-recognition is applied at the level of assets and liabilities, whereas consolidation is assessed at the entity level). Do you agree that the proposed de-recognition and consolidation approaches are compatible? If not, why? Should the Board consider any other aspects of the proposed approaches to de-recognition and consolidation before it finalizes 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?

CCR considers it important that both approaches come from a control point-of-view. Given that the current ED related to de-recognition contains the continued involvement filter, we do not believe that it is consistent with ED 10 and do believe that the alternative view may result in a more compatible approach.

Question 9—De-recognition of financial liabilities

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

While we are in general agreement with the principle for de-recognition of financial liabilities, we are concerned with the modification to the guidance provided in AG57 requiring the debtor to obtain a legal release. We believe this will be an onerous requirement in practical application.

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?

Yes, CCR is in agreement with the proposed amendments to the transition guidance and would encourage prospective treatment for IFRS first-time adopters after this or an amended standard comes into effect.

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?

CCR would like to see a balance between relevance and practicality of disclosure. While we are in agreement with improved disclosure that is truly meaningful to readers, this does not always equate to prescriptive checklists. In particular, the disclosure related to de-recognized assets may not be practical to achieve and in our view, is excessive. If the board believes that additional disclosure is required, it would be helpful to state the principle being addressed and the key risks to be identified. With an example provided, preparers could then focus on meeting the principle and risk disclosure requirements, rather than just following a mandatory checklist.

Yours very truly,

Victor Wells
Chair
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