Australian Government
Australian Accounting Standards Board

Post-implementation review of AASB 2010-6

14 December 2015

WHAT THE AASB DID

1 Following the consultation with stakeholders that was based on Exposure Draft ED 177 *Derecognition* published in April 2009, and following the issuance of the Amendments to IFRS 7, *Disclosures – Transfers of Financial Assets* by the International Accounting Standards Board (IASB) in October 2010, the AASB issued AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* in November 2010.

2. AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* made changes to:

   (a) AASB 1 *First-time Adoption of Australian Accounting Standards*; and

   (b) AASB 7 *Financial Instruments: Disclosures*.

3. Key amendments to AASB 7 included:

   (a) require disclosures on transferred financial assets that are either partially or fully derecognised (to capture off-balance sheet transactions). For example, pass-through transactions that qualify for derecognition under IAS 39 *Financial Instruments: Recognition and Measurement* would necessitate disclosures under the amendments to AASB 7. Before the amendments, AASB 7 only required disclosures on transferred financial assets that are not derecognised;

   (b) provide guidance identifying when an entity transfers all of, or a part of, a financial asset and when an entity retains continuing involvement in such a financial asset, in the body of the Amendments to AASB 7 [paragraphs 42A and 42C]; and

   (c) extend existing disclosure requirements in AASB 7 [paragraphs 42D to 42G].

4. The changes to AASB 1 and AASB 7 first applied to annual reporting periods beginning on or after 1 July 2011. Accordingly, preparers, auditors and users of financial statements have now had experience of applying the amendments to four annual reporting periods.

WHY THE AASB ISSUED AASB 2010-6

5. The issue of AASB 2010-6 has enabled Australia as a whole, and the entities that seek capital in international markets, to retain their IFRS-compliant status [IFRS 7 *Financial Instruments: Disclosures* is part of the suite of standards that make up International Financial Reporting Standards (IFRS)]. Retaining IFRS-compliance is consistent with the main objects of the AASB's enabling legislation and the AASB's functions.[1]

6. Overall, the AASB considered that the issue of AASB 2010-6 would be beneficial to the Australian economy, particularly in light of the overall benefits of retaining IFRS-compliant status.

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[1] *Australian Securities and Investments Commission Act 2001*, sections 224 and 227.

WHY THE AASB HAS CONDUCTED A POST-IMPLEMENTATION REVIEW

7. The AASB conducts post-implementation reviews (PIRs) of major standards that incorporate International Financial Reporting Standards (IFRS) issued by the IASB in line with the PIRs conducted by the IASB.

8. Although the IASB is not conducting a PIR of its financial asset transfer disclosure requirements, the AASB is undertaking a PIR because it did not prepare a Regulation Impact Statement (RIS) and did not obtain relief from preparing a RIS from the Office of Best Practice Regulation (OBPR) at the time of making AASB 2010-6.

BACKGROUND

9. Australia adopted IFRS in 2005 in accordance with the Financial Reporting Council (FRC) 2002 directive to the AASB. The main benefits of international adoption were identified at the time to include:

   (a) removing barriers to international capital flows by reducing differences in financial reporting requirements for participants in international capital markets and by increasing the understanding by foreign investors of Australian financial reports;

   (b) reducing financial reporting costs for Australian multinational companies and foreign companies operating in Australia and reporting elsewhere;

   (c) facilitating more meaningful comparisons of the financial performance and financial position of Australian and foreign public sector reporting entities; and

   (d) improving the quality of financial reporting in Australia to best international practice.[2]

10. In April 2005 the IASB decided to include a project on its research agenda to improve the derecognition requirements of IAS 39 *Financial Instruments: Recognition and Measurement*. Further, to enhance comparability, the IASB and the US Financial Accounting Standards Board (FASB) came to an agreement to include the project in the Memorandum of Understanding between the IASB and the FASB.

11. In response to the global financial crisis and the recommendations of some constituents, the IASB decided to move the project to its active agenda as part of its comprehensive review of off-balance sheet activities. As such, in April 2009, the IASB issued an exposure draft ED/2009/3 *Derecognition* (incorporated into AASB ED 177) which proposed improvements to the accounting derecognition requirements in IAS 39 and to the associated disclosure requirements in IFRS 7.

12. Subsequent to Exposure Draft ED/2009/3, on 7 October 2010, the IASB issued Amendments to IFRS 7, *Disclosures – Transfers of Financial Assets*.

13. The Amendments to IFRS 7 do not change the existing IAS 39 derecognition requirements, rather, they are aimed at providing additional information to users of financial statements regarding an entity’s risk exposures related to transfers of financial assets, particularly those that involve securitisation of financial assets, and the effect of those risks on an entity’s financial position.

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[2] Source: AASB Policy Statement PS 4 *International Convergence and Harmonisation Policy*, April 2002.

14. As Australia has adopted IFRS, the AASB must incorporate the Amendments to IFRS 7 into Australian accounting standards if Australian entities are to continue to be able to claim that their financial statements are prepared in accordance with IFRS (and Australian accounting standards. Accordingly, the AASB issued AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* in November 2010, after the IASB has issued its final amendments.

THE PROBLEM AASB 2010-6 SET OUT TO ADDRESS

15. Entities, particularly financial institutions, often dispose of some or all of a financial asset. AASB 2010-6 concerns disclosures about those transactions, which generally involve the derecognition (removal from the balance sheet) of some or all of the components of those financial assets. An example is a financial institution that lends money to borrowers and subsequently sells the loans to another party. It is important to have information about derecognition of financial assets because those transactions are sometimes not straightforward. A more complex example is a financial institution that lends money to borrowers and subsequently sells only the rights to the interest cash flows (but not the returns of principal) from the loans. In this case, the disclosures would help financial statement users understand the nature and impacts of the transaction.

16. Financial assets that are transferred and derecognised are not reflected in the financial statements. Disclosures about them can be useful to analysts and others trying to assess the impacts of such transfers on an entity's financial position and ability to generate future cash flows. Without such information, users of financial statements would have limited understanding of the relationship between transferred financial assets and any associated liabilities and can lack information about transferred assets that are derecognised in their entirety but the transferor retains some continuing involvement in the transferred assets. Continuing involvement would include, for example, a case of a financial institution that lends money to borrowers subsequently sells the returns of principal and interest from the loans, but retains the obligation to provide various services to the borrowers such as monthly statements.

17. As such, the Amendments require addition disclosure about financial assets that are transferred but not derecognised, in particular to:

    (a) inform users of the extent to which the economic benefits generated from assets of an entity cannot be used in an unrestricted manner;

    (b) provide information about liabilities that will be settled entirely from the proceeds received from the transferred assets, and thus identify liabilities for which the counterparties do not have claims on the assets of the entity in general; and

    (c) for those assets for which the underlying cash flows are committed to be used to satisfy related liabilities, provide information about the cash flow relationship between those assets and liabilities as a basis for understanding the net exposure of an entity following a transfer that does not result in derecognition.

18. In responding to the lack of information on transferred assets that are derecognised in their entirety when the transferor retains some continuing involvement in the transferred assets, the Amendments require entities to disclose information about the risks associated with the entity's continuing involvement in an asset, including the amount,

timing and uncertainty of the entity's future cash flows. Such information would allow users of the financial statements to assess and entity's financial asset transfer activities.

WHAT OPTIONS WERE CONSIDERED

19. Two policy options were considered: (1) making AASB 2010-6; or (2) to do nothing. Doing nothing would have had far-reaching consequences because it would have meant that Australia would no longer be an IFRS-compliant jurisdiction, which would have damaged the country's reputation as a place for investment.[3]

CONSULTATION

20. Financial asset transfers captured by the disclosure requirements are those conducted largely by banks and similar financial institutions, which is the same population identified in the RIS for AASB 9 *Financial Instruments*.[4]

21. AASB staff gathered information on the implementation of the financial asset transfer disclosure requirements from interviews with five individuals from various relevant entities, disclosures in annual financial statements that involved applying the requirements and also feedback received through general stakeholder engagement since 2011. AASB staff consider that its consultation and research approach on the PIR has been sufficient and fulfils the consultative requirements envisaged by the OBPR guidance.

WHAT STAKEHOLDERS TOLD US

22. The changes to AASB 1 made by AASB 2010-6 were incidental and did not affect any of the entities consulted. Those stakeholders also noted that it is unlikely to have affected any Australian entities, since most (if not all) entities with significant financial asset transfers would have first adopted AASB standards incorporating IFRS in 2005-2006, so that amendments to AASB 1 in 2011 would not be relevant.

23. The changes to AASB 7 made by AASB 2010-6 had a minor impact on some Australian banks.

24. Most major financial institutions were making various types of disclosures around asset transfers prior to the issue of AASB 2010-6 in any case. For example, the requirements address asset transfers associated with securitisations (such as packaging-up loans for sale), which were widely disclosed prior to the issue of AASB 2010-6.

25. The preparers of financial reports consulted by the AASB noted that, although there were costs involved in making additional disclosures as required, the costs were not significant. A number of financial institutions identified AASB 2010-6 in their financial statements as not having had a material impact.[5]

26. In general, the AASB's consultation identified that stakeholders consider the AASB 2010-6 disclosures to have met their objective on the basis that they are

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[3] See the AASB's Corporate Plan – especially section 3:
http://www.aasb.gov.au/admin/file/content102/c3/AASB_Corporate_Plan_2015-2016.pdf

[4] http://www.aasb.gov.au/admin/file/content105/c9/AASB9_RIS_12-14.pdf

[5] For example, Westpac, page 123.

appropriate and relevant and have resulted in greater comparability between different entities.

27. Some stakeholders noted that, regardless of whether the AASB had issued AASB 2010-6, they would have wanted to implement the disclosures to maintain uniformity of accounting policies within the group because:

    (a) they have overseas parents in IFRS jurisdictions and are required to provide the relevant information for the global consolidated financial statements; and/or

    (b) they have subsidiaries in jurisdictions that must apply IFRS and comply with the disclosure requirements.

28. The disclosure required by AASB 2010-6 is now part of established systems in most banks. The disclosure is part of internationally-accepted accounting standards that are used by investors and others in making resource allocation decisions, such as whether to lend to, or invest in, a particular entity.

29. The IASB's and the AASB's stakeholders are satisfied with the financial asset transfer disclosure required as a result of the IFRS 7 amendments and AASB 2010-6, and the disclosures remain appropriate.

CONCLUSIONS – NO CHANGES TO AASB 2010-6

30. The consultation undertaken as a result of the PIR indicates that the cost of preparing the additional disclosure required by AASB 2010-6 is minimal. Given that AASB 2010-6 has no recognition and measurement requirements (that is, AASB 2010-6 is a disclosure-only standard), the financial results in annual financial statements prepared by the affected entities were not impacted.

31. In conclusion, the AASB considers the AASB 2010-6 disclosure requirements remain appropriate and have efficiently and effectively achieved their original objective. AASB 2010-6 has helped to ensure that disclosures about financial asset transfers are more informative and comparable across entities and, therefore, more useful to users of financial statements of different entities. Accordingly, there are no plans to change the requirements.

Appendix 1: Regulatory burden measurement table

Average annual regulatory costs (from business as usual)				
Change in costs	Business	Community Organisations	Individuals	Total change in cost
Total, by sector	$42,948	$0	$0	$42,948

Appendix 2: Regulatory costings

Types and numbers of entities affected by AASB 2010-6

1. Although any entity preparing general purpose financial statements might have a financial asset transfer, in general, only financial institutions are expected to have regular and material financial asset transfers of any complexity. Accordingly, this costing focuses on the population of financial institutions.
2. The financial institution population includes Approved Deposit-taking Institutions, such as banks, credit unions and building societies.

Table 1: showing Australian financial institution numbers and assets

Category	Total assets for category	Number	Average assets
Banks	$4,356b	72	$60.5b
Building Societies	$21b	7	$3.0b
Credit Unions	$42b	75	$0.5b
Other ADIs	$3b	6	$0.5b
Total		160	

Source: Based on APRA Quarterly Authorised Deposit-taking Institution performance June 2015 (issued August 2015)

3. On the basis of outreach with a number of industry representatives, it is evident that the smaller financial institutions do not engage in regular and material financial asset transfers of any complexity. Accordingly, only the banks (72 entities) are analysed for this post-implementation review.

Transitional activities

4. Based on discussions with various constituents, the following table outlines estimates of the transitional costs involved in complying with the AASB 2010-6 disclosure requirements. The actual experience of an individual entity could be significantly different from the estimates below.

Transitional activity	Estimated effort/costs (very broadly approximated)
Internal training and education	Very little training was required. Those who needed to know about the disclosure requirements were already familiar with their recognition and measurement policies on asset transfers under AASB 139 *Financial Instruments: Recognition and Measurement*. Minimal labour hours were needed on awareness training and education, estimated at five hours per affected entity.

Transitional activity	Estimated effort/costs (very broadly approximated)
External advice	For the reasons noted above in the context of training, limited external advice was required, estimated a five hours per affected entity.
Systems changes	Entities did not need to need to replace or revamp their IT systems in any significant manner. Minimal labour hours were needed, estimated a five hours per affected entity Because the application of the requirements of AASB 2010-6 is an international (IFRS) solution, any off-the-shelf information designed for IFRS that an entity acquired included the capacity to generate the information needed to make the AASB 2010-6 disclosures.
Preparation of initial financial statements	Limited additional effort was required to prepare the first set of financial statements that included the AASB 2010-6 disclosures, estimated at five hours per affected entity.
Audit of initial financial statements	Limited additional audit effort was required in respect of the first set of financial statements that included the AASB 2010-6 disclosures, estimated at five hours per affected entity.

Recurring activities

5. Stakeholders reported no material recurring costs. Once the information system is geared to produce the relevant information and preparers and auditors have been educated about the disclosures, no further changes to systems or additional training has been needed in respect of AASB 2010-6.

Hourly labour rates

6. Banks and similar financial institutions each generally have a team of accounting and finance people who deal with financial reporting issues, including systems issues and the judgements and decision-making around implementing new and revised accounting requirements. Those people would normally occupy what might be called ‘middle management’ positions within their firms.
7. Internal labour rates for activities that are expected to be performed by the accounting and finance employees of the entity are based on an annual salary of $135,000. In accordance with the Regulatory Burden Measurement methodology, this salary amount is adjusted using a default multiplier of 1.75 to account for non-wage on costs and overhead costs. Consequently, for the purposes of this costing, the computed rate for

internal labour is $131 per hour (which assumes 4 weeks annual leave and a working week of 37.5 hours).

8. The AASB considers that an annual salary of $135,000 is a reasonable estimate of the internal salary of the relevant accounting staff member that will be closely involved in implementing and applying the expected loss model. Using data from the *2015 Hays Salary Guide*,[6] the AASB estimated the annual salary of $135,000 by blending various salaries based on role and responsibility (for example, financial controller, finance manager, group accountant, financial accountant and systems accountant), business size, the environment for salaries in the banking industry (and related financial services industries) and the location of the employee.

9. The costing assumes an hourly rate for external services of $400 for advice and auditing services. The $400 rate was the result of AASB staff consultation with accounting industry professionals to estimate rates that might be generally indicative of the rates charged for those activities. We note that the actual rates will vary based on many factors, including the length of the engagement, likelihood of future work and resource capacity factors. Furthermore, advice work and external audits may be priced at a fixed amount and subject to competitive tendering. Because the fixed price will be entity specific, for the purposes of this costing the incremental external advice and audit costs have been estimated based on hours of incremental activity required multiplied by an external hourly rate estimate.

Quantitative impact

10. The following table sets out the estimated implementation costs of AASB 2010-6.

Activity	Total ($)
Internal training and education	47,160
External advice	144,000
Systems changes	47,160
Preparation of financial statements	47,160
Audit of financial statements	144,000
	429,480

11. The AASB considers it is reasonable to spread the transition costs over 10 years on the assumption that the revised disclosures will be applied for a further 10 years or more. This is because most IFRS are not revised substantially in under 10 years. Accordingly, the change in regulatory burden measured in accordance with the Government's RBM framework is estimated at $42,948 on an annualised basis.

12. In making a decision about whether to issues a new or amended standard, the AASB also takes into account other factors, including the benefits to users of financial statements (such as investors) and the benefits to the Australian economy as a whole from maintaining compliance between Australian accounting standards and IFRS.

[6] https://www1.hays.com.au/salary/output/pdf2015/HaysSalaryGuide_2015-AU_bank.pdf