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

iasb@iasb.org

Brussels, 29 July 2009
B16/VH/JC/09-154

E-MAIL

EACB Comments on IASB Exposure Draft on Derecognition (proposed amendments to IAS 39 & IFRS 7).

Dear Sir/Madam,

On behalf of the European Association of Cooperative Banks, we appreciate the opportunity to present our view on the Derecognition Exposure Draft of the IASB issued in March 2009 and would like to provide you with the following brief comment.

The ED proposes fundamental changes to existing rules in a fast-track procedure instead of focusing on crisis related issues.

Furthermore, we believe that the current risk-and-rewards approach should remain unchanged, although a simplification of the continuing involvement regulations should be targeted.

To our experience the current model has worked fairly well in practice. Reporting entities have gotten used to making their Derecognition decisions by judging whether or not the risks and rewards have or have not been transferred.

The secondary question of the possession of control or a possible continuing involvement, in case risks and rewards may not well be allocated, has not often become relevant in practice. We have also significant reservation about those ED proposals for substituting the risk and rewards approach by a new continuing involvement test on question 4.

From banks perspectives that are actively involved in the repos-business, there are concerns that under the proposed model, many repo-transactions would be treated as sales rather than secured loans. Repo-transactions are a business area of fundamental importance and are used extensively for refinancing purposes in our day-by-day business environment. Should repos normally have to be derecognised in the future, it would in many cases be doubtful, if it would still be worthwhile economically to carry out these repo transactions at all. Therefore the proposed accounting for repos might weaken the refinancing capacity of financial institutions. This again could have a negative effect on their ability to provide credit for customers. That way the proposed accounting might make the crisis even worse instead of helping to overcome the problems. Furthermore, because of the derecognition and subsequent rerecognition of financial assets under a repo-agreement amounts would be recognised in profit or loss, if the carrying amount

EACB AISBL – Secretariat • Rue de l'Industrie 26-38 • B-1040 Brussels
Tel: (+32 2) 230 11 24 • Fax (+32 2) 230 06 49 • Enterprise 0896.081.149
www.eurocoopbanks.coop • e-mail : secretariat@eurocoopbanks.coop

and the repurchase price of the derecognised financial asset are different. This would cause economically unjustified volatility of the income statement that might irritate users of financial reports. Finally, for the duration of the repo agreement, the entity would have to recognise a forward, showing the difference between the purchase price of the asset under agreement and its current fair market value. Considering the large number of repo-transactions, this requirement would cause a lot of extra work and effort for reporting financial institutions within the repo market.

On the practical ability to transfer test and considering banks business practice, it would be rather unreasonable to expect the transferor to know enough about the transferee in all cases to be able to judge whether it has the practical ability to transfer the assets for its own benefit. We also have concern about the crucial role that the existence or non-existence of market activity would play under the proposals in order to decide, if the practical ability of transfer test is passed or not. The current crisis has demonstrated unmistakably that the determination of market activity may be extremely difficult in business practise.

Considering that IFRS 7.13(b) already requires risk related information for transferred assets that do not meet the Derecognition criteria, we e do not see an urgent need for additional requirements. On the proposals of the ED, we generally believe that the requirements for transferred assets that have been derecognised are much too extensive considering the proclaimed purpose of these disclosures.

Kind regards,

Hervé GUIDER
General Manager

Volker HEEGEMANN
Head of Unit