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

May 19, 2009

Dear Sir / Madam

Exposure Draft of Derecognition (proposed amendments to IAS 39 and IFRS 7)

The Special Task Force of the Financial Accounting Standards Committee (FASC) of Accounting Research and Development Foundation in Taiwan appreciates the opportunity to respond to the above exposure draft.

The enclosures are our comments on the exposure draft. The comments are those of the Special Task Force and do not necessarily represent official opinions of the FASC.

If you should have any question about our comments, please contact us. You may direct your inquiries either to myself (conrad@mail.ntpu.edu.tw) or to Ms. Wu (louise@ardf.org.tw).

Sincerely Yours,

Conrad C. Chang

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Enclosures－Response to Exposure Draft of Proposed Derecognition

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?

Response
We agree with the proposal to determine the item to be assessed for derecognition 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?

Response
We agree with the criteria proposed in paragraph 16A for what qualifies as the item (ie the Asset) to be assessed for derecognition.

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?

Response
We agree with the definition of a transfer proposed in paragraph 9.

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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?

Response
The exception of 'continuing involvement' in paragraph 18A(c) will permit the transferor to derecognize an asset transferred but can be reacquired according to forward, option and other contracts. This would lead the entity to recognize profit or loss. However, paragraph 50 of IAS 39 addresses an entity shall not reclassify any instrument into the fair value through profit or loss category after initial recognition. This provision can prevent an entity from recognizing profit by reclassifying. If paragraph 18A(c) is applied, an entity can recognize profit by transferring a financial asset and obtaining a fair value forward or option relating to the asset transferred. The provision of paragraph 50 of IAS 39 would be cracked.
Paragraph BC45 addresses the transferor in repurchasing the asset under the forward or option is in the same economic position as a third party. In fact, the transferor already has the contract and is more familiar with the asset than the others. So the transferor is not in the same economic position as a third party. In addition, if the transferor really does not intend to be involved continuatively, it does not have to be bothered to sign this kind of contract.

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?

Response
We do not have any special suggestion about this question.

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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.)

Response

We agree with the proposed accounting for retained interests.

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?

Response

The approach to derecognition of financial assets shall be stricter lest the entity manipulates profit or loss by transferring assets, but the transaction is not a true sale.

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

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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?

Response

In general, we agree that the proposed derecognition and consolidation approaches are compatible.

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?

Response

We think the accounting treatments between debtor and its counterparty, creditor, seem inconsistent. Paragraph 40A addresses that if an entity and a creditor agree to modify substantially the terms of a debt instrument (whether or not as a result of the financial difficulty of the entity), the entity derecognizes the associated financial liability and recognizes a new financial liability. However, paragraph AG84 of IAS 39 addresses that if the terms of a loan, receivable or held-to-maturity investment are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. Therefore, the gain recognized by the debtor will usually be greater than the loss recognized by the creditor. Please reconsider whether it is appropriate to maintain this difference.

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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?

Response

We do not have any special suggestion about this question.

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?

Response

We do not have any special suggestion about this question.

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