

**Statement of
Financial Accounting Standards
No. 33**

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Translated by

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Statement of Financial Accounting Standards No.33

**Accounting for Transfers of Financial Assets and
Extinguishments of Liabilities**

I Introduction

- (1) This Statement establishes accounting standards for transfers of financial assets, recognition and measurement of servicing assets and servicing liabilities, and extinguishment of financial liabilities.
- (2) Transactions of financial asset securitization are applicable to this Statement, but securitizations of nonfinancial assets are not within the scope of this Statement.

II Definitions

- (3) The definitions of the terms used in this Statement are as follows:
 - (a) Financial assets: (i) cash; (ii) evidence of an ownership interest in an entity; or (iii) a contractual right to receive cash or another financial instrument from another entity or to exchange other financial instruments with another entity under conditions that are potentially favourable to the entity.
 - (b) Financial liabilities: a contractual obligation (i) to deliver cash or another financial instrument to another entity or (ii) to exchange other financial instruments with another entity under the conditions that are potentially unfavourable to the entity.
 - (c) Transfer: the conveyance or delivery of a non-cash financial

asset to another entity other than the issuer of that financial asset. Thus, a transfer includes selling a receivable, putting it into a special purpose trust, or posting it as collateral, but it excludes the origination of that receivable, the settlement of that receivable, or the restructuring of that receivable into a security in a troubled debt restructuring.

- (d) **Transferor:** an entity that transfers an entire or a portion of a financial asset, or a group of financial assets that it controls to another entity. An originator is one of the transferors.
- (e) **Transferee:** an entity that receives an entire or a portion of a financial asset, or a group of financial assets from a transferor.
- (f) **Originator:** a financial institution or other institutions approved by the authority which transfers financial assets to a special purpose entity (commonly referred to a special purpose trust or a special purpose company), whereby the special purpose entity issues beneficial securities or asset-backed securities on the basis of such financial assets.
- (g) **Securitization:** the act that the originator entrusts the financial assets to a trustee or transfers the financial assets to a special purpose company, whereby the trustee or the special purpose company issues beneficial securities or asset-backed securities on the basis of such financial assets to raise funds.
- (h) **Special purpose entity (SPE):** an entity which is created to accomplish a well-defined and narrow objective (e.g. securitization of financial assets). Such a special purpose entity may take the form of a trust, company, etc.
- (i) **Special purpose trust (SPT):** the trust relationship established for the purpose of financial asset securitization.
- (j) **Special purpose company (SPC):** a limited-by-share company incorporated with the approval of the authority for the

purpose of engaging in the business of financial asset securitization.

- (k) **Beneficial interests:** rights to receive all or portions of specified cash inflows to a special purpose entity in accordance with the securitization contract, including: (i) senior or subordinated right to receive interest, principal, or other cash inflows; (ii) premiums due to guarantors; (iii) investor right to hold commercial paper obligations issued by a special purpose entity; or (iv) residual interests. Beneficial interests may be in the form of debt or equity securities, for example, beneficial securities, asset-backed securities, etc.
- (l) **Beneficial securities:** the document of title or certificate issued by the trustee of a special purpose trust in accordance with the financial asset trust securitization plan, evidencing the beneficiaries' interests in the trust property in terms of the principal, profits, interest, or other proceeds accrued therefrom.
- (m) **Asset-backed securities:** the document of title or certificate issued by the special purpose company in accordance with the financial asset securitization plan, evidencing the rights of the holders to the transferred assets.
- (n) **Derecognise:** the act to remove previously recognized assets or liabilities from the balance sheet.
- (o) **Servicing asset:** a contract to service financial assets under which the estimated future revenues from contractually specified servicing fees, late charges, and other ancillary revenues are expected to more than adequately compensate the servicer for performing the servicing.
- (p) **Servicing liability:** a contract to service financial assets under which the estimated future revenues from contractually specified servicing fees, late charges, and other ancillary

revenues are expected to less than adequately compensate the servicer for performing the servicing.

- (q) Servicer: an institution appointed by a trustee, or appointed or entrusted by the special purpose company to manage and dispose the trust property or transferred assets.
- (r) Adequate compensation: the amount of servicing benefits that would fairly compensate a substitute servicer should one be required, which includes the profit that would be demanded in the marketplace.
- (s) Stress test: the test which reassesses the value of financial instruments or investment portfolio in accordance with the possible changes of risk factors by scenarios or historical information. The value can be used as the reference to determine whether the entity could endure the changes of risk factors when it is exposed to unfavourable effects.

III Explanation

Derecognition of a Financial Asset

- (4) If a transferor has not lost control of a transferred asset, it should not derecognise the asset, for example:
 - (a) The transferor has the right to reacquire the transferred asset, unless either (i) the asset is readily obtainable in the market or (ii) the reacquisition price is fair value at the time of reacquisition;
 - (b) The transferor is both entitled and obligated to repurchase or redeem the transferred asset on terms that provide the transferee with a lender's return on the assets received in exchange for the transferred asset. A lender's return is one that is not materially different from that which could be obtained on a loan to the transferor that is fully secured by the

transferred asset; or

- (c) The asset transferred is not readily obtainable in the market and the transferor has retained the risks and returns of the transferred asset. If the transferee is able to resell the transferred asset through an unconditional put option, the transferor has not lost control of the transferred asset.
- (5) A transferred asset is not derecognised if the transferor has the right to repurchase the asset at a fixed price and the asset is not readily obtainable in the market, because the fixed price is not necessarily fair value at the time of reacquisition.
- (6) A transferor may be both entitled and obligated to repurchase or redeem a transferred asset by the following ways:
 - (a) a forward purchase contract;
 - (b) a call option held and a put option written with approximately the same strike price, or
 - (c) in other ways.

However, if the repurchase price is fair value at the time of repurchase, then neither (a) nor (b) above is sufficient to maintain effective control over a transferred asset.

- (7) A transferor generally has lost control of a transferred financial asset only if the transferee has the ability to obtain the benefits of the transferred asset. That ability is demonstrated, for example, if the transferee:
 - (a) is free either to sell or to pledge approximately the full fair value of the transferred asset; or
 - (b) is a special purpose entity, and either the special purpose entity itself or the holders of beneficial interests in that entity

have the ability to obtain substantially all of the benefits of the transferred asset.

- (8) Neither paragraph 4 nor paragraph 7 is considered in isolation. For example, a bank transfers a loan to another bank, but to preserve the relationship of the transferor bank with its customer, the acquiring bank is not allowed to sell or pledge the loan. Although it suggests that the transferee has not obtained control, in this instance the transfer is still a sale provided that the transferor does not have the right or ability to reacquire the transferred asset. In addition, a bank transfers a loan to another bank, and the acquiring bank is contractually allowed to sell or pledge the loan. If the transferred asset is not readily obtainable in the market and the transferee is able to resell the transferred asset through an unconditional put option, the transfer is not regarded as a sale.

Conditions That Constrain a Transferee

- (9) Many conditions that are imposed by transferor or non-transferor constrain a transferee from pledging or exchanging the transferred assets and, through that constraint, provide more than a trivial benefit to the transferor. For example, a provision in the transfer contract that prohibits selling or pledging a transferred loan receivable not only constrains the transferee but also provides the transferor with the more than trivial benefits of knowing who has the asset in order to repurchase the asset, and of being able to block the loan receivable into the hands of a competitor or someone that the loan customer might consider an undesirable creditor. Transferor-imposed constraints that narrowly limit timing or terms (for example, allowing a transferee to pledge only on the day assets are obtained or only on terms agreed with the transferor) also constrain the transferee and presumptively provide the transferor with more than trivial benefits.
- (10) However, some conditions do not constrain a transferee from pledging or exchanging the transferred asset and therefore do not preclude a transfer from being regarded as a sale. The following

conditions that presumptively would not constrain a transferee from pledging or exchanging the transferred asset include:

- (a) a requirement to obtain the transferor's permission to sell or pledge that is not unreasonable,
- (b) a prohibition on sale to the transferor's competitor if other potential willing buyers exist,
- (c) a regulatory limitation such as on the number or qualification of eligible transferees, and
- (d) illiquidity, for example, the absence of an active market.

Judgment is required to assess the significance of some conditions. For example, a prohibition on sale to the transferor's competitor would be a significant constraint if that competitor were the only potential willing buyer other than the transferor.

- (11) A condition imposed by a transferor that constrains the transferee presumptively provides more than a trivial benefit to the transferor. A condition not imposed by the transferor that constrains the transferee may provide more than a trivial benefit to the transferor. For example, if the transferor refrains from imposing its usual contractual constraint on a specific transferee because it knows an equivalent constraint is already imposed on the transferee by a third party, it presumptively benefits more than trivially from that constraint.

Proceeds from the Sale

- (12) When a transferor completes a transfer of financial assets that satisfies the conditions to be accounted for as a sale, the proceeds from the sale of financial assets may include cash, other new assets obtained and new liability incurred from the transfer, such as put options, call options, warranty obligations, forward contracts (for example, the delivery of additional receivables during the revolving

periods of some securitizations), swaps (for example, provisions that convert interest rates from fixed to variable), and servicing liabilities. Any new asset obtained that is not an interest in the transferred asset is part of the proceeds from the sale. Any new liability incurred, even if it is related to the transferred assets, is a reduction of the proceeds.

Retained Interests

- (13) Other interests in transferred assets that are not part of the proceeds of the transfer are retained interests over which the transferor has not relinquished control, and thus retained interests are not new assets acquired. Examples of retained interests include beneficial securities or asset-backed securities preserved by the transferor, servicing assets, and cash reserve accounts and residual interests in securitization trusts.

An enterprise should at the date of the transfer allocate the carrying amount between the assets sold, and the retained interests, based on their relative fair values.

Isolation of Transferred Assets in Securitizations

- (14) Whether a securitization carried out in one transfer or a series of transfers isolates the transferred assets beyond the reach of the transferor and its creditors or not depends on the overall structure of the securitization transaction. The factors needed to be considered include:
- (a) the method and extent of further involvement to protect investors from credit and interest rate risks,
 - (b) the availability of other assets held by the transferor for the settlement of obligations,
 - (c) the power of bankruptcy courts or other receivers when the transferor went bankrupt or was taken over.

Securitization

- (15) Financial assets transferred in securitizations usually include:
- (a) rights under automobile loans or other chattel secured loans, along with their respective security interests;
 - (b) rights under housing loans or other loans secured by real estate mortgage, along with their respective security interests;
 - (c) rights under leases, credit cards, account receivables, or other monetary rights;
 - (d) beneficial interests derived from the trust contract entered into by and between the originator and a trust company with regard to the assets set forth in the preceding three items; or
 - (e) other rights.
- (16) An originator of a typical securitization (the transferor) transfers a portfolio of financial assets to a special purpose entity. In "pass-through" and "pay-through" securitizations, receivables are transferred to the special purpose entity at the inception of the securitization, and no further transfers are made; all cash collections are paid to the holders of beneficial interests in the special purpose entity. In "revolving-period" securitizations, receivables are transferred at the inception of the securitization and also periodically thereafter for a defined period, referred to as the revolving period. During the revolving period, the special purpose entity uses most of the cash collections to purchase additional receivables from the transferor on prearranged terms.

Revolving-Period Securitizations

- (17) The value of the forward contract implicit in a revolving-period securitization arises from the difference between the agreed-upon rate of return to investors on their beneficial interests in the

securitization contract and the market rates of return on similar investments at valuation date. For example, if the agreed-upon annual rate of return to investors in a trust contract is 6 percent, and later market rates of return for those investments increased to 7 percent, the forward contract's value to the transferor (and burden to the investors) would approximate the present value of 1 percent of the amount of the investment for each year remaining in the revolving structure after the receivables already transferred have been collected. If a forward contract to sell receivables is entered into at the market rate, its value at inception may be zero. Changes in the fair value of the forward contract are likely to be greater if the investors receive a fixed rate than if the investors receive a rate that varies based on changes in market rates.

- (18) Revolving-period securitizations may use either a discrete trust, used for a single securitization, or a master trust, used for many securitizations. To achieve another securitization using an existing master trust, a transferor first should transfer additional receivables to the master trust and then sell additional ownership interests in the trust to investors. Adding receivables to a master trust, in itself, is neither a sale nor a secured borrowing, because that transfer only increases the transferor's beneficial interest in the trust's assets. A sale or secured borrowing does not occur until the transferor receives consideration other than beneficial interests in the transferred assets. As the transferor receives cash, either transfers that in essence conveys additional receivables to a special purpose entity to replace previously transferred receivables that have been collected or sales of beneficial interests to outside investors, are transfers in exchange for consideration other than beneficial interests in the transferred assets and thus are regarded as sales or as secured borrowings.

Servicing Assets and Servicing Liabilities

- (19) Servicing of mortgage loans, credit card receivables, or other financial assets usually includes:
- (a) collecting principal, interest, and escrow payments from

borrowers;

- (b) paying taxes and insurance from escrowed funds;
- (c) monitoring delinquencies;
- (d) executing foreclosure;
- (e) temporarily investing funds pending distribution;
- (f) remitting fees to guarantors, trustees, and others providing services; and
- (g) accounting for and remitting principal and interest payments to the holders of beneficial interests in the financial assets.

Servicing is inherent in all financial assets, but it becomes a distinct asset or liability only when contractually separated from the underlying assets by

- (a) sale or securitization of the assets with servicing retained; or
- (b) separate purchase or assumption of the servicing.
- (20) A servicer of financial assets receives the benefits of servicing, usually including revenues from contractually specified servicing fees, late charges, and other ancillary sources from escrowed funds before payback. Each servicing contract usually results in a servicing asset or servicing liability. Typically, the benefits of servicing are expected to be more than adequate compensation to a servicer for performing the servicing, and the service contract results in a servicing asset, or vice versa. However, if the external circumstances change, a servicing asset may become a servicing liability, or vice versa. If the benefits of servicing are just adequate to compensate the servicer for its servicing responsibilities, the initial measure for servicing contract may be zero.

Secured Borrowings and Collateral

- (21) A debtor may provide certain assets to a lender to serve as collateral for its obligation under a borrowing. An obligor under other kinds of current or potential obligations of some contracts (for example, interest rate swaps) also may provide certain assets to serve as collateral. A lender sometimes is permitted to sell (or transfer) the collateral, thus the accounting for the collateral depends on whether the lender has the right to sell or repledge the collateral and on whether the debtor has defaulted. Some transfers are entitled as sales, but they essentially should account for as secured borrowings.

Derecognition of a Financial Liability

- (22) The condition in extinguishment of a financial liability is met when either:
- (a) the debtor discharges the liability by paying the creditor, normally with cash, other financial assets, goods, or services; or
 - (b) the debtor is legally released from primary responsibility for the liability either by process of law or by negotiation with the creditor.
- (23) Payment to a third party including a trust does not by itself relieve the debtor of its primary obligation to the creditor, in the absence of legal release.
- (24) While a debtor is legally released from primary responsibility for a liability by transferring noncash financial assets, the debtor is able to derecognise the liability. However, if the derecognition criteria are not met for the assets transferred, the transferred assets are not permitted to derecognise, and the transferor should recognize a new liability relating to the transferred assets that may be equal to the derecognised liability.

IV Accounting Standards

Derecognition of a Financial Asset

- (25) An enterprise should derecognise a financial asset or a portion of a financial asset, when the enterprise loses control of the contractual rights that comprise the financial asset or a portion of the financial asset. An enterprise loses such control if it realizes the rights to benefits specified in the contract, the rights expire, or the enterprise surrenders those rights.

If a financial asset is transferred but the transfer does not satisfy the conditions for loss of control, the transferor accounts for the transaction as a secured borrowing. In that case, the transferor's right to reacquire the asset is not a derivative financial instrument.

- (26) A transfer of financial assets or a portion of a financial asset in which the transferor surrenders control over those financial assets shall be regarded as a sale to the extent that consideration (other than beneficial interests) in the transferred assets is received in exchange. The transferor has surrendered control over transferred assets if all of the following conditions are met:
- (a) The transferred assets have been isolated from the transferor. That is, they are put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership.
 - (b) Each transferee (or, if the transferee is a special purpose entity, each holder of its beneficial interests has the right to pledge or exchange the beneficial interests) has the right to pledge or exchange the transferred assets, and no condition constrains the transferee (or holder) from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor.
 - (c) The transferor does not maintain effective control over the

transferred assets through either:

- (ii) an agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity, or
- (iii) the ability to unilaterally cause the holder to return specific assets.

The transferor should follow the rules specified in paragraph 4 to 11 and 14 in deciding whether it has surrendered the control over the transferred assets.

- (27) Determining whether an enterprise has lost control of a financial asset depends on both the enterprise's position (transferor) and that of the transferee. Consequently, if the position of either party indicates that the transferor has retained control, the transferor should not derecognise the financial asset and the transferee should not recognise the transferred asset as its asset.
- (28) If an enterprise sells entire financial assets, the enterprise should recognize a gain or loss in the period for the difference between:
 - (a) the proceeds from the sale, that is the amount of cash and the fair value of any new financial asset acquired, minus the fair value of any new financial liability assumed; and
 - (b) the carrying amount of the financial asset sold plus or minus any adjustment that had previously been reported in equity to reflect the fair value of that asset.
- (29) If an enterprise sells a part of a financial asset while retaining other part, the carrying amount of the financial asset should be allocated between the part sold and the part retained based on their relative fair values on the date of sale. Once the fair value of the part of the retained asset cannot be measured reliably, that retained asset should be recorded at zero. The entire carrying amount of the

financial asset should be attributed to the party sold, and a gain or loss for the period should be recognized equal to the difference between:

- (a) the proceeds of the part of the financial asset sold; and
 - (b) the carrying amount of the part of the financial asset sold plus or minus any adjustment that had previously been reported in equity to reflect the fair value of that asset.
- (30) If an enterprise sells entire financial assets and creates a new financial asset or assumes a new financial liability, the enterprise should recognize a gain or loss in the period for the difference between:
 - (a) the proceeds from the sale; and
 - (b) the carrying amount of the financial asset sold plus or minus any adjustment that had previously been reported in equity to reflect the fair value of that asset.
 - (31) If the fair value of a new asset acquired by an enterprise cannot be measured reliably, its initial carrying amount should be zero, and a gain or loss for the period should be recognized equal to the difference between:
 - (a) the proceeds from the sale; and
 - (b) the carrying amount of the derecognized financial asset plus or minus any adjustment that had previously been reported in equity to reflect the fair value of that asset.
 - (32) If the fair value of a new liability assumed by an enterprise cannot be measured reliably, its initial carrying amount should be such that no gain is recognized on the transaction, and if the Statement of Financial Accounting Standards No.9, *Contingencies and Subsequent Events*, requires recognition of a provision, a loss should be

recognized.

(33) If an enterprise recognizes a guarantee as a liability under this Statement, it should continue to recognize the guarantee as a liability and measure at its fair value. If the fair value cannot be reliably measured, the enterprise should measure at the greater of the following (a) or (b):

- (a) original recorded amount; or
- (b) any provision required by the Statement of Financial Accounting Standards No.9: *Contingencies and Subsequent Events*.

If the guarantee involves a large population of items, the guarantee should be measured by weighting all possible outcomes by their associated probabilities.

Securitization

(34) Pass-through, pay-through, and revolving-period securitizations that meet the criteria in paragraph 25 and 26 of this Statement should be regarded as a sale. All financial assets obtained or retained and liabilities incurred by the originator shall be recognized and measured as provided in paragraph 28 to 33.

(35) Gain or loss recognition for receivables sold in revolving-period securitization is limited to receivables that exist and have been sold. Recognition of servicing assets or liabilities for revolving-period receivables is also limited to the servicing for the receivables that exist and have been transferred. As new receivables are sold, rights or obligations to service them become new servicing assets or liabilities and are recognized.

Recognition and Measurement of Servicing Assets and Servicing Liabilities

(36) An enterprise that services financial assets and creates a servicing asset or servicing liability shall account for as follows:

- (a) Report servicing assets separately from servicing liabilities in financial statements;
- (b) Measure servicing assets retained in a sale or securitization of the financial assets at their allocated carrying amount based on relative fair values on the date of sale of securitization, but initially measure servicing liabilities undertaken in a sale or securitization of the financial assets at fair value;
- (c) Initially measure servicing assets purchased or servicing liabilities assumed at their purchase price which is regarded as fair value;
- (d) Account for financial assets of interest-only strips separately from servicing assets. Financial assets of interest-only strips are rights to receive some of future interest income from the transferred assets that exceeds contractually specified servicing fees;
- (e) Amortise servicing assets by applying the straight-line method over the servicing period;
- (f) Subsequently evaluate impairment of servicing assets as follows:
 - (i) Stratify servicing assets based on the predominant risk characteristics of the underlying financial assets. Those risk characteristics may include financial asset type of mortgage loans (for example, financial asset type refers to the various civil or government guaranteed or insured mortgage loans and adjustable-rate or fixed-rate mortgage loans), size, interest rate, date of origination, term, and geographic location;

- (ii) Compare the carrying amount of servicing assets with their fair value by the stratum, and recognize “*Impairment Loss - Servicing Assets*” and “*Allowance for Impairment Loss*” separately for an individual stratum. The fair value of servicing assets that have not been recognized shall not be used in the evaluation of impairment; and
- (iii) Recognise the recovery gain of those accounts that have been recognized “*Impairment Loss - Servicing Assets*” to the extent of the credit balance of “*Allowance for Impairment Loss*”, if the market value recovers.
- (g) Amortize servicing liabilities by applying the straight-line method over the servicing period. However, if subsequent events have increased the fair value of the liabilities above the carrying amount, for example, because of significant changes in the amount or timing of actual or expected future cash flows from the cash flows previously projected, the servicer shall revise its earlier estimates and recognize the increased obligation as a loss.

Special Purpose Entities and Consolidated Financial Statement

- (37) When an enterprise controls a special purpose entity, the enterprise shall prepare consolidated financial statements including the special purpose entity.

Secured Borrowings and Collateral

- (38) The accounting for noncash collateral by the debtor and the creditor depends on whether the creditor has the right to sell or repledge the collateral and on whether the debtor has defaulted, as follows:
 - (a) If the creditor (transferee) has the right by contract or custom to sell or repledge the collateral, then the debtor (transferor)

shall reclassify that asset in its balance sheet and report that asset separately from other assets not collateral.

- (b) If the creditor (transferee) sells collateral, it shall recognize the proceeds from the sale and its obligation to return the collateral. The sale of the collateral is a transfer subject to the provisions of this Statement.
- (c) If the debtor (transferor) defaults under the terms of the secured contract and is no longer entitled to redeem the pledged asset, it shall derecognize the pledged asset. The creditor (transferee) shall recognize the collateral as its asset initially measured at fair value or, if it has already sold the collateral, derecognize its obligation to return the collateral.
- (d) Except as provided in above (c), the debtor (transferor) shall continue to carry the collateral as its asset, and the creditor (transferee) shall not recognize the pledged asset as its asset.

Derecognition of a Financial Liability

- (39) An enterprise should derecognize an entire or a part of a financial liability when the obligation specified in the contract is discharged, cancelled, or it expires.
- (40) The difference between the carrying amount of a financial liability transferred or extinguished (including related unamortised costs) and the amount paid for it should be included in net profit or loss for the period.
- (41) A debtor is released from its present obligation paid by a third party, but the debtor still assumes a guarantee obligation to pay. In this circumstance the debtor should:
 - (a) recognize a new financial liability based on the fair value of its obligation for the guarantee; and

- (b) recognize a gain or loss based on the difference between (i) and (ii):
 - (i) any proceeds paid - that is, cash or other assets transferred, plus the fair value of the new financial liability incurred, and minus the fair value of the new financial asset obtained.
 - (ii) the carrying amount of the original financial liability (including any related unamortized costs).
- (42) If an enterprise transfers one part of a financial liability to other enterprises while retaining the other part, or if an enterprise transfers an entire financial liability and in doing so creates a new financial asset or assumes a new financial liability, the enterprise should account for the transaction in the manner set out in paragraphs 28-33.

Disclosures

- (43) An entity shall disclose the following items for collateral:
- (a) If the entity has entered into repurchase agreements or securities lending transactions, its policy for requiring collateral or other security;
 - (b) If the entity has pledged any of its assets as collateral that are not reclassified and separately reported in the balance sheet pursuant to paragraph 38(a), the carrying amount and classification of those assets as of the date of the latest balance sheet presented; and
 - (c) If the entity has accepted collateral that it is permitted by contract or custom to sell or repledge, the fair value as of the date of each balance sheet presented of that collateral and of the portion of that collateral that it has sold or repledged, and information about the sources and uses of that collateral.

- (44) If it is impracticable to estimate the fair value of new assets obtained or new liabilities incurred in transfers of financial assets during the period presented, a description of those items and the reasons.
- (45) An entity shall disclose the following items for servicing assets and servicing liabilities:
 - (a) The amounts of servicing assets or liabilities recognized and amortized during the period presented;
 - (b) The fair value of recognized servicing assets and liabilities for which it is practicable to estimate and the method and significant assumptions used to estimate the fair value;
 - (c) The risk characteristics of the underlying financial assets used to stratify recognized servicing assets; and
 - (d) The changes in any valuation allowance for impairment of recognized servicing assets, including beginning and ending balances, aggregate additions and reductions to the gain or loss for the period, and aggregate direct write-downs charged against the allowances.
- (46) If the entity has securitized financial assets during any period presented and accounts for that transfer as a sale, for each major asset type (for example, automobile loans, mortgage loans, rights under leases, and credit card receivables), it should disclose separately the following:
 - (a) Its accounting policies for measuring the retained interests, if any, including the methodology used in determining their fair value (for example, quoted market price, prices based on sales of similar assets or liabilities, or prices based on valuation techniques);
 - (b) The characteristics of securitizations (a description of the transferor's continuing involvement with the transferred

assets, including servicing, recourse, and restrictions on retained interests) and the gain or loss from sale of financial assets in securitizations;

- (c) The key assumptions used in measuring the fair value of retained interests at the time of securitization, including, at a minimum, quantitative information about discount rates, expected prepayments rates, the expected weighted-average life of prepayable financial assets, and anticipated credit loss rate; and
 - (d) Cash flows of securitization between the special purpose entity and the transferor, including proceeds from new securitizations, proceeds from collections reinvested in revolving-period securitizations, purchases of delinquent loans, servicing fees, and cash flows received on interests retained, unless reported separately elsewhere in the financial statements or footnotes.
- (47) If the entity has retained interests in securitized financial assets at the date of the balance sheet presented, for each major asset type (for example, automobile loans, mortgage loans, rights under leases, and credit card receivables), the entity should disclose the following:
- (a) Its accounting policies for subsequently measuring those retained interests;
 - (b) the methodology used in determining the fair value of those retained interests, such as quoted market price, prices based on sales of similar assets or liabilities, or prices based on valuation techniques;
 - (c) The key assumptions used in measuring the fair value of those retained interests, including, at a minimum, quantitative information about discount rates, expected prepayments rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and

anticipated credit loss rate (if applicable, including expected static pool losses, which calculated by summing the actual and projected future credit losses and dividing the sum by the original balance of the pool of assets);

- (d) A sensitivity analysis or stress test showing the hypothetical effect on the fair value of those retained interests of two or more unfavorable variations from the expected levels for each key assumption that is reported under (c) above independently from any change in another key assumption, and a description of the objectives, methodology, and limitations of the sensitivity analysis or stress test; and
- (e) Information about the securitized assets and any other financial assets that it manages together with them:
 - (i) The total principal amount outstanding, the amount that has been derecognized, and the amount that continues to be recognized in each category reported in the balance sheet, at the end of the period;
 - (ii) Delinquencies at the end of the period; and
 - (iii) Credit losses, net of recoveries, during the period.

Disclosure of average balances above (i) and (ii) during the period is encouraged.

VI Notes

- (48) The transfers of financial assets, recognition and measurement of servicing assets and servicing liabilities and extinguishments of financial liabilities that was prior to this Statement's effective date and did not follow the principles stated in this Statement need not be restated retroactively.
- (47) This Statement was issued on May 22, 2003, and shall be effective for

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financial statements for the fiscal year ending on and after December 31, 2004. Earlier adoption is permitted.

The provisions of this Statement need not be applied to immaterial items.