

STAFF PAPER

13–14 May 2014

IFRS Interpretations Committee Meeting

IFRS IC Jan, May and Sep 2013
IASB Feb, Oct and Nov 2013

Project	Annual Improvements to IFRSs 2012-2014 Cycle (ED/2013/11)—Comment letter analysis		
Paper topic	IFRS 7 <i>Financial Instruments: Disclosures</i> —Servicing Contracts		
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Introduction

1. The Exposure Draft ED/2013/11 *Annual Improvements to IFRSs 2012–2014 Cycle* published in December 2013 (the ED) included a proposal for an amendment to IFRS 7 *Financial Instruments: Disclosures*.
2. Paragraph 42C of IFRS 7 provides guidance on when the entity has ‘continuing involvement’ for the purposes of applying the disclosure requirements in paragraphs 42E–42H of IFRS 7. The proposed amendment would be to clarify how an entity should apply the guidance in paragraph 42C of IFRS 7 to a servicing contract to decide whether a servicing contract is ‘continuing involvement’ for the purposes of the disclosure requirements.

Objective

3. The objective of this paper is to provide an analysis of the comment letters received on the proposal to amend IFRS 7 and to obtain a recommendation from the IFRS Interpretation Committee (the Interpretations Committee) for the IASB to include the amendment in the final *Annual Improvements to IFRSs 2012-2014 Cycle* that is planned to be published later in 2014.

Structure of the paper

4. This Agenda Paper:
 - (a) provides a description of the issue that led to the proposed amendment;
 - (b) analyses the comments received as part of the Exposure Draft process; and
 - (c) asks the Interpretations Committee to confirm whether it agrees with the staff recommendation to proceed with the proposed amendment.

Description of the issue

5. The IASB issued *Disclosures—Transfers of Financial Assets* (Amendments to IFRS 7) —herein called ‘the transfer disclosures’—in October 2010. The transfer disclosures included the addition of paragraphs 42A-42H to IFRS 7 and are effective for annual periods beginning on or after 1 July 2011.
6. According to paragraph 42B of IFRS 7, the objective of the transfer disclosures is to enable users of financial statements:
 - (a) to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and
 - (b) to evaluate the nature of, and risks associated with, the entity’s continuing involvement in derecognised financial assets.
7. Paragraph 42C of IFRS 7 sets out a description of the term ‘continuing involvement’ in derecognised financial assets for the purposes of applying the transfer disclosures:

For the purposes of applying the disclosure requirements in paragraphs 42E–42H, an entity has continuing involvement in a transferred financial asset if, as part of the transfer, the entity retains any of the contractual rights or obligations inherent in the transferred financial asset or obtains any new contractual rights or obligations relating to the transferred financial asset. For the purposes of

applying the disclosure requirements in paragraphs 42E–42H, the following do not constitute continuing involvement:

(a) normal representations and warranties relating to fraudulent transfer and concepts of reasonableness, good faith and fair dealings that could invalidate a transfer as a result of legal action;

(b) forward, option and other contracts to reacquire the transferred financial asset for which the contract price (or exercise price) is the fair value of the transferred financial asset; or

(c) an arrangement whereby an entity retains the contractual rights to receive the cash flows of a financial asset but assumes a contractual obligation to pay the cash flows to one or more entities and the conditions in paragraph 3.2.5(a)–(c) of IFRS 9 are met.

8. Paragraph B30 of IFRS 7 provides additional guidance on the meaning of ‘continuing involvement’ for the purposes of applying the transfer disclosures:

An entity does not have a continuing involvement in a transferred financial asset if, as part of the transfer, it neither retains any of the contractual rights or obligations inherent in the transferred financial asset nor acquires any new contractual rights or obligations relating to the transferred financial asset. An entity does not have continuing involvement in a transferred financial asset if it has neither an interest in the future performance of the transferred financial asset nor a responsibility under any circumstances to make payments in respect of the transferred financial asset in the future.

9. The Interpretations Committee received a submission that requested clarification about whether servicing rights and obligations are ‘continuing involvement’ for the purposes of the transfer disclosures. More specifically, the submitter is concerned about the clarity of paragraph 42C(c) of IFRS 7; whether the example

described in paragraph 42C(c) of IFRS 7 for a so-called ‘pass-through arrangement’ applies to servicing contracts, and therefore excludes those contracts from the disclosure requirements in paragraphs 42E-42H of IFRS 7.

The IASB’s proposals to address the concerns raised

Application guidance

10. The IASB observed that a servicing contract is generally continuing involvement for the purposes of the transfer disclosure requirements. This is because, in most cases, the servicer has an interest in the future performance of the transferred financial assets as a result of that contract. That would be the case if the amount and/or timing of the servicing fee depend on the amount and/or timing of the cash flows collected from the transferred financial asset.
11. Thus, the IASB observed that servicing contracts should be assessed against the description of continuing involvement in paragraphs 42C and B30 of IFRS 7. Accordingly, the IASB proposed to add the guidance that clarifies how the guidance in paragraph 42C of IFRS 7 should be applied to servicing contracts.
12. In addition, consistently with the exception in paragraph 42C(c) of IFRS 7 that a pass-through arrangement does not constitute continuing involvement, the IASB proposed to amend paragraph B30 of IFRS 7 to clarify that an obligation in a contract, including a servicing contract, to pass through an amount collected, is not in itself continuing involvement for the purpose of applying paragraph B30 of IFRS 7.

Transitional provisions and effective date

13. The IASB noted that paragraph 42E(b) of IFRS 7 requires disclosure of the fair value of the assets and liabilities that represent the entity’s continuing involvement in the derecognised financial asset. Requiring application of the amendment to any comparative period presented might therefore require an entity to determine the fair value of a servicing asset or servicing liability as of the end of a preceding period, which the entity might not have previously determined.

14. Accordingly, the IASB proposed to provide a transition relief for current IFRS preparers and first-time adopters. That transition relief would exempt entities from applying the amendment to any comparative period presented that begins before the annual period for which the entity first applies the amendment, to avoid the risk of hindsight being applied.

Overview of comment letters received

15. The IASB received 64 comment letters on the ED during the comment period, which ended on 13 March 2014.
16. The ED asked two general questions that were answered individually for each proposed amendment:
- (a) *Question 1: Do you agree with the IASB's proposal to amend the Standard as described in the Exposure Draft? If not, why and what alternative do you propose?*
 - (b) *Question 2: Do you agree with the proposed transitional provisions and effective date for the issue as described in the Exposure Draft? If not, why and what alternative do you propose?*
17. Responses to these two questions are analysed separately.

Comment letter analysis of Question 1

18. 53 respondents expressed views on the proposed amendment for this particular issue. About two-thirds of the 53 respondents agree with little or no further comment. These respondents think that the amendments would:
- (a) clarify how the transfer disclosure requirements should be applied to servicing contracts and therefore would mitigate the diversity in practice; and
 - (b) help interested parties to further understand the notion of continuing involvement for the purposes of the transfer disclosure requirements in IFRS 7.

19. About one-third of the 53 respondents agree with the amendment subject to further considerations. One respondent disagrees with the amendment primarily for the concerns stated in paragraph (b) below. Those respondents raised some topics for further consideration. Those topics are:
- (a) the lack of principles in the proposed guidance;
 - (b) concerns over the usefulness of the transfer disclosures of servicing contracts;
 - (c) concerns over the difference in the meaning of the term ‘continuing involvement’ among IFRSs;
 - (d) uncertainties about the scope of servicing contracts in the proposed guidance; and
 - (e) concerns over the applicability of the exception that a pass-through arrangement does not constitute continuing involvement.
20. These topics are discussed in this Agenda Paper in the following paragraphs.

The lack of principles in the proposed guidance

21. A number of the respondents who commented on the specific proposed amendment to IFRS 7 recommended that the proposed guidance should provide a principle rather than examples. Some of the respondents questioned whether the guidance should not presume that the right to earn a fee for servicing the financial asset is generally continuing involvement.

Comments received

22. Several respondents¹ state that the proposed guidance in paragraph B30A should establish a principle for when a servicing contract represents continuing involvement, because the current wording provides only examples.
23. Some respondents² suggest that the IASB should delete the presumption that the right to earn a fee in a servicing contract is generally continuing involvement.

¹ PwC (CL#34), EFRAG (CL#26), ESMA (CL#38), DASB (CL#06), NASB (CL#1).

They think that the Standard should emphasise that the servicing contracts should be assessed against the description of ‘continuing involvement’ in paragraphs 42C and B30 of IFRS 7.

24. Other respondents³ state that the examples in the proposed guidance should also include a case in which a servicing contract is *not* continuing involvement. They think that it would add further clarity to the amendment. One of those respondents⁴ states that this commonly occurs when a fixed fee is fully paid on transfer and is not contingent on the future performance of the transferred asset.

Staff response

25. We think that the principle for identifying continuing involvement in the transferred financial asset is clearly stated in paragraph 42C of IFRS 7. We note that the proposed guidance is intended to provide application guidance for how the principle should be applied to a servicing contract for the purposes of the transfer disclosure requirements.
26. Thus, we think that the amendment does not need to provide a further principle for deciding whether a servicing contract is continuing involvement as described in paragraphs 42C and B30 of IFRS 7.
27. We also disagree with the comment that the amendment should have examples in which a servicing contract does not meet the description of continuing involvement in paragraphs 42C and B30 of IFRS 7.
28. We note that the proposed guidance explains that a servicing contract is continuing involvement if the fee is dependent on the amount or timing of the cash flows collected from the transferred financial asset. We think that this would provide sufficient guidance for a case in which a servicing contract is *not* continuing involvement. Furthermore, we note that the IASB has observed that a servicing contract is generally continuing involvement.

² Ernst & Young (CL#24), RSM International Limited (CL#21), CBN (CL#45), AASB (CL#29), EFRAG (CL#26), Repsol (CL#50), NASB (CL#1), FRC (CL#7).

³ PwC (CL#34), AASB (CL#29), EFRAG (CL#26), ESMA (CL#38), MASB (CL#49), DASB (CL#06), KAI (CL#51), the Malaysian Institute of Certified Public Accountants (CL#16).

⁴ PwC (CL#34).

29. Notwithstanding our responses above, we agree with the suggestion that the IASB should delete the presumption that the right to earn a fee for servicing the transferred financial asset is generally continuing involvement from the proposed guidance.
30. We think that removing the presumption from the guidance would reflect more accurately the intention of the proposed amendment. The intention is that an entity should assess a servicing contract against the description of continuing involvement in paragraphs 42C and B30 of IFRS 7 to decide whether the servicing contract is continuing involvement for the purposes of the transfer disclosure requirements.
31. Accordingly, we think that the wording of paragraph B30A of the proposed amendment should be revised in the final amendment to delete the presumption.

Concerns over the usefulness of the transfer disclosures of servicing contracts

32. A number of respondents⁵ raised discussions relating to an issue of whether it is appropriate to apply the transfer disclosure requirements in paragraphs 42E-42H of IFRS 7 to servicing contracts.

Comments on the applicability of the disclosure requirements to servicing contracts

33. They note that paragraphs BC65J and BC65L of IFRS 7 describe a focus on the entity's risk exposure and on possible requirements to repurchase derecognised financial assets.
34. They think that most servicing contracts are to provide a service in exchange for a fee and have a very different risk profile to that of other financial instruments, which contain other forms of continuing involvement such as guarantees, repurchase options, and derivatives. They note that, in most cases, the entity's exposure to loss is limited to the fee earned for past service or the cost of servicing.

⁵ Allianz(CL#40), Deloitte(CL#17), AcSB(CL#43), KPMG (CL#42), ASCB (CL#5), The Japanese Bankers Association (CL#9)

35. They also note that a servicing contract that arises in a transfer of a financial asset may be no different from other servicing contracts that an entity enters into in respect of assets that it did not previously hold.
36. Accordingly, they argue that requiring the extensive disclosure of a servicing contract only in the case of a transfer of a financial asset would not provide useful information to the user. They think that the benefits would not justify the cost for preparing the disclosure.
37. One respondent⁶ disagrees with the proposed amendment. This is primarily because the amendment would include in the transfer disclosure a servicing contract with a prevailing market fee level, which, in their view, does not have any risk in the transferred financial asset.
38. Another respondent⁷ states that, in order to address the concerns stated above, the IASB should take this opportunity to tailor specific disclosure requirements for servicing contracts that represent continuing involvement, rather than requiring application of the general disclosure requirements in paragraphs 42E-42H of IFRS 7. The respondent provided a suggestion of items that should be disclosed for servicing contracts, instead of the items listed in paragraphs 42E-42H of IFRS 7.

Staff response

39. We think that the discussions of the usefulness of the transfer disclosure requirements in terms of a servicing contract are beyond the scope of this project. This is because the proposed amendment intends to clarify only how the guidance in paragraph 42C of IFRS 7 should be applied to a servicing contract for the purposes of the transfer disclosure requirements.
40. In addition, we note that paragraph 42B(b) of IFRS 7 states that the objective of the transfer disclosure is to enable users of its financial statements “to evaluate the nature of, and risks associated with, the entity’s continuing involvement in derecognised financial assets.”

⁶ The Japanese Bankers Association (CL#9).

⁷ KPMG (CL#42).

41. Even though the risk profile of a servicing contract may be different from other types of continuing involvement, we think that a servicing contract would give rise to risks in the derecognised financial asset, especially when the servicing fee is dependent on the amount or timing of cash flows collected from the transferred financial asset.
42. The servicer's exposure to loss could be limited to the fee earned for past service and the cost for performing the servicing. However, we think that the amount of exposure to loss could vary significantly depending on the contractual terms of each servicing contract.
43. Accordingly, we think that the Interpretations Committee should not recommend to the IASB that it should perform a comprehensive review of the transfer disclosure requirements for a servicing contract in this annual improvement project.

Request for clarification of specific disclosure requirements

44. The respondent who suggests a new set of disclosure requirements⁸ states that if the IASB does not take the approach above, at a minimum, it should clarify whether and how the following disclosure requirements under paragraphs 42E and 42G of IFRS 7 apply to servicing contracts.
 - (a) Paragraph 42E(b)—disclosure of the fair value of the assets and liabilities that represent the entity's continuing involvement: the respondent claims that it is not clear whether this disclosure requirement would apply to servicing contracts for which no asset or liability has been recognised.
 - (b) Paragraph 42E(c)—disclosure of the entity's maximum exposure to loss from its continuing involvement: the respondent claims that, in many cases, it may not be possible to specify a maximum exposure to loss arising from servicing rights and obligations, because the contract does not require payment of determinable monetary amounts (apart from passing on collections). Instead, the maximum exposure depends on

⁸ KPMG (CL#42).

the costs that the entity will incur in, or as a result of, performing the services that were provided for in the contract. The respondent notes that if the expected costs exceed the expected benefits and the servicing contract does become onerous, then it would be provided for and disclosed in accordance with IAS 37; however, IAS 37 does not require disclosure of the maximum exposure to loss.

- (c) Paragraph 42G(b)—disclosure of income and expenses recognised from the entity's continuing involvement: the respondent claims that it is unclear whether this would include expenses that the entity has recognised in performing servicing activities.

Staff response

Paragraph 42E(b)—disclosure of the fair value of the assets and liabilities that represent the entity's continuing involvement

45. We are of the view that it is clear that the fair value information of a servicing contract should be disclosed even in a case in which the fair value of the servicing is zero and therefore a servicing asset or liability is not recognised.
46. The entity may estimate the fair value of a servicing contract at zero at the initial recognition of servicing assets and liabilities, because the fee is expected to adequately compensate the servicing; however, the fair value could change subsequently.
47. In addition, we note that paragraph 42E(b) of IFRS 7 does not specifically refer to assets and liabilities that are recognised.
48. Accordingly, we think that the disclosure requirement is not limited to a case in which a servicing asset or liability is recognised.

Paragraph 42E(c)—disclosure of the entity's maximum exposure to loss from its continuing involvement

49. We acknowledge that even if the servicing contract becomes onerous, the amount of the maximum exposure to loss would not be presented under IAS 37. This is because IAS 37 requires making the best estimate of the future expenditure in both the disclosure and the recognition of a contingent liability (paragraphs 36-41

and 86 of IAS 37). We also acknowledge that, in most servicing contracts, the servicer is not required to pay a determinable amount to a third party.

50. However, we think that the entity should estimate the maximum exposure to loss from the servicing contract on the basis of the terms of the contract. We note that paragraph 42E(c) of IFRS 7 requires the disclosure of how the maximum exposure to loss is determined. Providing detailed guidance for this disclosure requirement would be beyond the scope of this annual improvement project.
51. Accordingly, we think that no guidance specific to a servicing contract should be provided for this disclosure requirement.

Paragraph 42G(b)—disclosure of income and expenses recognised from the entity's continuing involvement

52. As stated above, we think that in most servicing contracts income and expenses would be the fee received and cost for performing the servicing. However, we think that income and expenses arising from a servicing contract could vary depending on the terms and conditions of the contract. We think therefore that the entity needs to judge what income and expense should be included in this disclosure in accordance with the terms and conditions of the contract.
53. Accordingly, we do not think that we should prescribe what types of income and expense should be disclosed for a servicing contract.

Summary of staff response to the request for clarification

54. On the basis of the analysis above, we think that no further guidance on the disclosure requirements in paragraphs 42E and 42G of IFRS 7 should be provided in this project because the requirements provide sufficient guidance for developing the transfer disclosures for a servicing contract.

Concerns over the difference in the meaning of the term ‘continuing involvement’ among IFRSs

55. Several respondents⁹ raised concerns as to the difference in the meaning of the term ‘continuing involvement’ among some IFRSs.

Background to the comments

56. In IFRS 9 (or IAS 39), continuing involvement refers to circumstances in which an entity “neither transfers nor retains substantially all the risks and rewards of ownership of a transferred asset” and “retains control of the transferred asset”. In that circumstance, the transferor continues to recognise that asset to the extent of its continuing involvement (paragraph 3.2.16 of IFRS 9 (paragraph 30 of IAS 39)).
57. IFRS 7 states that the entity has continuing involvement in a derecognised financial asset if, as part of the transfer, the entity retains any of the contractual rights or obligations inherent in the transferred financial asset or obtains any new contractual rights or obligations relating to the transferred financial asset.
58. IFRS 10 *Consolidated Financial Statements* states that when analysing the investor’s involvement with the investee, an investor should consider various forms of involvements, including, but not limited to, a bond with fixed interest rate payments, fixed performance fees, credit or liquidity support and tax benefits (paragraphs B55-B57 of IFRS 10).
59. Similarly, the definition of ‘interest in another entity’ in IFRS 12 *Disclosure of Interests in Other Entities* states that “an interest in another entity can be evidenced by, but is not limited to, the holding of equity or debt instruments as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees”.

Comments received

60. Those respondents note that in IFRS 9 (or IAS 39) the term ‘continuing involvement’ is used in a narrow sense, which only relates to the question of derecognition of a financial asset, and which comprises the retention of risks and

⁹ Allianz(CL#40), Deloitte (CL#17), EFRAG (CL#26), DASB (CL#6), ASCB (CL#5), HKICPA (CL#63), FRC (CL#7).

rewards of ownership of a transferred asset. However, the term ‘continuing involvement’ in IFRS 7 and ‘involvement’ in IFRS 10 and IFRS 12 are used in a wider sense.

61. Accordingly, they are concerned that the difference in the use of the term ‘(continuing) involvement’ causes confusion when applying those IFRSs.
62. In particular, one of the respondents¹⁰ states that the term used in IFRS 7 could imply that an ongoing servicing contract precludes full derecognition of a financial asset under IFRS 9 (or IAS 39) unless the distinction of the use of the term ‘continuing involvement’ between IFRS 9 (or IAS 39) and IFRS 7 is clarified.
63. Accordingly, most of those respondents ask the IASB to provide further clarification on the term ‘continuing involvement’ in IFRS 7.

Staff response

64. We acknowledge that the term ‘(continuing) involvement’ is used in different ways among those IFRSs. However, we think that addressing the difference in those IFRSs would be beyond the scope of this project because it would be too broad for an annual improvement project.
65. IFRS 9 (or IAS 39) and IFRS 7 provide guidance for assessing the existence of continuing involvement for the purposes of applying the requirements in each IFRS (paragraph 3.2.16 of IFRS 9 (paragraph 30 of IAS 39) and paragraphs 42C and B30 of IFRS 7). We think that the guidance in IFRS 7 is specifically worded to refer only to continuing involvement for the purposes of the transfer disclosures.
66. Furthermore, we note that the term ‘involvement’ in IFRS 10 and IFRS 12 is used in respect of an involvement with an investee (ie an entity) rather than in respect of a financial asset.
67. Accordingly, we think that the term ‘(continuing) involvement’ in those IFRSs can be clearly distinguished by the requirements in those IFRSs. Consequently, we think that further clarification of the meaning of term ‘continuing involvement’ in IFRS 7 is unnecessary.

¹⁰ Deloitte (CL#17).

Uncertainties about the scope of servicing contracts in the guidance

68. Some respondents¹¹ recommend that the IASB should clarify:
- (a) what types of servicing contracts should be included in the transfer disclosure requirements; or
 - (b) what element or activity in a servicing contract should be considered for the purposes of the transfer disclosure requirements analysis.

Staff response

69. We understand that the proposed guidance explains how the principle in paragraph 42C of IFRS 7 should be applied by using a typical servicing contract as an example.
70. We think that contractual rights and obligations in a servicing contract could vary from contract to contract. In addition, the scope of the activity of ‘servicing financial assets’ could be different depending on the terms of the servicing contract.
71. We therefore think that an entity needs to assess all contractual rights and obligations in the contract against the description of continuing involvement in paragraph 42C of IFRS 7 when deciding whether it has continuing involvement in a derecognised financial asset.
72. Thus, we think that it would be inappropriate to prescribe specific types of servicing contracts or elements of a servicing contract that should be considered when assessing whether the servicing contract gives rise to continuing involvement for the purposes of the transfer disclosure requirements.

Concerns over the applicability of the exception that a pass-through arrangement does not constitute continuing involvement

73. One respondent¹² notes that in many cases a transferor under a pass-through arrangement might receive a fee for continuing to service the transferred financial

¹¹ ACCA (CL#25), Business Europe (CL# 57), AcSB (CL#43).

¹² KPMG (CL#42).

assets on behalf of the eventual recipients of cash flows that are dependent on the performance of the transferred financial assets.

74. Thus, there is a risk that entities might misinterpret paragraph 42C(c) of IFRS 7 as allowing, or continuing to allow, the exception from the continuing involvement definition for such a fee, if the conditions in paragraph 3.2.5 of IFRS 9 (or paragraph 19 of IAS 39) are met, on the basis that this fee relates to or is part of the wider ‘arrangement’.

Staff response

75. The proposed guidance clearly states that the right to earn a fee should be assessed against the guidance in paragraphs 42C and B30 of IFRS 7 to determine whether the fee constitutes a continuing involvement.
76. In addition, paragraph BC3 of the proposed amendment explains the basis of the proposal that the entity needs to assess the fee irrespective of how the entity receives the fee.
77. Accordingly, we do not think that there is a risk of such a misinterpretation.

Staff recommendation on Question 1

78. The concerns raised, and our responses to those concerns, are shown in the following table:

Topic	Recommendation
<i>The lack of principles in the proposed guidance</i>	Accepted. The presumption that a servicing contract is generally a continuing involvement should be deleted.
<i>Concerns over the usefulness of the transfer disclosures of servicing contracts</i>	No change. A comprehensive review of the transfer disclosure requirements for servicing contracts is beyond the scope of this project. Furthermore, the transfer disclosure requirements provide sufficient guidance for developing the

	transfer disclosures for a servicing contract.
<i>Concerns over the difference in the meaning of the term ‘continuing involvement’ among IFRSs</i>	No change. Addressing the difference in the meaning of the term among several IFRSs is beyond the scope of this project. In addition, no further clarification of the meaning of the term ‘continuing involvement’ in IFRS 7 is necessary because IFRS 7 is specifically worded to refer only to continuing involvement for the purposes of the transfer disclosure requirements.
<i>Uncertainties about the scope of servicing contracts in the guidance</i>	No change. An entity needs to assess rights and obligations in a servicing contract to decide whether the entity has continuing involvement.
<i>Concerns over the applicability of the exception that a pass through arrangement does not constitute continuing involvement</i>	No change. The proposed guidance is clear that a fee to be received should be assessed against the guidance in paragraphs 42C and B30 of IFRS 7.

79. On the basis of the analysis above, we think that Interpretations Committee should recommend to the IASB that paragraph B30A in the proposal should be revised to delete the presumption that a servicer’s right to earn a fee is generally continuing involvement for the purposes of the transfer disclosure requirements.

Comment letter analysis of Question 2

80. 39 respondents commented on the proposal for the transition provisions and effective date for this specific amendment. About 90 per cent of the 39 respondents agreed with the proposed requirements with little or no further comment.

Comments received

81. One respondent¹³ disagrees with the transition provision, because retrospective application is the principle in IFRS (see paragraph 19(b) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*). They observe that an entity affected will be able to estimate the fair value of the servicing contract for comparative periods without using hindsight, because the proposed effective date is 1 January 2016.
82. Some respondents¹⁴ suggest that the requirements should simply state that the amendment for this particular issue should be applied prospectively.
83. One of those respondents¹⁵ further suggests that an entity affected should be permitted to choose early application of either (1) the amendment to paragraph 44R¹⁶ or (2) the amendment related to paragraphs B30 and B30A or (3) both of them.

Staff response

84. We note that most of the respondents who specifically commented on the transition requirements for this particular amendment agree that the amendment should not apply to comparative periods presented when it is first applied. We continue to think that the IASB should provide the transition relief as proposed in the ED.
85. We disagree with the comment that the transition requirements should simply state that this particular amendment applies prospectively. This is because, in our view, the term ‘prospective application’ could be misunderstood to mean that the amendment does not apply to servicing contracts that had been entered into in comparative periods but are still ongoing.

¹³ NASB (CL#1).

¹⁴ Deloitte (CL#17), Grant Thornton (CL#8), FEI (CL#48).

¹⁵ Grant Thornton (CL#8).

¹⁶ The ED also proposes to clarify that the additional disclosure required by the amendments to IFRS 7 *Disclosure—Offsetting Financial Assets and Financial Liabilities* is not specifically required for all interim periods. However, the additional disclosure is required to be given in condensed interim financial statements that are prepared in accordance with IAS 34 *Interim Financial Reporting* when its inclusion would be required by the requirements of IAS 34. This issue is separately discussed in Agenda Paper 17C.

86. We also disagree with the suggestion that an entity affected by the two amendments to IFRS 7 should be permitted to make an independent choice regarding early application of this amendment and/or the accompanying amendment to paragraph 44R of IFRS 7. We think that permitting such an independent choice of amendments to IFRS 7 would cause confusion to users of financial statements.

Staff recommendation on Question 2

87. Accordingly, we think that the transition requirements and effective date as exposed in the ED should be retained with respect to this specific amendment to IFRS 7.

Staff recommendation

88. On the basis of the analysis in the previous section of the paper, we think that the Interpretations Committee should recommend to the IASB that it should proceed with the proposed amendment to IFRS 7. The amendment is to clarify how an entity should apply the guidance in paragraph 42C of IFRS 7 to a servicing contract to decide whether a servicing contract is ‘continuing involvement’ for the purposes of applying the disclosure requirements in paragraphs 42E–42H of IFRS 7.

89. We also propose to the Interpretations Committee to recommend to the IASB that it should make the changes to the proposed amendments to IFRS 7 that are recommended in our analysis on the comments received. The staff draft of the wording for the proposed amendments is included in Agenda Paper 17B(i).

Question to the Interpretations Committee

1. Does the Interpretations Committee agree to recommend to the IASB that it should proceed with the amendments to IFRS 7 with the revisions to the amendments that are described in this Agenda Paper?

2. Does the Interpretations Committee have any comment on the staff draft of the proposed amendments to IFRS 7 in Agenda Paper 17B(i)?