

12 July 2001

Mr Keith Alfredson  
Chairman  
Australian Accounting Standards Board  
Level 3  
530 Collins Street  
MELBOURNE VIC 3000

**Subject: The Joint Working Group's Draft Standard (DS) *Accounting for Financial Instruments and Similar Items***

Dear Keith

I refer in particular to your letter to me dated 12 January 2001 and confirm that the Australian Securitisation Forum (ASF) did, through various means, encourage several Australian financial institutions to respond to the invitation to comment on the DS.

The Accounting Committee of the ASF would also like to take this opportunity to briefly comment on the 'Recognition and Derecognition' aspects of the DS.

We support the adoption of a components approach, which we believe is superior to the alternative risks and rewards approach.

We agree that an entity should recognise a financial asset or a financial liability only when it has contractual rights or contractual obligations under a financial instrument that results in an asset or liability; and that an entity should derecognise a financial asset or a financial liability or a component thereof only when it no longer has the contractual rights or contractual obligations.

We do not, however, believe that the derecognition issues can be adequately addressed in isolation of considering the criteria for consolidating special purpose entities. We believe the consolidation issues need to be simultaneously tackled to ensure appropriate overall accounting for transfers of financial assets.

We have a few specific concerns with particular paragraphs in the DS:

- (a) we do not see why paragraph 36(a) is necessary. It seems to us that paragraph 36(b) can be applied to all such situations in practice. If this is the case, paragraph 36(a) is redundant

- (b) paragraphs 63-65 identify transfers to be accounted for in part as loans. Our concern is with paragraph 64(a) which requires that, where the transferor has a conditional or unconditional obligation to repay consideration received, then a liability should be recognised (and asset not derecognised) at the *maximum* amount that might need to be repaid. This is inconsistent with the financial components model. We believe the liability should be recorded at fair value (and only recognised at the maximum amount if it is not practicable to estimate fair value).
- (c) with respect to paragraph 217 concerning ‘regular way security transactions’, we believe that trade date accounting should be allowed to continue where it is market practice and where the period between trade date and settlement date is short and security delivery is highly probable.

Finally, we note that several Australian financial institutions are currently of the view that they cannot reliably measure the fair value of certain financial assets and financial liabilities retained subsequent to a securitisation transaction transfer.

I would be pleased to discuss these or other related matters with you in due course.

Yours sincerely

Michael J Codling  
Chairman, Accounting Committee