

Beyond the GAAP

Occasional paper - May 2013

The impact of the IFRS 7 amendment on disclosures of transfers of financial assets on financial statements at 31 December 2012

Editorial



The amendments to IFRS 7 on disclosures of transfers of financial assets became obligatory for financial periods starting on or after 1 July 2011. This meant that the 30 June 2012 closing of accounts was the first time that many issuers had applied the amendment, and we therefore felt it would be useful to assess the impact of the amendment on disclosures in the notes to financial statements published to 30 June 2012.

Unfortunately, the results of this study were not all that we could have hoped, primarily because 30 June 2012 was a half-yearly closing of accounts for most companies. As a result only limited additional disclosures appeared in the notes, with some organisations deciding to delay full implementation to 31 December 2012. In this first study, only 14 companies from our sample of the 71 CAC 40 and Eurostoxx 50 companies provided specific information on transfers of financial assets. Therefore, we felt that it would be a good idea to revisit the impact of the amendment on disclosures of transfers of financial assets on the financial statements to 31 December 2012.

This report presents the results of this special Beyond the GAAP study.

Happy reading!

Michel Barbet-Massin

Edouard Fossat

➤ As a reminder: What does the IFRS 7 amendment say?

Readers will remember that this amendment aimed to enable users of financial accounts to:

- understand the relationship between transferred financial assets that are not derecognised in their entirety and their associated liabilities; and
- assess the nature of an entity's continued involvement in derecognised financial assets, and the associated risks..

What the standard says

Entities must provide disclosures on (IFRS 7 paragraphs 42A to 42H):

- Transferred financial assets that are not derecognised in their entirety ;
- Transferred financial assets that are derecognised in their entirety, but in which the entity has continuing involvement; and
- The timing of transfers of financial assets, to highlight "window dressing" transactions (for derecognized assets).

The entity shall provide the required disclosures in a single note to the financial statements. For more details on the IFRS 7 amendment, see Beyond the GAAP, May 2012.

➤ What additional guidance is provided on the concept of "continuing involvement"?

Since our previous study was carried out, the IASB Board has provided clarification on the scope of "continuing involvement" under IFRS 7, in view of the volume and complexity of disclosures required on the transactions covered by this amendment.

Clarifications from the IASB Board

Following a request from the IFRS IC, the IASB board confirmed that its intention, in publishing the IFRS 7 amendment on transfers of financial assets, was that servicing agreements would meet the definition of continuing involvement for the purposes of the IFRS 7 disclosures

However the board's position relies on the assumption that servicing agreements generally give rise to variable compensation reflecting the performance of the transferred assets.

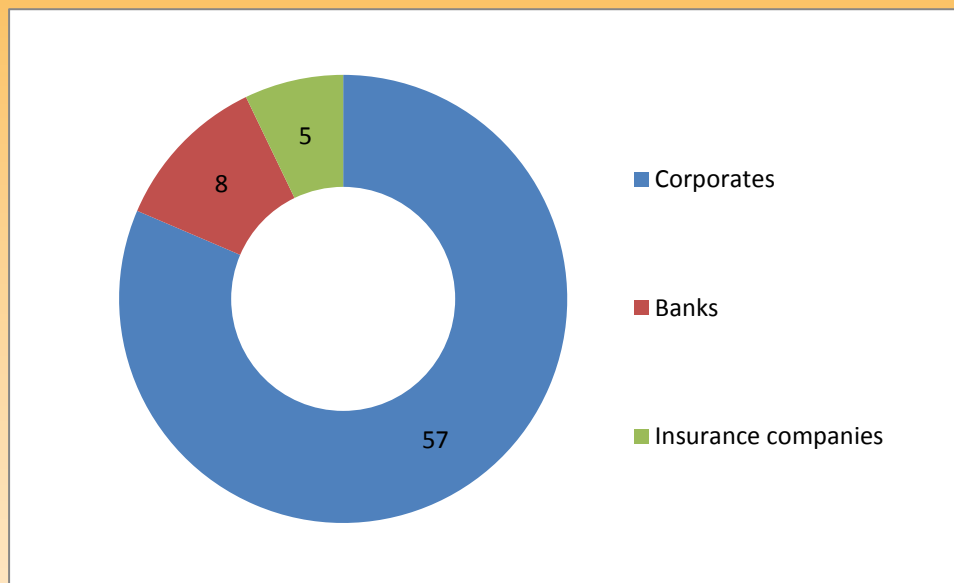
AMF recommendation for 2012 closing of accounts

In its recommendations for the 2012 reporting period, the French market regulator (AMF) stressed that the concept of continuous involvement in IFRS 7 is not the same as that used in IAS 39 for determining if a transfer qualifies for derecognition: continuous involvement in IFRS 7, says the AMF, includes, for example, the risk of dilution.

Therefore, as the dilution risk is only rarely transferred, this amendment should cover the majority of transfers of assets.

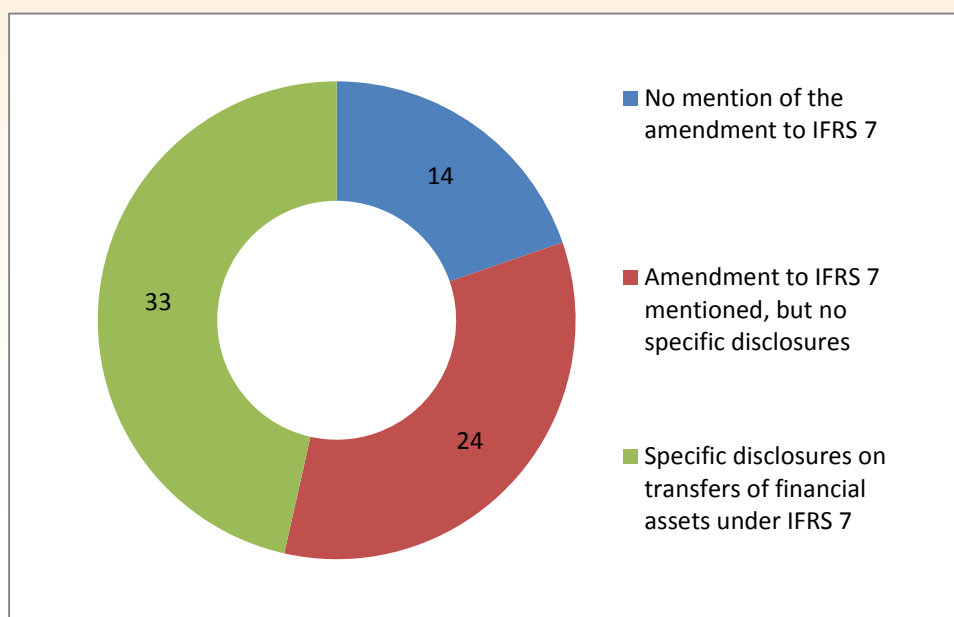
➤ What are the characteristics of the sample?

To facilitate comparison with the previous study published in the 2012 issue of Beyond the GAAP, we used the same sample, composed of the 71 companies which made up the CAC 40 and Eurostoxx 50 indexes as of 30 June 2012. The 71 issuers operate in the following sectors:



➤ Did the companies present disclosures on transfers of financial assets to 31 December 2012?

We identified 33 companies (46% of the sample) which presented specific disclosures on transfers of financial assets in their financial statements to 31 December 2012.



Our review of the financial statements to 31 December 2012 did not permit us to identify the percentage of issuers who were actually affected by transfers of financial assets.

However, a significant proportion of issuers, across a variety of sectors, presented disclosures on transfers of assets:

- All 8 banks in our sample. Of these, two had previously presented specific disclosures in their financial statements to 30 June 2012;
- 4 issuers from the insurance sector (i.e. 80% of the companies from this sector in our sample), whereas none of them had presented specific disclosures at 30 June 2012;
- 21 issuers from the industrial and services sector (or 37% of the companies from this sector in our sample). Of these, 12 had previously presented specific disclosures in their financial statements to 30 June 2012.

➤ How were the disclosures presented in the notes?

As required in the standard (IFRS 7, paragraph 42A), 24 issuers presented the disclosures on transfers of financial assets in a single note to the financial statements:

- 9 issuers presented them in a note specifically on this subject;
- 9 issuers presented them in the note on trade receivables;
- 3 issuers presented them in a note relating to financial debt or cash flow;
- 1 issuer presented them in the note on loans and advances to customers;
- 1 issuer presented them in the note on securities available for sale;
- 1 issuer presented them in a note entitled "Other information".

➤ What types of disclosures were presented at 31 December 2012?

The 21 issuers from the industrial and services sectors which presented specific disclosures on transfers of financial assets provided information on the following types of transaction:



(*) The transferred loans result from the banking activities of issuers in the automobile and wholesale sectors

(**) The tax receivables mentioned are research & development tax credits (2 issuers) and carry-back receivables (1 issuer)

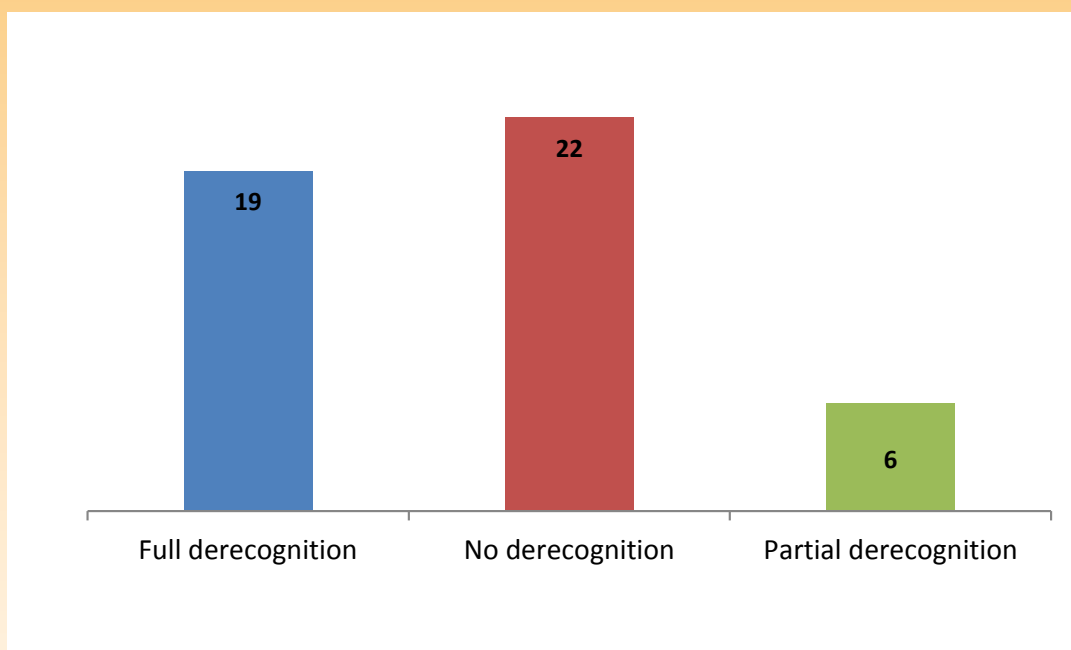
Most of the assignments of trade receivables through factoring resulted in derecognition of the receivables.

However, of the 8 issuers which assigned receivables through securitisation, 6 could not deconsolidate the assigned assets.

The 8 issuers from the insurance and banking sectors which presented specific disclosures on financial assets provided information on the following:

- securities lending transactions;
- sales of loans or advances to customers (largely through securitisations);
- total return swaps.

Taking all sectors together, the following accounting outcomes were disclosed:



➤ What disclosures were presented when financial assets were transferred but not derecognised?

The financial statements to 31 December 2012 for Renault and Société Générale clearly show the following:

- the nature of the assets which were transferred but not derecognised (IFRS 7, paragraph 42Da);
- a description of the nature of the relationship between the transferred assets and the associated liabilities and restrictions on the use of the transferred assets (IFRS 7, paragraph 42Dc);
- the fair value of the transferred assets and the associated liabilities when the guarantee is limited to the transferred assets (IFRS 7, paragraph 42Dd); and
- the carrying amounts of the transferred assets and the associated liabilities (IFRS 7, paragraph 42De).

Renault

B1 –Assignments of sales financing assets

(€ million)	DECEMBER 31, 2012	DECEMBER 31, 2011
Assigned receivables carried in the balance sheet	8,814	8,739
Associated liabilities	3,902	3,704

The Sales Financing segment undertook several securitization operations through special purpose vehicles and conduit financing operations (in France, Italy, Germany and the United Kingdom) involving loans to final customers and receivables on the dealership network. This did not lead to derecognition of the receivables assigned, as all risks were retained by the Group. The associated liabilities correspond to securities resulting from the securitization operations, recognized in other debts represented by certificate.

The difference between the receivables assigned and the amount of the liability corresponds to the higher credit necessary for these operations, and the share of securities retained by RCI Banque to form a liquidity reserve.

Securitized assets can no longer be assigned or pledged. Subscribers to debt securities only have claims on the assets assigned.

At December 31, 2012, the fair value of sales financing receivables assigned still reported in the balance sheet was €8,842 million, and the associated liabilities amounted to €3,949 million.

Société Générale

1. TRANSFERRED FINANCIAL ASSETS NOT DERECOGNISED

Transferred financial assets that are not derecognised include securities lending and repurchase agreements as well as certain loans transferred to consolidated securitisation vehicles.

The tables below show securities lending and repurchase agreements that only concern securities recognised on the asset side of the balance sheet in the categories indicated.

The accounting treatment of securities lending and repurchase agreements is presented in note 1 - Significant accounting principles. With securities lending and repurchase agreements, the Group remains exposed to issuer default (credit risk) and to the increase

or decrease of securities prices (market risk). The financial assets underlying securities lending and repurchase agreements cannot simultaneously be used as collateral in other transactions.

In 2012, the Group carried out two securitisations of customer loans which had been partially refinanced with external investors. The vehicles carrying these loans are consolidated by the Group.

The Group remains exposed to the majority of the risks and rewards associated with these loans. Furthermore, the loans can neither be used as collateral or sold outright in other transactions.

1.1. REPURCHASE AGREEMENTS

(in millions of euros)	Carrying amount of transferred assets	Carrying amount of associated liabilities
Available-for-sale securities	3,888	3,723
Securities at fair value through profit or loss	44,487	41,846
Total	48,375	45,569

1.2. SECURITIES LENDING

(in millions of euros)	Carrying amount of transferred assets	Carrying amount of associated liabilities
Securities at fair value through profit or loss	9,195	266
Total	9,195	266

1.3. SECURITISATION FOR WHICH THE COUNTERPARTIES TO THE ASSOCIATED LIABILITIES HAVE RECOURSE ONLY TO THE TRANSFERRED ASSETS

(in millions of euros)	Carrying amount of transferred assets	Carrying amount of associated liabilities	Fair value of transferred assets	Fair value of associated liabilities	Net position
Customer loans	1,055	835	1,073	840	233
Total	1,055	835	1,073	840	233

In its disclosures, Société Générale also identified the nature of the risks and rewards to which it is still exposed (IFRS 7, paragraph 42Db).

Where assets are partially derecognised, some of the issuers clearly presented the original carrying amount of the assets prior to the transfer, the carrying amount of the portion of the assets still recognised in the statement of financial position, and the carrying amount of the associated liabilities (IFRS 7, paragraph 42df). Deutsche Bank and PSA are good examples of this:

Deutsche Bank

Carrying value of assets transferred in which the Group still accounts for the asset to the extent of its continuing involvement:

in € m.

	Dec 31, 2012	Dec 31, 2011
Carrying amount of the original assets transferred:		
Trading securities	839	1,383
Other trading assets	2,013	7,302
Carrying amount of the assets continued to be recognized:		
Trading securities	805	1,367
Other trading assets	300	2,078
Carrying amount of associated liabilities	1,037	3,467

PSA

30.5. SALES OF RECEIVABLES

The Automotive Division and Faurecia meet part of their financing needs by selling receivables to financial institutions (see Note 23). The sold receivables are derecognised when they meet the criteria specified in IFRS (see Note 1.18).

(in million euros)	31 December 2012			31 December 2011		
	Total receivables sold to non-Group financial institutions	Portion sold but not derecognised	Portion sold and derecognised	Total receivables sold to non-Group financial institutions	Portion sold but not derecognised	Portion sold and derecognised
Maximum authorised facilities	1,501			1,215		
• of which Faurecia Group	710			749		
Receivables sold to non-Group financial institutions	864	186	678	691	161	530
• of which Faurecia Group	282	105	177	363	102	261
Financed portion ⁽¹⁾	799	121	678	596	66	530
• of which Faurecia Group	266	89	177	327	66	261
Portion not financed (including guarantee deposit)	65	65		95	95	
• of which Faurecia Group	16	16		36	36	

(1) The financed portion of the receivables corresponds to the portion that gives rise to a cash inflow.

In 2012, Peugeot S.A. and Faurecia sold and derecognised their 2011 French research tax credits, as well as the 2010 balance for Peugeot S.A., for a total of €128 million. The cash proceeds received at 31 December 2012 amounted to €117 million.

The sale of receivables constitutes usual short-term financing.

No transaction was carried out in December 2012 outside of the sale of receivables programme.

➤ What disclosures were presented when transferred financial assets were derecognised in their entirety?

It should be noted that, of the 19 issuers presenting disclosures on transfers of financial assets that were fully derecognised, nearly all of them gave the carrying amount of the transferred assets at 31 December 2012. Four of them provided information on the timing of these transactions (as in the case of Veolia Environnement, shown below).

Some issuers, such as Deutsche Bank and Deutsche Telekom, gave more details on transfers of assets derecognised in their entirety, including the following key points:

- the carrying amount of assets and liabilities recognised in the statement of financial position which represent the entity's continuing involvement in the transferred financial assets, indicating the relevant line items in the statement of financial position (IFRS 7, paragraph 42Ea);
- the fair value of assets and liabilities which represent the entity's continuing involvement in the transferred financial assets (IFRS 7, paragraph 42Eb);
- the amount that best represents the entity's maximum exposure to the risk of losses resulting from its continuing involvement (IFRS 7, paragraph 42Ec); and
- the income and expenses recognised, for the period and cumulatively, due to the entity's continuing involvement in the derecognised financial assets (IFRS 7, paragraph 42Gb).

Deutsche Bank

The impact on the Group's Balance Sheet of on-going involvement associated with transferred assets derecognized in full:

in € m.			Dec 31, 2012
	Carrying value	Fair value	Maximum Exposure to Loss
Loans:			
Securitization notes	1,888	1,798	2,012
Total Loans	1,888	1,798	2,012
Financial assets held at Fair Value through the P&L:			
Securitization notes	1,143	1,143	1,143
Non-standard Interest Rate, cross-currency or inflation-linked swap	32	32	32
Total Financial assets held at Fair Value through the P&L	1,175	1,175	1,175
Financial assets available for sale:			
Securitization notes	29	29	29
Loans	-	-	-
Total Financial assets available for sale	29	29	29
Total financial assets representing on-going involvement	3,092	3,002	3,216
Financial liabilities held at Fair Value through the P&L:			
Non-standard Interest Rate, cross-currency or inflation-linked swap	(36)	(36)	-
Total financial liabilities representing on-going involvement	(36)	(36)	-

The impact on the Group's Statement of Income of on-going involvement associated with transferred assets derecognized in full:

in € m.			Dec 31, 2012
	Year-to-date P&L	Cumulative P&L	Gain/(loss) on disposal
Securitization notes	190	(139)	- ¹
Non-standard IRS, CCS, inflation-linked swap	(8)	407	5
Other ²	-	21	34
Net gains/(losses) recognized from on-going involvement in derecognized assets	182	289	39

¹ Typically, sales of assets into securitization vehicles were of assets that were classified as Fair Value through P&L, therefore any gain or loss on disposal is immaterial.

² On-going involvement in sold equity positions in the form of a deeply out-of-the-money option, contingent on several unlikely events and therefore not expected to be exercised. As a result, the carrying and fair value of this option is considered to be nil.

Deutsche Telekom

In October 2012, Deutsche Telekom entered into another factoring agreement under which a bank is required to purchase trade receivables in a monthly revolving nominal volume of EUR 280 million. This three-year agreement gives Deutsche Telekom the freedom to decide whether receivables will be sold and in which volume. The assessment of the risk associated with the sold receivables is based on the credit risk and, of lesser significance, the risk of late payments (late-payment risk). The purchase price corresponds to the nominal amount. 70 percent of the first EUR 15 million of credit risk-related losses will be borne by Deutsche Telekom and 30 percent by the bank, pro rata for each loss. Deutsche Telekom will bear the first EUR 56 million of any other credit risk-related losses in full. All other credit risk-related losses are borne by the bank. The existing loan insurance reimburses losses relating to certain receivables to a maximum amount of EUR 115 million and thus reduces the exposure to loss. The late-payment risk continues to be borne in full by Deutsche Telekom. The maximum exposure to loss resulting from credit risk and late-payment risk relating to the receivables sold as of December 31, 2012 (nominal volume EUR 280 million), excluding loan insurance coverage, is EUR 72 million. Substantially

all the risks and rewards of ownership of the receivables were neither transferred nor retained (allocation of the material risks between Deutsche Telekom and the bank) and control of the receivables was transferred to the bank. All receivables sold as of December 31, 2012 have been derecognized. At the derecognition date, the fair value of the expected losses was expensed as financial liabilities. As of December 31, 2012, the carrying amount of the financial liability representing Deutsche Telekom's entire continuing involvement was EUR 4 million, the fair value of which was EUR 4 million. Deutsche Telekom expensed EUR 6 million in the financial year from its continuing involvement including program fees. The bank has the right to sell all receivables overdue by more than 90 days back to Deutsche Telekom at the nominal amount. This would not affect the allocation of the credit risk-related losses, as the latter would be passed back to the bank in line with the agreed risk allocation. The cash outflows caused by the buy-backs would occur in the short term, i.e., in 2013. The volume of receivables sold was not subject to major fluctuations since the beginning of the transaction. As of December 31, 2012, a provision of EUR 0.1 million was recognized for the receivables management to be performed by Deutsche Telekom.

Notice also that Deutsche Telekom provided disclosures on the cash outflows which could be required for the buy-back of the derecognised financial assets, and other amounts payable to the transferee in respect of the transferred assets (IFRS 7, paragraph 42Ed).

Some issuers, such as Veolia Environnement and Eni, specified that they were responsible for recovery of the transferred receivables:

Factoring

There are currently fourteen trade receivable factoring programs, in the Energy Services Division mainly in France, Italy and Poland, representing maximum aggregate outstandings of €480 million. Under these programs, generally renewed annually, certain subsidiaries have agreed to assign, on a renewable basis, trade receivables by contractual subrogation without recourse against the risk of default by the debtor. The analysis of the risks and rewards as defined by IAS39 led the Group to derecognize almost all the receivables assigned under these factoring programs. The French subsidiaries concerned by the programs remain responsible for invoicing and debt recovery, for which they receive remuneration but do not retain control.

Accordingly, receivables totaling €474.1 million were assigned under the aforementioned programs in 2012. Receivables assigned and derecognized as of December 31, 2012 total €325.3 million, including €179.7 million in France, €109.0 million in Italy and €36.6 million in Poland. These assignments were mainly performed from September to December 2012, due to the seasonality of activities in the Energy Services Division (higher volume of receivables to assign), changes in the economic context in Italy (assignment of receivables recommenced in September 2012), and the implementation of a annually renewable factoring program for recurring receivable assignments in France.

Finally, none of the issuers presenting disclosures on transfers of assets that were derecognised in their entirety provided any specific quantitative information on:

- undiscounted cash outflows that would or may be required to buy back derecognised financial assets, or other amounts payable to the transferee in respect of the transferred assets (IFRS 7, paragraph 42Ed); or
- an analysis of the remaining contractual maturities of the entity's continuing involvement (IFRS 7, paragraph 42Ee).

➤ What can we learn from the first application of the amendment to IFRS 7?

The first key finding from this study relates to the proportion of issuers affected by transfers of financial assets, as just under half of issuers presented disclosures on the subject (33 issuers out of 71 in our sample, or 46%).

It is unsurprising that all the banks presented disclosures on transfers of assets, but only a third of industrial and services companies did so, stating that they had assigned receivables, primarily through securitisation.

One of the main features introduced by this IFRS 7 amendment is the mandatory publication of disclosures on fully derecognised operations. This has had a genuine impact, two-thirds of the 19 entities that reported such operations having significantly improved their disclosures on this subject by comparison with last year. Seven of them mentioned transactions of this type which had previously not been disclosed.

At this closing of accounts, all the companies which presented disclosures on these transactions specified at least the nature and carrying amount of the transferred items. However, there was significant variation in the level of information given on the nature and extent of the risks to which the entity is still exposed, depending largely on the significance of these transactions for the issuer. Thus, some disclosures required by the standard – such as the distribution of transactions and cash outflows required for the potential buy-back of the derecognised assets – are not always presented.

Our study has highlighted several examples of good practice, as shown above, for disclosures on both financial assets that have been transferred but not derecognised, and those that have been transferred and derecognised in their entirety.

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