

Analysis of the impact of IFRS standards on the accounting treatment of credit assets transfer and derecognition:

A case study approach.

Abstract:

A recent report issued by the US-based audit company Ernst & Young (2006) stated that, in 2005, 23 out of 39 of the CAC 40 index companies operated assets transfers. More specifically, 6 companies operated as transferee while 32 as assignor. Those transactions were mainly concerned with securitization and credit factoring issues. Besides, in 69% of the transfer cases, the companies did not derecognize the credit assets and only half of the listed firms provided additional disclosure regarding these specific operations.

This result sheds into light the current ambiguity and technicality surrounding the accounting treatment related to credit factoring transactions under international accounting GAAPs. In this respect, IAS 39 contends that a financial instrument derecognition should imply the transfer of both its contractual rights and most of its inherent risks to a third party. However, the international accounting standard fails to provide any clear models or methodologies necessary to meet of these two criteria.

Based on a case-study approach oriented from a factor entity perspective, this paper presents and discusses a methodology in order to ease the (de)recognition of a credit assets transfer under IAS 39.

Keywords: Credit Assets, Credit Factoring, Financial Instruments Derecognition, Inherent Risk, Contractual Rights, IAS 39

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