



30 Cannon Street, London EC4M 6XH, United Kingdom
Tel: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
E-mail: iasb@iasb.org Website: www.iasb.org

**International
Accounting Standards
Board**

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting: October 2008, London
Project: IAS 39 *Financial Instruments: Recognition and Measurement*
Subject: Reclassifications out of the held for trading part of the Fair Value through Profit or Loss (FVTPL) Category (Follow-up to Agenda Paper 12 - Attachment)

STAFF DRAFT - NOT APPROVED BY THE IASB

RECLASSIFICATION OF FINANCIAL ASSETS

(AMENDMENTS TO IAS 39 AND IFRS 7)

STAFF DRAFT V 13OCTOBER

NOT APPROVED BY THE IASB

**THIS IS A DRAFT BASED ON THE STAFF'S CURRENT
ASSESSMENT OF US GAAP. THAT ASSESSMENT MAY
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Reclassification of financial assets

Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*

Amendments to IAS 39

In the Introduction, a heading and paragraph IN8A are added.

Introduction

Reclassifications

IN8A An amendment to the Standard, issued in October 2008, permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables at initial recognition, if the entity has the intention and ability to hold that financial asset for the foreseeable future.

Paragraph 50 is amended (new text is underlined and deleted text is struck through) and paragraphs 50B–50H and 103G are added.

Measurement

Reclassifications

- 50 An entity:
- (a) shall not reclassify a ~~derivative financial instrument into or~~ out of the fair value through profit or loss category while it is held or issued;
 - (b) shall not reclassify any financial instrument out of the fair value through profit or loss category if upon initial recognition it was designated by the entity as at fair value through profit or loss; and
 - (c) notwithstanding the definition of held for trading, an entity may reclassify any other financial asset out of the fair value through profit or loss category if the requirements in paragraph 50B or 50E are met.

An entity shall not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

50B A financial asset to which paragraph 50(c) applies (except a financial asset of the type described in paragraph 50E) may be reclassified out of the fair value through profit or loss category only in rare circumstances.

50C If an entity reclassifies a financial asset out of the fair value through profit or loss category in accordance with paragraph 50B, the financial asset shall be reclassified at its fair value on the date of reclassification. Any gain or loss already recognised in profit or loss shall not be reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

50D For any financial asset (except an equity instrument) reclassified in accordance with paragraph 50B, an entity shall assess at the end of each subsequent reporting period whether there has been an impairment in accordance with the following requirements (and not in accordance with paragraphs 58–70):

- (a) An entity shall determine whether a decline in fair value below the cost or amortised cost will be recovered. Factors to be included in that assessment are:
 - (i) the length of time and the extent to which the fair value is below cost or amortised cost;
 - (ii) the financial condition and near-term prospects of the issuer, including any specific events that may influence the operations of the issuer such as changes in technology that may impair the earnings potential of the financial asset or the discontinuance of a segment of the business that may affect the future earnings potential; and
 - (iii) the intention and ability of the entity to retain its financial asset for a period of time sufficient to allow for any anticipated recovery in fair value.
- (b) If the entity determines that a decline in fair value will not be recovered, it shall write down to fair value a financial asset not classified as available for sale and recognise the amount of the loss in profit or loss. For a financial asset classified as available for sale, the cumulative loss (the difference between the cost net of any principal repayment and amortisation and the current fair value) that has been recognised in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognised.
- (c) Any such impairment loss recognised in profit or loss shall not be reversed through profit or loss.
- (d) The fair value to which the financial asset is written down shall be the new cost basis against which any subsequent impairments shall be assessed.

For any equity instrument reclassified in accordance with paragraph 50B, an entity shall assess at the end of each subsequent reporting period whether there has been an impairment of a financial asset or group of financial assets in accordance with paragraphs 58–70.

50E A financial asset to which paragraph 50(c) applies that would have met the definition of loans and receivables at initial recognition (if the financial asset had not been required to be classified as held for trading at initial recognition) may be reclassified out of the fair value through profit or loss category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If the entity does not have the positive intention and ability to hold that financial asset to maturity, it shall reclassify the financial asset as a loan or receivable or as available for sale.

- 50F A financial asset classified as available for sale that would have met the definition of loans and receivables at initial recognition (if it had not been either designated as available for sale at initial recognition or required to be available for sale at initial recognition) may be reclassified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- 50G If an entity reclassifies a financial asset out of the fair value through profit or loss category in accordance with paragraph 50E or out of the available-for-sale category in accordance with paragraph 50F, it shall reclassify the financial asset at its fair value on the date of reclassification. For a financial asset reclassified in accordance with paragraph 50E, any gain or loss already recognised in profit or loss shall not be reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. For any financial asset reclassified out of the available-for-sale category in accordance with paragraph 50F, any previous gain or loss on that asset that has been recognised in other comprehensive income in accordance with paragraph 55(b) shall be accounted for in accordance with paragraph 54.
- 50H If an entity reclassifies a financial asset in accordance with paragraph 50E or 50F, the entity shall assess at the end of each reporting period whether there is any objective evidence that the financial asset or group of financial assets is impaired, in accordance with paragraphs 58 – 70.

Effective date and transition

- 103G *Reclassification of Financial Assets* (Amendments to IAS 39 and IFRS 7), issued in October 2008, amended paragraph 50, paragraph AG8, and added paragraphs 50B–50H. An entity shall apply those amendments from 1 July 2008. An entity shall not reclassify a financial asset in accordance with paragraph 50B, 50E or 50H before 1 July 2008. Any reclassification of a financial asset made in periods beginning on or after 1 November 2008 shall be effective only from the date when the reclassification is made. Any reclassification of a financial asset in accordance with paragraph 50B, 50E or 50H shall not be applied retrospectively to reporting periods ended before the effective date set out in this paragraph.

In Appendix A <i>Application Guidance</i> , paragraph AG8 is amended (new text is underlined and deleted text is struck through).

Effective interest rate

- AG8 If an entity revises its estimates of payments or receipts, the entity shall adjust the carrying amount of the financial asset or financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows. The entity recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The adjustment is recognised as income or expense in profit or loss. If a financial asset is reclassified in accordance with

paragraph 50B and the entity subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase shall be recognised as an adjustment to the effective interest rate from the date of the change in estimate rather than as an adjustment to the carrying amount of the asset at the date of the change in estimate. If a financial asset is reclassified in accordance with paragraph 50B and an impairment loss is subsequently recognised in accordance with paragraph 50D , the revised estimated cash flows shall exclude any cash flows relating to recovery of the previously recognised impairment loss.

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Amendments to IFRS 7

Paragraph 12 is amended (new text is underlined and deleted text is struck through) and paragraphs 12A and 44E are added.

Significance of financial instruments for financial position and performance

Statement of financial position

Reclassification

- 12 If the entity has reclassified a financial asset (in accordance with paragraphs 51–54 of IAS 39) as one measured:
- (a) at cost or amortised cost, rather than fair value; or
 - (b) at fair value, rather than at cost or amortised cost,
- it shall disclose the amount reclassified into and out of each category and the reason for that reclassification (~~see paragraphs 51–54 of IAS 39~~).
- 12A If the entity has reclassified a financial asset out of the fair value through profit or loss category in accordance with paragraph 50B or 50E or out of the available-for-sale category in accordance with paragraph 50F of IAS 39, it shall disclose:
- (a) the amount reclassified into and out of each category;
 - (b) if a financial asset was reclassified in accordance with paragraph 50B, the rare situation, and the facts and circumstances indicating that the situation was rare;
 - (c) for the reporting period when the financial asset was reclassified, the gain or loss recognised in profit or loss or other comprehensive income in that reporting period and in the previous reporting period; and
 - (d) for each reporting period following the reclassification (including the reporting period in which the financial asset was reclassified) until derecognition of the financial asset, the fair value gain or loss that would have been recognised in profit or loss or other comprehensive income if the financial asset had not been reclassified and the gain, loss, income and expense actually recognised in profit or loss.

Effective date and transition

- 44E *Reclassification of Financial Assets* (Amendments to IAS 39 and IFRS 7), issued in October 2008, amended paragraph 12 and added paragraph 12A. An entity shall apply those amendments from 1 July 2008.