

AMENDMENTS TO FRS 26 (IAS 39)

FINANCIAL INSTRUMENTS: RECOGNITION  
AND MEASUREMENT

AND FRS 29 (IFRS 7)

FINANCIAL INSTRUMENTS:  
DISCLOSURES

RECLASSIFICATION OF  
FINANCIAL ASSETS



ACCOUNTING  
STANDARDS  
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*Amendment to FRS 26 (IAS 39) 'Financial Instruments: Recognition and Measurement' is issued by the Accounting Standards Board in respect of its application in the United Kingdom and by the Institute of Chartered Accountants in Ireland in respect of its application in the Republic of Ireland.*

**AMENDMENTS TO FRS 26 (IAS 39)**  
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**AND FRS 29 (IFRS 7)**  
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## **PREFACE**

### **Introduction**

- 1 In October 2008 the International Accounting Standards Board (IASB) published amendments to IAS 39 ‘Financial Instruments: Recognition and Measurement’ and IFRS 7 ‘Financial Instruments: Disclosures’. This amendment standard has the effect of implementing the amendments made by the IASB to FRS 26 ‘Financial Instruments: Recognition and Measurement’ and FRS 29 ‘Financial Instruments: Disclosures’, which are equivalent converged standards to IAS 39 and IFRS 7.
- 2 The amendments permit the reclassification of certain financial assets, including:
  - certain held-for-trading non-derivative financial assets out of the Fair Value Through Profit or Loss (FVTPL) category in rare circumstances; and
  - certain financial assets to the loans and receivables category (and so measured on a cost basis) if the entity has the intention and ability to hold them for the foreseeable future or until maturity.
- 3 The amendments do not permit reclassification if an entity has applied an option to fair value financial instruments on initial recognition.
- 4 In moving to issue the amendments, the ASB – like the IASB – has not followed its normal due process, given the need to take urgent action to address the rare circumstances of the current credit crisis. The ASB wishes to ensure that entities applying FRS 26 and FRS 29 have the same ability to be able to make reclassifications as those applying IFRS.

- 5 This Standard also contains amendments to the Preface by the Accounting Standards Board to FRS 26 and FRS 29 and to the Notes on the Standard's Application for FRS 26.
- 6 The amendments are applicable from 1 July 2008.

**AMENDMENTS TO THE FINANCIAL  
REPORTING STANDARD 26 (IAS 39)  
'FINANCIAL INSTRUMENTS:  
RECOGNITION AND MEASUREMENT'**

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[ASB Note: Strikethroughs and underlining are used to show changes made by the ASB in implementing IASB text, and not changes made to the existing standard made by the amendment.]

*Amendment to the Preface by the Accounting Standards Board*

1. The following paragraphs are added to follow paragraph v:
  - w In October 2008 the Board issued an amendment to FRS 26 to incorporate changes made by the IASB to IAS 39 *Financial Instruments: Recognition and Measurement* 'Reclassification of Financial Assets'. The amendment permits entities to reclassify certain financial assets, including: non-derivative held-for-trading 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 rare circumstances; and certain financial assets to the loans and receivables category (if the financial asset had not been designated as available for sale) if the entity has the intention and ability to hold that financial asset for the foreseeable future.
  - x At the same time the Board made consequential amendments to FRS 29 which incorporate into that Standard the consequential disclosure requirements implemented into IFRS 7 by the IASB.
  - y The October 2008 amendments to FRS 26 and FRS 29 are applicable from 1 July 2008.

***Amendment to the Standard***

[Note: The text of FRS 26 (IAS 39) 'Financial Instruments: Recognition and Measurement' includes strikethroughs and underlining to show changes made by the ASB to the text of the corresponding IAS. The amended text of FRS 26 set out below adopts the same convention; as a result, it is not practicable to show changes to the paragraphs of the standard that are included in this amendment.]

2. FRS 26 is amended as follows:

In the IASB 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 (if the financial asset had not been designated as available for sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future.

Paragraph 50 is amended to read as follows and paragraphs 50B-50F and 103G are added.

## Measurement

### Reclassifications

50 **An entity:**

- (a) shall not reclassify a derivative 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) may, if a financial asset is no longer held for the purpose of selling or repurchasing it in the near term (notwithstanding that the financial asset may have been acquired or incurred principally for the purpose of selling or repurchasing it in the near term), reclassify that financial asset out of the fair value through profit or loss category if the requirements in paragraph 50B or 50D 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 50D) 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 A financial asset to which paragraph 50(c) applies that would have met the definition of loans and receivables (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.
- 50E A financial asset classified as available for sale that would have met the definition of loans and receivables (if it had not been designated as available for sale) 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.
- 50F If an entity reclassifies a financial asset out of the fair value through profit or loss category in accordance with paragraph 50D or out of the available-for-sale category in accordance with paragraph 50E, it shall reclassify the financial asset at its fair value on the date of reclassification. For a financial asset reclassified in accordance with paragraph 50D, 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 a financial asset reclassified out of the available-for-sale category in accordance with paragraph 50E, 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.

### **Effective date and transition**

- 103G *Reclassification of Financial Assets* (Amendments to ~~IAS 39~~ FRS 26 and ~~FRS 7~~ FRS 29), issued in October 2008,

amended paragraphs 50 and AG8, and added paragraphs 50B–50F. An entity shall apply those amendments from 1 July 2008. An entity shall not reclassify a financial asset in accordance with paragraph 50B, 50D or 50E before 1 July 2008. Any reclassification of a financial asset made in periods beginning on or after 1 November 2008 shall take effect only from the date when the reclassification is made. Any reclassification of a financial asset in accordance with paragraph 50B, 50D or 50E shall not be applied retrospectively to reporting periods ended before the effective date set out in this paragraph.

In Appendix A *Application guidance*, paragraph AG8 is amended to read as follows.

### **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, 50D or 50E, 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.

***Amendment to the Notes on the Standard's Application in the UK and the Republic of Ireland***

3. The following paragraphs are added to follow paragraph N60:

- N61 In October 2008 the International Accounting Standards Board (IASB) published amendments to IAS 39 Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures'. The amendments permit the reclassification of certain financial assets, including: non-derivative held-for-trading financial assets out of the Fair Value Through Profit or Loss (FVTPL) category in rare circumstances; and certain financial assets to the loans and receivables category in a selection of cases. The amendments do not permit reclassification if an entity has applied an option to fair value financial instruments on initial recognition.
- N62 In moving to issue the amendments, the ASB – like the IASB – did not follow its normal due process, given the need to take urgent action to address the rare circumstances of the current credit crisis. The ASB wants to ensure that entities applying FRS 26 and FRS 29 have the same ability to be able to make reclassifications as those applying IFRS.

**AMENDMENTS TO FINANCIAL REPORTING  
STANDARD 29 (IFRS 7) 'FINANCIAL  
INSTRUMENTS: DISCLOSURES'**

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[ASB Note: Strikethroughs and underlining are used to show changes made by the ASB in implementing IASB text, and not changes made to the existing standard made by the amendment.]

*Amendment to the Preface by the Accounting Standards Board*

1. The following paragraph is added to follow paragraph h:
  - i In October 2008 the ASB added new disclosure requirements to FRS 29. These relate to amendments made to FRS 26 on the same date concerning the reclassification of certain financial assets. The new disclosure requirements are applicable from 1 July 2008.

***Amendment to the Standard***

[Note: The text of FRS 29 (IFRS 7) 'Financial Instruments: Disclosures' includes strikethroughs and underlining to show changes made by the ASB to the text of the corresponding IAS. The amended text of FRS 29 set out below adopts the same convention; as a result, it is not practicable to show changes to the paragraphs of the standard that are included in this amendment.]

4. FRS 29 is amended as follows:

Paragraph 12 is amended to read as follows 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~~ FRS 26) 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.
- 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 50D of ~~IAS 39~~ FRS 26 or out of the available-for-sale category in accordance with paragraph 50E of IAS 39, it shall disclose:

- (a) the amount reclassified into and out of each category;
- (b) for each reporting period until derecognition, the carrying amounts and fair values of all financial assets that have been reclassified in the current and previous reporting periods;
- (c) 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;
- (d) for the reporting period when the financial asset was reclassified, the fair value gain or loss on the financial asset recognised in profit or loss or ~~other comprehensive income~~ the statement of total recognised gains and losses in that reporting period and in the previous reporting period;
- (e) 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~~ the statement of total recognised gains and losses if the financial asset had not been reclassified, and the gain, loss, income and expense recognised in profit or loss; and
- (f) the effective interest rate and estimated amounts of cash flows the entity expects to recover, as at the date of reclassification of the financial asset.

### **Effective date and transition**

44E Reclassification of Financial Assets (~~IAS 39~~ FRS 26 and ~~FRS 7~~ FRS 29), issued in October 2008, amended paragraph 12 and added paragraph 12A. An entity shall apply those amendments from 1 July 2008.

## **ADOPTION OF AMENDMENTS**

### **Approval by the IASB Board of *Reclassification of Financial Assets* (Amendments to IAS 39 and IFRS 7) issued in October 2008**

*Reclassification of Financial Assets* (Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*) was approved for issue by eleven of the thirteen members of the International Accounting Standards Board. Messrs Leisenring and Smith dissented. Their dissenting opinions are set out after the Basis for Conclusions.

Sir David Tweedie  
Thomas E Jones  
Mary E Barth  
Stephen Cooper  
Philippe Danjou  
Jan Engström  
Robert P Garnett  
Gilbert Gélard  
James J Leisenring  
Warren J McGregor  
John T Smith  
Tatsumi Yamada  
Wei-Guo Zhang

Chairman  
Vice-Chairman

**Approval by the Accounting Standards Board of  
*Reclassification of Financial Assets (Amendments to  
FRS 26 and FRS 29)***

Ian Mackintosh

Chairman

David Loweth

Technical Director

Nick Anderson

Michael Ashley

Edward Beale

Marisa Cassoni

Peter Elwin

Ken Lever

Robert Overend

Andy Simmonds

Professor Geoffrey Whittington CBE

## **APPENDIX I: OTHER MATERIAL TO BE INSERTED IN FRS 26 AND FRS 29**

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### ***Amendment to the Basis for Conclusions on FRS 26 (IAS 39) Financial Instruments: Recognition and Measurement***

[ASB Note: The amendment to the IASB's Basis for Conclusions, which accompanies IAS 39 (and has therefore been reproduced in FRS 26) is set out below. All references in this section to 'the Board' and 'Board members' are references to IASB Board and IASB Board members.]

In the Basis for Conclusions, paragraph BC11E is added and paragraphs BC104A–BC104E are added.

### **Background**

BC11E In October 2008 the Board received requests to address differences between the reclassification requirements of IAS 39 and US GAAP (Statements of Financial Accounting Standards No. 115 *Accounting for Certain Investments in Debt and Equity Securities* (SFAS 115) and No. 65 *Accounting for Certain Mortgage Banking Activities* (SFAS 65) issued by the US Financial Accounting Standards Board). In response the Board issued *Reclassification of Financial Assets* (Amendments to IAS 39 and IFRS 7) in October 2008. The amendments to IAS 39 permit non-derivative financial assets held for trading and available-for-sale financial assets to be reclassified in particular situations. The rationale for the amendments is set out in paragraphs BC104A–BC104E.

## Measurement

### **Reclassification of financial instruments (paragraphs 50–54)**

- BC104A As described in paragraph BC11E, in October 2008 the Board received requests to address differences between the reclassification requirements of IAS 39 and US GAAP. SFAS 115 permits a security to be reclassified out of the trading category in rare situations. SFAS 65 permits a loan to be reclassified out of the Held for Sale category if the entity has the intention and ability to hold the loan for the foreseeable future or until maturity. IAS 39 permitted no reclassifications for financial assets classified as held for trading. The Board was asked to consider allowing entities applying IFRSs the same ability to reclassify a financial asset out of the held-for-trading category as is permitted by SFAS 115 and SFAS 65.
- BC104B The Board noted that allowing reclassification, even in limited circumstances, could allow an entity to manage its reported profit or loss by avoiding future fair value gains or losses on the reclassified assets.
- BC104C The Board was also informed that, in practice under US GAAP, reclassification out of the trading category of SFAS 115 is extremely rare. However, the Board noted that the possibility of reclassification of securities and loans under US GAAP is available and that entities applying IFRSs do not have that possibility.
- BC104D The Board therefore decided to permit non-derivative financial assets to be reclassified out of the held-for-trading category in the same circumstances as are permitted in SFAS 115 and SFAS 65. The Board also noted that rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Board decided that a financial asset that would have met the definition of loans and receivables (if it had not been designated as available for

sale) should be permitted to be transferred from the available-for-sale category to loans and receivables, if the entity intends to hold the loan or receivable for the foreseeable future or until maturity. The Board decided that this substantially aligns the accounting for reclassifications of loans and receivables with that permitted under US GAAP.

BC104E The Board normally publishes an exposure draft of any proposed amendments to standards to invite comments from interested parties. However, given the requests to address this issue urgently in the light of market conditions, and after consultation with the Trustees of the IASC Foundation, the Board decided to proceed directly to issuing the amendments. In taking this exceptional step the Board noted that the amendments to IAS 39 relaxed the existing requirements to provide short-term relief for some entities. The Board also noted that the amendments were a short-term response to the requests and therefore the Board decided to restrict the scope of the amendments.

## *Dissenting opinions*

### **Dissent of James J Leisenring and John T Smith from the issue in October 2008 of amendments to IAS 39 and IFRS 7 on the reclassification of financial assets**

- D01 Messrs Leisenring and Smith dissent from *Reclassification of Financial Assets* (Amendments to IAS 39 and IFRS 7). The amendments to IAS 39 are asserted to level the playing field with US GAAP. It accomplishes that with respect to the reclassification of financial instruments to the held-to-maturity category of loans and receivables from other classifications. However, once reclassified, the measurement of impairment and when that measurement is required are quite different and a level playing field in accounting for these instruments is not achieved. Messrs Leisenring and Smith would have been willing to support the alternative approach considered by the Board that would have closely aligned the impairment requirements of US GAAP with IFRSs.
- D02 As described in paragraph BC11E, in October 2008 the Board received requests to address differences between the reclassification requirements of IAS 39 and US GAAP. SFAS 115 permits a security to be reclassified out of the trading category in rare situations. SFAS 65 permits a loan to be reclassified out of the Held for Sale category if the entity has the intention to hold the loan for the foreseeable future or until maturity. IAS 39 permitted no reclassifications for financial assets classified as held for trading. The Board was asked to consider allowing entities applying IFRSs the same ability to reclassify a financial asset out of the held-for-trading category as is permitted by SFAS 115 and SFAS 65.
- D03 Messrs Leisenring and Smith both believe that the current requirements in IFRSs for reclassification are superior to US GAAP and that the accounting for impairments in US GAAP is superior to the requirements of IAS 39.

D04 Furthermore, Messrs Leisenring and Smith do not believe that amendments to standards should be made without any due process.

***Amendment to the Basis for Conclusions on FRS 29 (IFRS 7)  
Financial Instruments: Recognition and Measurement***

[ASB Note: The amendment to the IASB's Basis for Conclusions, which accompanies IFRS 7 (and has therefore been reproduced in FRS 29) is set out below. All references in this section to 'the Board' and 'Board members' are references to IASB Board and IASB Board members.]

In the Basis for Conclusions, the heading above paragraph BC23 is amended and paragraph BC23A is added.

***Disclosures about the significance of financial instruments for  
financial position and performance (paragraphs 7–30, B4 and B5)***

**Balance sheet disclosures (paragraphs 8–19 and B4)**

**Reclassification (paragraphs 12 and 12A)**

BC23A In October 2008 the Board amended IAS 39 to permit reclassification of particular financial assets in some circumstances. The Board decided to require additional disclosures about the situations in which any such reclassification is made, and the effects on the financial statements. The Board regards such information as useful because the reclassification of a financial asset can have a significant effect on the financial statements.



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