

Accounting Standard

AASB 2008-10

October 2008

Amendments to Australian Accounting Standards – Reclassification of Financial Assets

[AASB 139 & AASB 7]



Australian Government

**Australian Accounting
Standards Board**

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| Australian Accounting Standard AASB 2008-10 <i>Amendments to Australian Accounting Standards – Reclassification of Financial Assets</i> is set out in paragraphs 1 – 10. All the paragraphs have equal authority. |
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PREFACE

Standards Amended by AASB 2008-10

This Standard makes amendments to the following Australian Accounting Standards:

1. AASB 139 *Financial Instruments: Recognition and Measurement*; and
2. AASB 7 *Financial Instruments: Disclosures*.

These amendments arise from the issuance of Reclassifications of Financial Assets (Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*) by the IASB in October 2008.

Main Features of this Standard

Application Date

The amendments to AASB 139 shall be applied 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 reclassifications of a financial asset, in accordance with paragraph 50B, 50D or 50E, 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.

The amendments to AASB 7 shall be applied from 1 July 2008.

Main Requirements

The amendments to AASB 139 permit an entity to:

- (a) 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 when the financial asset is no longer held for the purpose of selling or repurchasing in the near future, and either of the following apply:
 - (i) there are rare circumstances; or

- (ii) it would have met the definition of loans and receivables (if the financial asset had not been required to be held for trading at initial recognition); and
- (b) 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.

The amendments to AASB 7 specify the disclosures required by an entity that reclassifies financial assets out of fair value through profit or loss in accordance with the amendments to AASB 139 made by this Standard.

ACCOUNTING STANDARD AASB 2008-10

The Australian Accounting Standards Board makes Accounting Standard AASB 2008-10 *Amendments to Australian Accounting Standards – Reclassification of Financial Assets* under section 334 of the *Corporations Act 2001*.

Dated 22 October 2008

D.G. Boymal
Chair - AASB

ACCOUNTING STANDARD AASB 2008-10

AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – RECLASSIFICATION OF FINANCIAL ASSETS

Objective

1 The objective of this Standard is to make amendments to:

- (a) AASB 139 *Financial Instruments: Recognition and Measurement*; and
- (b) AASB 7 *Financial Instruments: Disclosures*;

as a consequence of the issuance of *Reclassification of Financial Assets (Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures)* by the IASB in October 2008.

Application

2 **This Standard applies to:**

- (a) **each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;**
- (b) **general purpose financial statements of each other reporting entity; and**
- (c) **financial statements that are, or are held out to be, general purpose financial statements.**

- 3 **The amendments to AASB 139 shall apply 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, in accordance with paragraph 50B, 50D or 50E, 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.**
- 4 **The amendments to AASB 7 shall apply from 1 July 2008.**
- 5 **The requirements specified in this Standard apply to the financial statements where information resulting from their application is material in accordance with AASB 1031 *Materiality*.**

Amendments to AASB 139

- 6 Paragraph 50 is amended to read as follows:

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.

- 7 Paragraphs 50B-50F are added after paragraph 50:
- 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.

- 8 In the Application Guidance, paragraph AG8 is amended to read as follows:

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.

Amendments to AASB 7

- 9 Paragraph 12 is amended to read as follows:

12 If the entity has reclassified a financial asset (in accordance with paragraphs 51-54 of AASB 139) 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.

- 10 Paragraph 12A is added:

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 AASB 139 or out of the available-for-sale category in accordance with paragraph 50E of AASB 139, 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 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 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.

DELETED IFRS TEXT

Deleted IFRS text is not part of AASB 2008-10.

IFRS 7 Financial Instruments: Disclosures

Deleted IFRS 7 text is not part of AASB 7.

Paragraph 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.

IAS 39 Financial Instruments: Recognition and Measurement

Deleted IAS 39 text is not part of AASB 139.

Paragraph 103G

Reclassification of Financial Assets (Amendments to IAS 39 and IFRS 7), 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.