

Jörgen Holmquist
Director General
European Commission
Directorate General for the Internal Market
1049 Brussels

14 October 2008

Dear Mr Holmquist

The Amendment to IAS 39 and IFRS 7 “Reclassification of Financial Assets”

Based on the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards we are pleased to provide our opinion on the adoption of the Amendment to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* “Reclassification of Financial Assets” published 13 October 2008 (referred to hereafter as ‘the amendment’).

Although the IASB normally publishes an exposure draft of any amendments it is proposing to make, the urgency with which it was requested to act in the light of market conditions meant that, after consultation with its trustees, it proceeded directly to issuing the amendments. Similarly, EFRAG normally issues a draft of its endorsement advice for public comment and finalises its advice after considering the comments received. However, bearing in mind the urgent and exceptional nature of the situation, EFRAG’s Supervisory Board has permitted this endorsement advice to be issued without following the normal EFRAG due process.

The amendment to IAS 39 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 (also referred to as the fair value option)) out of the fair value through profit or loss category in specific 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 had it not been designated as available for sale. Such a reclassification is possible only if the entity has the intention and ability at the time of reclassification to hold that financial asset for the foreseeable future or until maturity. The amendment to IFRS 7 specifies disclosures entities have to provide if they reclassify financial instruments following the amendment to IAS 39.

Entities shall apply those amendments from 1 July 2008. An entity shall not reclassify a financial asset in accordance with the amendment to IAS 39 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 the amendment to IAS 39 shall not be applied

retrospectively to reporting periods ended before the effective date set out in the amendment.

EFRAG has carried out an evaluation of the amendment and has concluded that it meets the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards in that:

- it is not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and
- it meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

For the reasons given above, EFRAG believes that it is in the European interest to adopt the amendment and, accordingly, EFRAG recommends its adoption.

On behalf of the members of EFRAG, I should be happy to discuss our advice with you, other officials of the EU Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely

Stig Enevoldsen
EFRAG, Chairman