

**INVITATION TO COMMENT ON EFRAG'S ASSESSMENTS OF THE
AMENDMENT TO IAS 39 AND IFRS 7 'RECLASSIFICATION OF FINANCIAL
ASSETS – EFFECTIVE DATE AND TRANSITION'**

Comments should be sent to commentletter@efrag.org or
uploaded via our website by 8 January 2008

EFRAG has been asked by the European Commission to provide it with advice and supporting material on the amendment to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* "Reclassification of Financial Assets – Effective Date and Transition" (the Clarification). In order to do that, EFRAG has been carrying out a technical assessment of the Clarification against the criteria for endorsement set out in Regulation (EC) No 1606/2002 and has also been assessing the costs and benefits that would arise from its implementation in the EU.

A summary of the Clarification is set out in Appendix 1.

Before finalising its two assessments, EFRAG would welcome your views on the issues set out below. Please note that all responses received will be placed on the public record unless the respondent requests confidentiality. In the interest of transparency EFRAG will wish to discuss the responses it receives in a public meeting, so we would prefer to be able to publish all the responses received.

1 Please provide the following details about yourself:

- (a) Your name or, if you are responding on behalf of an organisation or company, its name:

Belgian Accounting Standards Board

- (b) Are you/Is your organisation or company a:

Preparer User Other (please specify)

Standard Setter

- (c) Please provide a short description of your activity/ the general activity of your organisation or company:

- (d) Country where you/your organisation or company is located:

Belgium

- (e) Contact details including e-mail address:

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- 2 As explained in Appendix 2, EFRAG has concluded that, because of the process followed in developing and issuing the amendment that this Clarification clarifies, it is not appropriate to evaluate the Clarification on a standalone basis against the EU endorsement criteria. EFRAG has therefore evaluated the Clarification and October amendment together and concluded that together they meet the technical criteria for endorsement. In other words, they are not contrary to the true and fair principle and it meets the criteria of understandability, relevance, reliability and comparability. EFRAG’s tentative view therefore is that it should recommend endorsement of the Clarification. EFRAG’s reasoning is set out in Appendix 2.

- (a) Do you agree with this assessment?

Yes No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG’s endorsement advice.

- (b) Are there any issues that are not mentioned in Appendix 2 that you believe EFRAG should take into account in its technical evaluation of the Clarification? If there are, what are those issues and why do you believe they are relevant to the evaluation?

[No, there are no further issues.](#)

3. As explained in Appendix 3, for similar reasons EFRAG has concluded that it is not appropriate to assess the costs and benefits of the Clarification on a standalone basis; rather the costs that will arise for preparers and for users, both in year one and in subsequent years, to implement the Clarification and the October amendment together should be assessed and compared to the benefits expected to arise from the October amendment and Clarification together. Some initial work has been carried out on this assessment, and the responses to this Invitation to Comment will be used to complete the assessment.

The results of the initial assessment are set out in Appendix 3. They are that the Clarification and the October amendment together:

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- (a) will involve preparers in some additional costs to make the reclassifications, although reclassification is optional so those costs are taken on voluntarily;
- (b) will involve users in some insignificant additional analysis costs; and
- (c) will involve benefits that are likely to exceed those costs.

Do you agree with this assessment?

Yes No

If you do not, please explain why you do not and (if possible) explain broadly what you believe the costs involved will be?

- 3 EFRAG is not aware of any other factors that should be taken into account in reaching a decision as to what endorsement advice it should give the European Commission on the Clarification.

Do you agree that there are no other factors?

Yes No

If you do not, please explain why you do not and what you think the implications should be for EFRAG’s endorsement advice?

APPENDIX 1 A SUMMARY OF THE CLARIFICATION

- 1 This amendment clarifies the effective date and transition requirements of the amendment to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* “Reclassification of Financial Assets” issued on 13 October 2008 (the October amendment). EFRAG recommended the October amendment for endorsement in the EU, and it has since been endorsed.
- 2 The October amendment permitted entities in certain circumstances to reclassify non-derivative financial assets out of the held-for-trading category and the available-for-sale category at fair value on the date of reclassification. Such reclassifications are to be carried out on a real-time basis (ie at the current date), except that the amendment allows some backdating to 1 July 2008 as part of the transitional arrangements. The Clarification relates to the degree of backdating to be allowed.
- 3 The IASB’s intention had been to allow reclassifications to be backdated as long as (a) the reclassification is made before 1 November 2008 and (b) the reclassification is not backdated to a date before 1 July 2008.
- 4 However, shortly after the October 2008 amendment was issued it became apparent that the effective date and the transitional requirements of the October amendment had been ambiguously drafted and as a result do not fully reflect the IASB’s intentions. That is because the October amendment stated that “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” and this wording has been interpreted by some to mean that reclassifications made in periods starting on or before 31 October 2008 can be backdated to 1 July 2008.
- 5 On 24 October 2008 the IASB clarified its intentions with regard to the effective date and the transitional requirements in the October 2008 issue of the IASB Update, an official IASB report on its deliberations and decisions taken during the IASB public meetings. The Clarification, which was issued on 27 November 2008, formally incorporates that clarification into IFRS.

APPENDIX 2

EFRAG’S TECHNICAL ASSESSMENT OF THE CLARIFICATION AGAINST THE ENDORSEMENT CRITERIA

In its comment letters to the IASB, EFRAG points out that such letters are submitted in EFRAG’s capacity as a contributor to the IASB’s due process. They do not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as adviser to the European Commission on endorsement of the final IFRS or Interpretation on the issue.

In the latter capacity, EFRAG’s role is to make a recommendation about endorsement based on its assessment of the final IFRS or Interpretation against the European endorsement criteria, as currently defined. These are explicit criteria which have been designed specifically for application in the endorsement process, and therefore the conclusions reached on endorsement may be different from those arrived at by EFRAG in developing its comments on proposed IFRSs or Interpretations. Another reason for a difference is that EFRAG’s thinking may evolve.

Introduction

- 1 On 13 October 2008 the IASB issued the amendment to IAS 39 and IFRS 7 *Reclassification of Financial Assets* (the October amendment). On 14 October EFRAG evaluated the October amendment, concluded that it met the EU endorsement criteria, and issued an endorsement advice letter to that effect. The amendment was subsequently endorsed.
- 2 The Clarification clarifies the effective date and transitional requirements of the October amendment.
- 3 The October amendment was issued following an urgent request from Europe. Indeed, because of the urgency that had been attached to request made to the IASB, the IASB had no choice if the request was to be met but to put aside its normal due process and issue a final amendment without any prior public consultation. This action was without precedent. The IASB has a due process for very good reasons. One of those reasons is that it makes it less likely that the IASB will include ambiguous wording in its final documents. Requesting urgent action from the IASB and therefore asking it to put aside its due process meant accepting the risk that drafting ambiguities might arise in the resulting standard and, if any did arise, that it should be acceptable for the IASB to clarify the drafting.
- 4 Bearing that in mind, EFRAG believes that it should not evaluate the Clarification on a standalone basis against the EU endorsement criteria. Rather, EFRAG believes it should evaluate the October amendment and the Clarification together. In other words, would EFRAG’s advice on the October amendment have been different had the Clarification been part of that amendment?

Conclusion

- 5 EFRAG’s tentative view is that its advice would not have been different. That is because EFRAG’s tentative assessment is that the October amendment plus the Clarification meet the criteria for EU endorsement; in other words, together they:
 - (a) are 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

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- (b) meet the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.
- 6 EFRAG has also tentatively concluded that it would be in the European interest to adopt the Clarification.

Rationale

- 7 The general principle in the October amendment is that certain reclassifications out of held-for-trading and available-for-sale should be permitted, as long as they are made on a real-time (ie current day basis), and disclosures about the reclassifications made are provided. When EFRAG assessed the October amendment, it took the view that the application of this principle would result in information that meets the EU endorsement criteria. The one concern that existed related to the optionality that the amendment involves, although EFRAG concluded that this do not give rise to significant comparability concerns bearing in mind the flexibility that already exists in the standard.
- 8 The IASB decided it was necessary to allow a degree of backdating of reclassifications to give entities time to carry out the necessary calculations needed in order to implement the October amendment appropriately. EFRAG took the view this was a good piece of pragmatic standard-setting. Backdating always brings with it concerns about comparability and understandability, but it can be a cost worth paying for a bigger benefit—and it was EFRAG’s view that that was the case in this instance.
- 9 The effective date and transition provisions of the October amendment were not debated at any length when EFRAG was developing its endorsement advice on that amendment. However, a number of EFRAG members and staff were present when the IASB debated the amendment and/or had discussed the amendment with IASB Board members and/or staff and as a result understood exactly what the intentions of the IASB were. Those intentions were communicated to EFRAG at the meeting at which EFRAG developed its advice, but were not a major factor in EFRAG’s deliberations.

APPENDIX 3

EFRAG’S EVALUATION OF THE COSTS AND BENEFITS OF THE CLARIFICATION

- 1 As explained in Appendix 2, EFRAG believes that it is not appropriate to evaluate the Clarification on a standalone basis; rather, it should be evaluated together with the October amendment.
- 2 When EFRAG assessed the October amendment, it noted that there would be costs involved for preparers in making the reclassifications although, as reclassification is optional, those costs are voluntarily incurred. It also noted that reclassifications will make the financial statements more complex in some regards—hence the need for additional disclosures—although they will also make the financial statements more relevant and understandable. Overall, it was likely that any additional analysis costs would be insignificant. EFRAG also thought the benefits that would arise from the October amendment were likely to exceed those costs.
- 3 EFRAG has therefore considered to what extent that assessment would have been different had the Clarification been part of the October amendment. EFRAG’s tentative assessment is that its assessment would not have been different. Indeed, as explained in Appendix 2 the effective date and transition arrangements in the October amendment were described to EFRAG at the meeting at which the amendment was evaluated in terms that were consistent with the Clarification.

Possible implications for those who had been interpreting the October amendment differently

- 4 One obvious implication of the Clarification is that it will not be possible to make reclassifications in the future and backdate them, perhaps to 1 July 2008. This will disrupt some entities’ plans. Indeed, some entities might have deliberately chosen not to rush their reclassifications so that they were made before 1 November 2008 because they thought they had plenty of time to do then and still backdate them. EFRAG notes however that the IASB clarified its intentions as early as 24 October when it issued IASB Update.
- 5 Another implication of the Clarification is that any reclassification made since 31 October 2008 that has been backdated will need to be reversed and replaced by a current date reclassification. However, in EFRAG’s view, the IASB’s decision to issue a clarification of the problematical wording on 24 October , and its decision to issue the Clarification as soon as possible thereafter, has minimised the effect that this problem will have.