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Director General  
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Directorate General for the Internal Market  
1049 Brussels

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Dear Mr Holmquist

**Adoption of the Amendment to IAS 39 and IFRS 7 “Reclassification of Financial Assets – Effective Date and Transition”**

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 – Effective Date and Transition” (the Amendment) which was issued by the IASB in November 2008.

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).

The October amendment permits 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. This Amendment clarifies that in line with the IASB’s original intention reclassifications can 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.

EFRAG has carried out an evaluation of this Amendment together with the October amendment. As part of that process, EFRAG issued an initial evaluation for public comment and, when finalising its advice and the content of this letter, it took the comments received in response into account. EFRAG’s evaluation is based on input from standard setters, market participants and other interested parties, and its discussions of technical matters are open to the public.

EFRAG supports the Amendment and has concluded (having considered it together with the October amendment) 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:

*EFRAG's endorsement advice on the Amendment to IAS 39 and IFRS 7 Reclassifications of Financial Assets: Effective Date and Transition*

- 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. EFRAG's reasoning is explained in the attached 'Appendix - Basis for Conclusions'.

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**

## **APPENDIX BASIS FOR CONCLUSIONS**

*This appendix sets out the basis for the conclusions reached, and for the recommendation made, by EFRAG on the Amendment to IAS 39 and IFRS 7.*

*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 This Amendment 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 the 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 this Amendment on a standalone basis against the EU endorsement criteria. Rather, EFRAG believes it should evaluate the October amendment and the Amendment together. In other words, would EFRAG's advice on the October amendment have been different had the Amendment been part of it?
- 5 Having formed a tentative view on the above issue and prepared a draft assessment, EFRAG issued that draft assessment on 8 December 2008 and asked for comments on it by 8 January 2009. EFRAG has considered all the comments received in response, and the main comments received are dealt with in the discussion in this appendix.

## **Conclusion**

- 6 EFRAG's view is that its advice would not have been different had the October amendment included the Amendment. That is because EFRAG's assessment is that the October amendment plus the Amendment 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
  - (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.
- 7 EFRAG has also concluded that it would be in the European interest to adopt the Amendment.

## **Rationale**

- 8 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 would not give rise to significant comparability concerns bearing in mind the flexibility that already exists in the standard.
- 9 The IASB decided it was necessary to allow a degree of backdating of reclassifications to give entities time to carry out the calculations needed 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.
- 10 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 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.