Amendments to IAS39 and IFRS 7

(Issued by the IASB as at 27 November 2008)

Executive Summary

The IASB issued these Amendments to reduce the difference between US GAAP and IFRS in respect of reclassification of Financial Assets. Reclassification, which was previously severely restricted under the IFRS, is now permitted in specific circumstances if the conditions and disclosure requirements are followed. However, we have identified two important points that should be taken into consideration when deciding whether to reclassify or not:

1. The Recognition criteria under IAS39 have not changed. A portfolio of Financial Assets that are actively traded must continue to be classified as Held for Trading. Only those which meet the specific conditions in the amendments can a reclassification be made. In particular, the "**tainting rule**" governing financial assets classified as Held to Maturity will continue to apply, and preparers of financial reports must take extra care to ensure the rule is not breached.

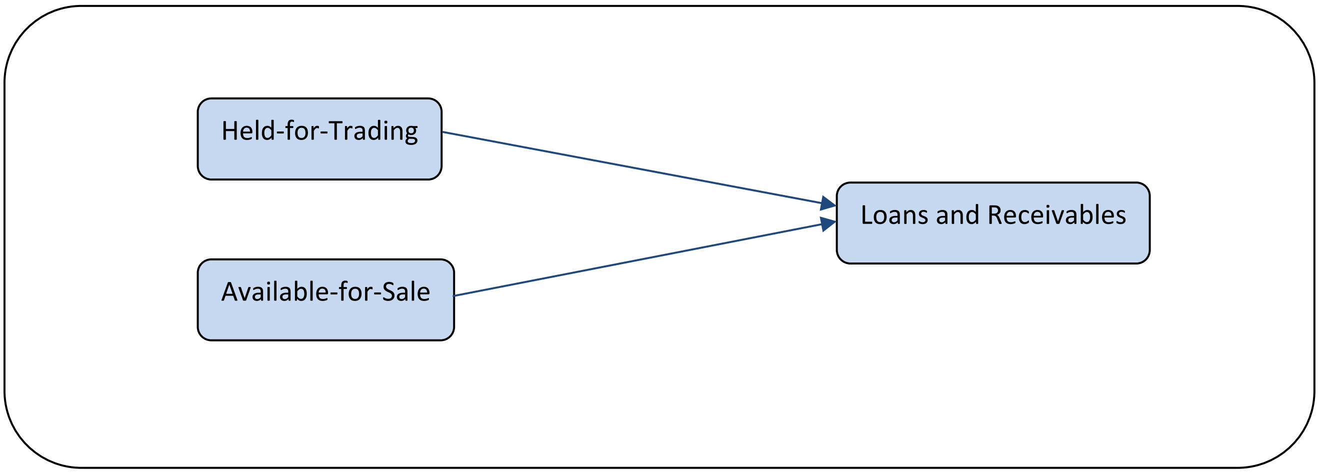
2. The amendments have strict disclosure requirements which must be followed if an entity elects to reclassify its Financial Assets pursuant to the amendments. In particular, an entity must disclose the fair value gain or loss that would have been recognised as if the Financial Assets had not been reclassified for every reporting period until the Financial Assets are derecognised. As such, the additional disclosure requirements should be taken into account when deciding whether reclassification is required.

Tainting Rule
An entity is not permitted to classify any of its financial assets as held-to-maturity for two years if it had sold or transferred more than an insignificant amount of Held-to-Maturity investments before their maturity.

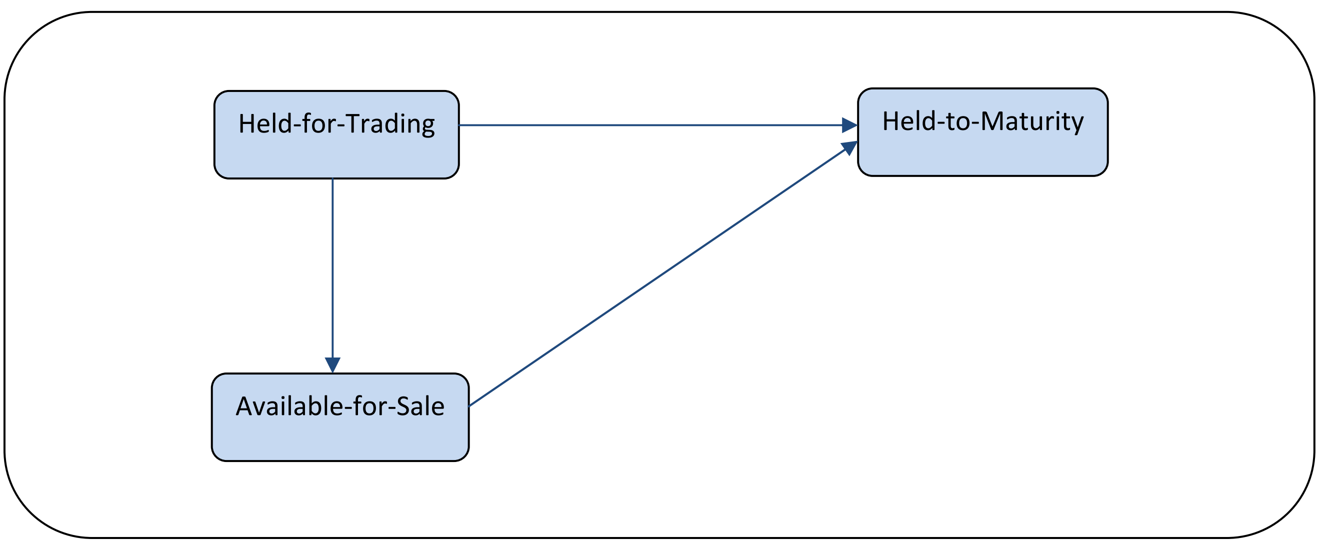
Amendments to IAS39 – Financial Instruments: Recognition and Measurement

There are 2 categories addressed by this Amendment:

1. Reclassification to Loans and Receivables



2. Reclassification to Available for Sale or Held to Maturity



1. Reclassification to Loans and Receivables.

Conditions for Reclassification

(i) The financial asset is neither a derivative nor equity security and meets the definition of loans and receivables;

(ii) It is not required by IFRS to be classified as Held-for-Trading on initial recognition; and

(iii) The entity has the intent and ability to hold the non-derivative financial asset for the foreseeable future

Valuation for Reclassification

If reclassify from Held-for-Trading

Held-for-Trading → Loans and Receivables

(i) Fair value at Date of Reclassification will become the new cost or amortised cost;

(ii) Any gain or loss previously recognised in profit or loss is not reversed upon reclassification

If reclassify from Available-for-Sale

Available-for-Sale → Loans and Receivables

(i) Fair value at Date of Reclassification will become the new cost or amortised cost;

(ii) Any gain or loss previously recognised in other comprehensive income is accounted for in accordance with IAS39 paragraph 54 which states the following:

  (a) If the Financial Asset has a fixed maturity
  - Gain or loss is amortised over the remaining life of the Held-to-Maturity investment using the effective interest method

  (b) If the Financial Asset does not have a fixed maturity
  - Gain or loss remains in equity until the financial asset is sold or otherwise disposed of, when it shall be recognised in profit or loss

2. Reclassification to Available-for-Sale or Held-to-Maturity

Conditions for Reclassification

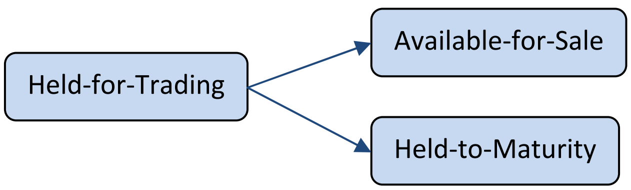
(i) The financial asset is not a derivative; and

(ii) Reclassification is only permitted in rare circumstances

> "Rare circumstances" arises from a single event that is unusual and highly unlikely to recur in the near term. According to the accompanying IASB press release, "the deterioration of the world's financial markets that has occurred during the third quarter of this year is a possible example of rare circumstances".

Valuation for Reclassification

If reclassify from Held-for-Trading to Available-for-Sale or Held-to-Maturity



(i) Fair value at the Date of Reclassification will become the new cost or amortised cost

(ii) Any gain or loss previously recognised in profit or loss is not reversed upon reclassification

If reclassify from Available-for-Sale to Held-to-Maturity [1]

(i) Fair value at the Date of Reclassification will become the new cost or amortised cost

(ii) Any gain or loss previously recognised in other comprehensive income is accounted for in accordance with IAS39 paragraph 54 which states the following:

   (a) If the Financial Asset has a fixed maturity
   - Gain or loss is amortised over the remaining life of the Held-to-Maturity investment using the effective interest method

   (b) If the Financial Asset does not have a fixed maturity
   - Gain or loss remains in equity until the financial asset is sold or otherwise disposed of, when it shall be recognised in profit or loss

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[1] Reclassification from Available-for-Sale to Held-to-Maturity under rare circumstances already permitted by IAS39 and is therefore outside the scope of the current amendments to IAS39 and IFRS 7.

Effective Date and Transition

An entity shall apply these Amendments on or after 1 July 2008. Retrospective application of these Amendments before 1 July 2008 is not permitted.

Limited Relief

For reclassifications made before 1 November 2008, the entity may select any date from 1 July 2008 to 31 October 2008 as the Date of Reclassification.

However, any reclassification made on or after 1 November 2008, the Date of Reclassification will be the actual date of reclassification.

Amendments to IFRS 7 – Financial Instruments: Disclosure

Disclosure requirements upon election of reclassification pursuant to the amendments to IAS39

In the period of reclassification

(i) The amounts reclassified in and out of each category;

(ii) Description of the rare circumstances leading to reclassification of financial assets;

(iii) The fair value gain or loss on the financial asset in that reporting period and the previous reporting period;

(iv) The effective interest rate and estimated amounts of cashflows the entity expects to recover, as at the Date of Reclassification of the financial assets

For each reporting period until derecognition of the reclassified financial asset

(i) Carrying amount and fair value of all financial assets reclassified in current and previous reporting periods;

(ii) The fair value gain or loss that would have been recognised if the financial asset had not been reclassified

In the next issue we will discuss the possible tax effects of the above amendments. . . . .