

MEMBERS' HANDBOOK

Update No. 58

(Issued December 2008)

This Update relates to the issuance of *Reclassification of Financial Assets—Effective Date and Transition* (Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures*).

Document Reference and Title	Instructions	Explanations
VOLUME II		
Contents of Volume II	Discard the existing pages i and ii and replace with the new pages i and ii.	Revised contents pages
HONG KONG ACCOUNTING STANDARDS (HKAS)		
HKAS 39 <i>Financial Instruments: Recognition and Measurement</i> (Standard)	Replace cover page and pages 87G-87H with revised cover page and pages 87G-87H.	Amendments to HKAS 39 and HKFRS 7 – Note
HKAS 39 <i>Financial Instruments: Recognition and Measurement</i> (Basis for Conclusions)	Replace pages 147D-147E with revised pages 147D-147E.	Amendments to HKAS 39 and HKFRS 7 – Note
HONG KONG FINANCIAL REPORTING STANDARDS (HKFRS)		
HKFRS 7 <i>Financial Instruments: Disclosures</i> (Standard)	Replace cover page and page 38 with revised cover page and page 38.	Amendments to HKAS 39 and HKFRS 7 – Note
HKFRS 7 <i>Financial Instruments: Disclosures</i> (Basis for Conclusions)	Replace page 22 with revised page 22.	Amendments to HKAS 39 and HKFRS 7 – Note

Note:

BACKGROUND ABOUT AMENDMENTS TO HKAS 39 AND HKFRS 7

Following publication of the Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures* in October 2008, the International Accounting Standards Board (IASB) subsequently clarified the effective date and transition at its meeting in October.

The clarification has now been incorporated in Amendments to HKAS 39 and HKFRS 7: *Reclassification of Financial Assets—Effective Date and Transition*.



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Hong Kong Accounting Standard 39

Financial Instruments: Recognition and Measurement

- (a) The related amendments to HKAS 39 and HKFRS 7 on *Reclassification of Financial Assets* are set out in Appendix D of this HKAS 39 issued in October 2008. [Appendix D also includes a further amendment, *Reclassification of Financial Assets—Effective Date and Transition* issued in December 2008, clarifying the effective date and transition requirements of those earlier amendments.](#) An entity shall apply those amendments ~~from~~ on or after 1 July 2008.
- (b) An entity shall apply amendments resulting from *Improvements to HKFRSs* issued in October 2008 for annual periods beginning on or after 1 January 2009.
- (c) The related amendment to HKAS 39 on *Eligible Hedged Items* is set out in Appendix E of this HKAS 39 issued in November 2008. An entity shall apply this amendment retrospectively for annual periods beginning on or after 1 July 2009.

Appendix D

Amendments to HKAS 39 and HKFRS 7 *Reclassification of Financial Assets* (issued in October 2008) - effective from 1 July 2008

In October 2008, the Institute issued Amendments to HKAS 39 Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets that are effective from 1 July 2008. In the amended paragraphs shown below, new text is underlined and deleted text is struck through. [A further amendment, Reclassification of Financial Assets—Effective Date and Transition issued in December 2008, clarified the effective date and transition requirements of those earlier amendments.](#)

Paragraph 50 is amended (new text is underlined and deleted text is struck through) and paragraphs 50B–50F and 103GH are added.

Measurement

Reclassifications

50 An entity:

- (a) shall not reclassify a ~~derivative financial instrument into or~~ 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.

- 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.

Paragraph 103H is amended (new text is underlined and deleted text is struck through) and paragraph 103I is added.

Effective date and transition

- 103~~GH~~ *Reclassification of Financial Assets* (Amendments to HKAS 39 and HKFRS 7), issued in October 2008, amended paragraphs 50 and AG8, and added paragraphs 50B–50F. An entity shall apply those amendments ~~from~~on or after 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 before 1 July 2008.~~to reporting periods ended before the effective date set out in this paragraph.~~

103I *Reclassification of Financial Assets—Effective Date and Transition* (Amendments to HKAS 39 and HKFRS 7), issued in December 2008, amended paragraph 103H. An entity shall apply that amendment on or after 1 July 2008.

In Appendix A *Application guidance*, paragraph AG8 is amended (new text is underlined).

Effective interest rate

- 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.

Appendix B

Amendments to Basis for Conclusions on HKAS 39 and HKFRS 7 *Reclassification of Financial Assets* (issued in October 2008) – effective from 1 July 2008

In October 2008, the Institute issued Amendments to HKAS 39 Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets that are effective from 1 July 2008. [A further amendment, Reclassification of Financial Assets—Effective Date and Transition issued in December 2008, clarified the effective date and transition requirements of those earlier amendments.](#)

In the Basis for Conclusions, paragraph BC11E is added and paragraphs BC104A–BC104E are added.

Background

BC11E In October 2008 the Board received requests to address differences between the reclassification requirements of IAS 39 and US GAAP (Statements of Financial Accounting Standards No. 115 *Accounting for Certain Investments in Debt and Equity Securities* (SFAS 115) and No. 65 *Accounting for Certain Mortgage Banking Activities* (SFAS 65) issued by the US Financial Accounting Standards Board). In response the Board issued *Reclassification of Financial Assets* (Amendments to IAS 39 and IFRS 7) in October 2008. The amendments to IAS 39 permit non-derivative financial assets held for trading and available-for-sale financial assets to be reclassified in particular situations. The rationale for the amendments is set out in paragraphs BC104A–BC104E.

Measurement

Reclassification of financial instruments (paragraphs 50–54)

BC104A As described in paragraph BC11E, in October 2008 the Board received requests to address differences between the reclassification requirements of IAS 39 and US GAAP. SFAS 115 permits a security to be reclassified out of the trading category in rare situations. SFAS 65 permits a loan to be reclassified out of the Held for Sale category if the entity has the intention and ability to hold the loan for the foreseeable future or until maturity. IAS 39 permitted no reclassifications for financial assets classified as held for trading. The Board was asked to consider allowing entities applying IFRSs the same ability to reclassify a financial asset out of the held-for-trading category as is permitted by SFAS 115 and SFAS 65.

BC104B The Board noted that allowing reclassification, even in limited circumstances, could allow an entity to manage its reported profit or loss by avoiding future fair value gains or losses on the reclassified assets.

BC104C The Board was also informed that, in practice under US GAAP, reclassification out of the trading category of SFAS 115 is extremely rare. However, the Board noted that the possibility of reclassification of securities and loans under US GAAP is available and that entities applying IFRSs do not have that possibility.

BC104D The Board therefore decided to permit non-derivative financial assets to be reclassified out of the held-for-trading category in the same circumstances as are permitted in SFAS 115 and SFAS 65. The Board also noted that rare circumstances arise from a single event

that is unusual and highly unlikely to recur in the near term. In addition, the Board decided that a financial asset that would have met the definition of loans and receivables (if it had not been designated as available for sale) should be permitted to be transferred from the available-for-sale category to loans and receivables, if the entity intends to hold the loan or receivable for the foreseeable future or until maturity. The Board decided that this substantially aligns the accounting for reclassifications of loans and receivables with that permitted under US GAAP.

BC104E The Board normally publishes an exposure draft of any proposed amendments to standards to invite comments from interested parties. However, given the requests to address this issue urgently in the light of market conditions, and after consultation with the Trustees of the IASC Foundation, the Board decided to proceed directly to issuing the amendments. In taking this exceptional step the Board noted that the amendments to IAS 39 relaxed the existing requirements to provide short-term relief for some entities. The Board also noted that the amendments were a short-term response to the requests and therefore the Board decided to restrict the scope of the amendments. Shortly afterwards, in response to representations from some interested parties, the Board issued a further amendment clarifying the effective date of the amendments to IAS 39.

Effective for annual periods
beginning on or after 1 January 2007*

Hong Kong Financial Reporting Standard 7

Financial Instruments: Disclosures

- (a) The related amendments to HKAS 39 and HKFRS 7 on the *Reclassification of Financial Assets* are set out in Appendix F of this HKFRS 7 issued in October 2008. Appendix D also includes a further amendment, *Reclassification of Financial Assets—Effective Date and Transition* issued in December 2008, clarifying the effective date and transition requirements of those earlier amendments. An entity shall apply those amendments ~~from~~ on or after 1 July 2008.
- (b) An entity shall apply amendments resulting from *Improvements to HKFRSs* issued in October 2008 for annual periods beginning on or after 1 January 2009.



- (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.

Paragraph 44E is amended (new text is underlined and deleted text is struck through) and paragraph 44F is added.

Effective date and transition

44E *Reclassification of Financial Assets* (Amendments to HKAS 39 and HKFRS 7), issued in October 2008, amended paragraph 12 and added paragraph 12A. An entity shall apply those amendments ~~from~~on or after 1 July 2008.

44F *Reclassification of Financial Assets—Effective Date and Transition* (Amendments to HKAS 39 and HKFRS 7), issued in December 2008, amended paragraph 44E. An entity shall apply that amendment on or after 1 July 2008.

Appendix C

Amendments to Basis for Conclusions on HKAS 39 and HKFRS 7 Reclassification of Financial Assets (issued in October 2008) - effective from 1 July 2008

In October 2008, the Institute issued Amendments to HKAS 39 Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets that are effective from 1 July 2008. [A further amendment, Reclassification of Financial Assets—Effective Date and Transition issued in December 2008, clarified the effective date and transition requirements of those earlier amendments.](#)

In the Basis for Conclusions, the heading above paragraph BC23 is amended (new text is underlined) and paragraph BC23A is added.

Disclosures about the significance of financial instruments for financial position and performance (paragraphs 7–30, B4 and B5)

Balance sheet disclosures (paragraphs 8–19 and B4)

Reclassification (paragraphs 12 and 12A)

BC23A In October and November 2008 the Board amended IAS 39 to permit reclassification of particular financial assets in some circumstances. The Board decided to require additional disclosures about the situations in which any such reclassification is made, and the effects on the financial statements. The Board regards such information as useful because the reclassification of a financial asset can have a significant effect on the financial statements.