

TREASURY ANALYSIS - AASB 2008-10 & AASB 2008-12

AASB 2008-10 and AASB 2008-12 Amendments to Australian Accounting Standards – Reclassification of Financial Assets (October / December 2008)

Major impact of changes for 2008/09

- The Standard allows reclassifications out of the ‘fair value through profit or loss’ or ‘available-for-sale’ categories in certain circumstances. However, few NSW public sector entities are expected to be impacted.

Key features of Standard

- Amendments by AASB 2008-10 (October 2008) and AASB 2008-12 (December 2008) to AASB 139 *Financial Instruments: Recognition and Measurement* and AASB 7 *Financial Instruments: Disclosures* apply on or after 1 July 2008.
- The amendments were issued in response to concerns regarding the world wide credit crisis and pressures to reduce the differences between IFRSs and US GAAP.
- The main differences compared to the previous requirements are discussed below.

Main differences applicable for 2008/09 compared to 2007/08

- An entity is permitted to reclassify *non-derivative* financial assets (previously prohibited), other than those ‘designated’ at fair value through profit or loss, out of ‘fair value through profit or loss’ when the financial asset is no longer held for the purpose of selling or repurchasing in the near future, and either of the following apply (AASB 139, para 50(c)):
 - There are rare circumstances (e.g. the deterioration of the world’s financial markets that has occurred during the third quarter of this year) (AASB 139, para 50B).
 - It would have met the definition of loans and receivables, if the financial asset had not been required to be held for trading at initial recognition, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (AASB 139, para 50D).
- An entity is permitted to reclassify 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’, if the financial asset had not been designated as ‘available-for-sale’, if the entity has the intention and ability to hold that financial asset for the foreseeable future or until maturity (AASB 139, para 50E) (previously prohibited).
- Any reclassification must be made at its fair value on the date of reclassification and the fair value on the date of reclassification becomes its new cost or amortised cost (AASB 139, para 50C and 50F). Any gains or losses already recognised in profit or loss must not be reversed (also refer AASB 139, para 54 for reclassifications from available-for-sale). Any subsequent increase in estimates of future cash receipts is 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 (AASB 139, para AG8).
- If an entity has made any reclassifications, it must make additional disclosures under AASB 7, including the amount reclassified (AASB 7, para 12 and 12A).
- A financial asset must not be reclassified before 1 July 2008 (AASB 139, para 103G-H). Reclassifications made on or after 1 November 2008 take effect from the date of reclassification. Reclassifications before 1 November 2008 can take effect from 1 July 2008 or a subsequent date.

Impact on the public sector

- Few NSW public sector entities are expected to be impacted. However, if an entity wishes to elect to use this option, they should contact NSW Treasury immediately.

Policy and Implementation issues

- As this is not expected to be a significant issue for the NSW public sector, it is unlikely that a change to Treasury’s Financial Instruments Policy (TPP 08-1) will be necessary.

This summary has been written in general terms and is intended for reference only. Agencies should review the contents of the AASB Standard to determine its application in particular circumstances.