

Classification and Measurement of Financial Instruments — FASB and IASB Jointly Discuss Reclassifications

July 18, 2012 — At their joint meeting today, the FASB and IASB discussed the accounting for reclassifications of financial instruments between the FV-NI, FV-OCI, and amortized cost measurement categories.¹

Reclassification Date

The FASB tentatively decided that entities should recognize reclassifications between any of the categories as of the last day of the period in which the change in business model that results in a reclassification occurs.

Editor's Note: IFRS 9² requires an entity to recognize reclassifications as of the first day of the period beginning immediately after the period in which the change in business model that results in a reclassification occurs. IFRS 9 does not require disclosures describing the reclassification or financial statement impact until the reclassification is recognized.

The FASB will discuss disclosures related to reclassifications under its model at a later date.

Reclassification Mechanics

Both boards tentatively agreed that entities should account for reclassifications between categories as follows:

- For reclassifications from FV-OCI to FV-NI, amounts accumulated in OCI are “recycled,” or recognized in net income, and the financial asset continues to be measured at fair value.
- For reclassifications from FV-NI to FV-OCI, changes in fair value occurring after the reclassification date are recognized in OCI, and the financial asset continues to be measured at fair value. On the date a reclassification is recognized, an entity should calculate an effective interest rate (EIR) on the basis of the new carrying amount (i.e., fair value on the reclassification date) to determine the amounts of interest and amortization it should recognize in net income going forward.

¹ Depending on the contractual cash flow characteristics of the instrument and the business model in which the instrument is managed, financial assets are classified and measured at (1) fair value with changes recognized in net income (FV-NI), (2) fair value with changes recognized in other comprehensive income (FV-OCI), or (3) amortized cost under the FASB's tentative model and the IASB's tentative decisions modifying IFRS 9.

² IFRS 9, *Financial Instruments*.

- For reclassifications from amortized cost to FV-OCI, the financial asset is remeasured at fair value, and any difference between the amortized cost and fair value is recognized in OCI.
- For reclassifications from FV-OCI to amortized cost, the financial asset is transferred at fair value, but amounts accumulated in OCI are derecognized with an offsetting entry to the financial asset's new carrying amount (i.e., the new carrying amount is treated as though it had always been classified at amortized cost).

The FASB alone tentatively decided that entities should account for reclassifications between categories as follows:

- For reclassifications from FV-NI to amortized cost, the fair value of the financial instrument becomes the amortized cost on the reclassification date, and an entity would calculate the EIR on the basis of this new carrying amount. This is consistent with existing requirements in IFRS 9.
- For reclassifications from amortized cost to FV-NI, an entity remeasures the asset at fair value and recognizes the difference between amortized cost and fair value in net income. This accounting is also consistent with IFRS 9.

Disclosures

The IASB tentatively decided to extend the disclosure requirements in paragraphs 12B through 12D of IFRS 7³ to reclassifications into or out of FV-OCI, as applicable.

³ IFRS 7, *Financial Instruments: Disclosures*.

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