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Reclassification of Financial Assets under IAS 39: Impact on European Banks' Financial Statements

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Abstract

In respo… mendment to IAS 3… held for trading a… uence of this controve… banks which ap… ave taken exte… ssification amou… ctively. I further c… s, and hence, r… equity (ROE), b… ROE switches… to gains from rec… of the

amendments on banks' financial statements and suggests analysing these reclassifications with particular caution.

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Acknowledgements

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Notes

Financial assets available-for-sale (AFS) may be also reclassified to LAR if they would have met the definition of LAR at initial recognition and if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

An analysis of the Committee of European Securities Regulators (CESR, 2009) finds a much higher proportion (i.e. 61%) of financial companies across Europe that used the reclassification option. However, the sample of CESR (2009) is substantially smaller (N = 100) and includes all financial companies whereas my sample covers banks only. Hence, the results of the studies can hardly be compared.

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At the time, US GAAP allowed reclassifications out of the trading category under rare circumstances (FAS 115, paragraph 15).

The regular procedures for consideration include a minimum three-month comment period, during which interested parties can comment on published exposure drafts.

The G20 leaders recommended that the Board take action by the end of 2009 to improve and simplify the accounting requirements for financial instruments.

Note that the following list is not exhaustive. See IFRS 7, paragraphs 12–12A, for a complete set of disclosure requirements concerning the reclassification of financial assets.

For the purpose of this paper, Europe is defined according to geographic criteria as defined by Reuters Knowledge.

Although the reclassification from AFS to HTM was allowed prior to the amendment to IAS 39, the effect on the financial statement is similar to the effect of a reclassification from AFS to LAR. I therefore include reclassifications from AFS to HTM in the present analysis.

When calculating the pre-reclassification regulatory capital ratios, I implicitly assume that the risk-weighted assets are not affected by the reclassification of financial assets. This assumption may be justified from an economic perspective, since the reclassification is an accounting change but not a change in the financial instruments' inherent risks.

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In contrast, only 2.8% (4 out of 143) of the non-reclassifying banks were directly supported by the government.

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