IAS 39 Financial Instruments: Recognition and Measurement (May 2009)

Classification of failed loan syndications

The IFRIC was asked whether a loan amount resulting from a loan syndication that the originator intends to sell in the near term must always be classified as held for trading. The question arises when loans are originated with an intention of syndication but the arranger fails to find sufficient commitments from other participants (failed syndications). The arranger then tries to sell the surplus loan amount to other parties in the near term rather than holding it for the foreseeable future.

The IFRIC noted that the definitions of loans and receivables and financial asset or financial liability at fair value through profit or loss in paragraph 9 of IAS 39 determine the classification of a loan in such circumstances. The definition of loans and receivables explicitly requires a loan (or portion of a loan) that is intended to be sold immediately or in the near term to be classified as held for trading on initial recognition.

Paragraph AG14 of IAS 39 describes characteristics that generally apply to financial instruments classified as held for trading. The IFRIC noted, however, that these general characteristics are not a prerequisite for all instruments the standard requires to be classified as held for trading.

The IFRIC also noted that, in accordance with paragraph 50D of IAS 39, an entity would be permitted to consider reclassifying the surplus loan amount that it no longer intended to sell.

Given the specific requirements in IAS 39, the IFRIC did not expect significant diversity in practice. Therefore the
IFRIC decided not to add this issue to its agenda.