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International
Accounting Standards
Board

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Note: These notes are based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because these notes are less detailed, some paragraph numbers are not used.*

INFORMATION FOR OBSERVERS

IFRIC meeting: May 2006, London

Project: Classification of a financial instrument as liability or equity
(Agenda Paper 10(iii))

Introduction

1. At its March 2006 meeting, the IFRIC discussed a submission for a possible agenda item relating to the role of contractual and economic obligations in the classification of financial instruments.
2. The IFRIC agreed that IAS 32 *Financial Instruments: Disclosure and Presentation* is clear that a contractual financial obligation is necessary in order that a financial instrument be classified as a financial liability (ignoring the classification of financial instruments that may or will be settled in the issuer's own equity instruments). Such a contractual obligation could be explicitly established or could be indirectly established. However, the obligation must be established through the terms and conditions of the financial instrument.
3. The IFRIC decided that, since the Standard is clear, it would not expect diversity in practice and would not take this item onto its agenda. The IFRIC requested the staff to draft reasons for not adding this submission to its agenda.

Purpose of this paper

4. This paper sets out draft recommended reasons for not adding the submission to the IFRIC agenda.

Draft rejection wording

5. [Deleted for observer notes purposes.]