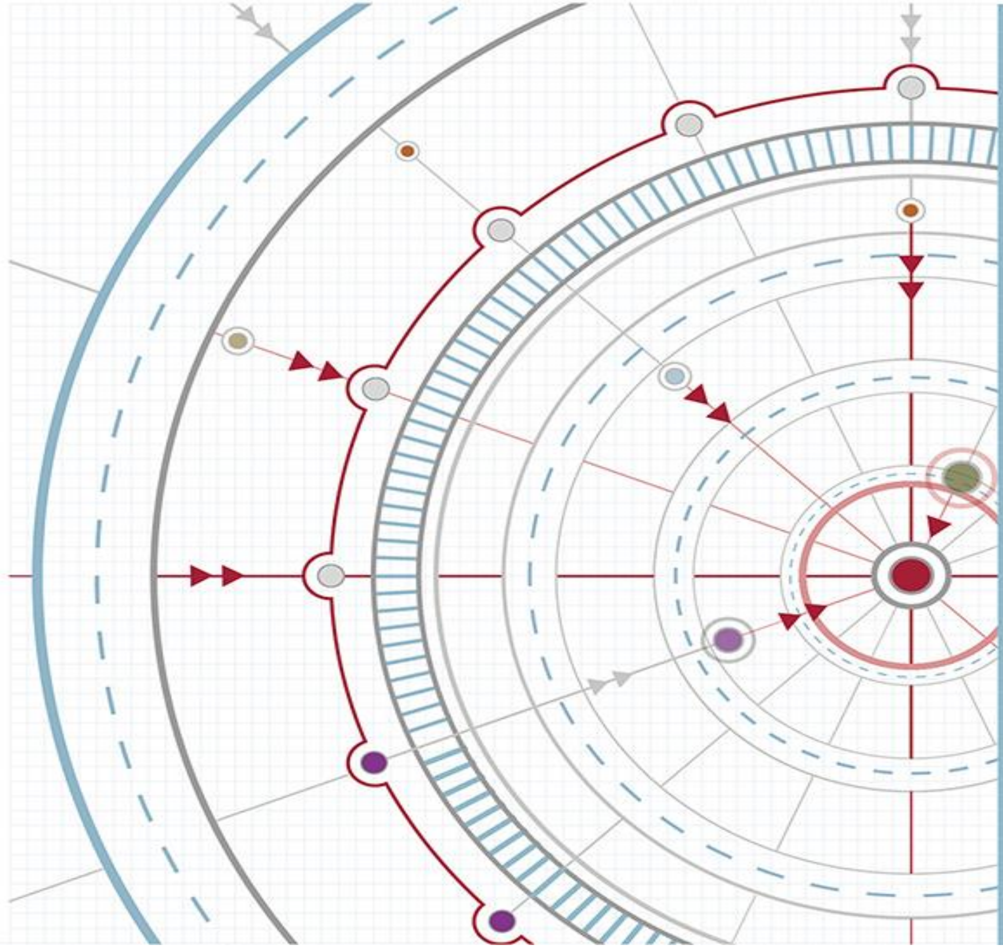


Financial Instruments with Characteristics of Equity

Webinar 1: Overview of the Discussion Paper
July 2018

Before we start

- You can download the slides by clicking on the button below the slides window
- This webinar is a recording (it is not live), so we are unable to take questions
- The views expressed are those of the presenters, not necessarily those of the IASB or the IFRS Foundation

Financial Instruments with Characteristics of Equity – Webinar Schedule

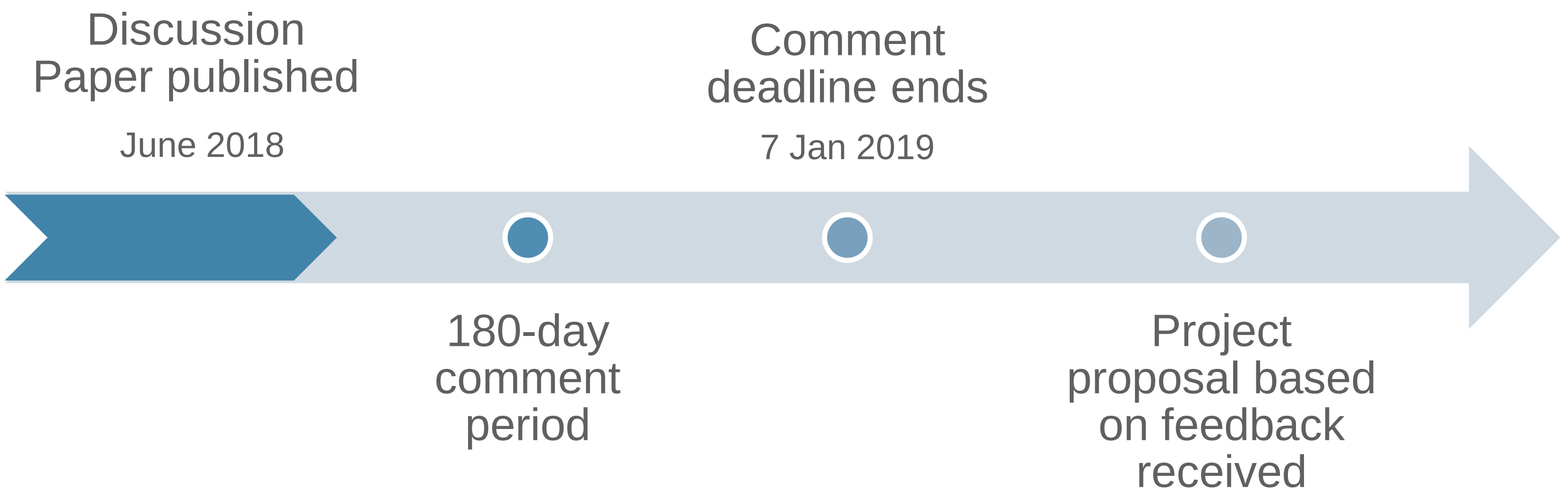
This Webinar
Overview of the Discussion Paper
Future webinars
The Board’s preferred approach and classification of non-derivative financial instruments
Classification of derivatives on own equity
Classification of compound instruments and redemption obligation arrangements
Presentation of equity instruments
Presentation of financial liabilities

Objective, scope and challenges

IFRS™

About the project

- Research project
- Project objectives
  - improve the information that entities provide in their financial statements about financial instruments that they have issued
  - address challenges with applying IAS 32 in practice



Why is the Board undertaking the project?

- The distinction between liabilities and equity affects how an entity’s financial position and financial performance are depicted.
- IAS 32 sets out how entities that issue financial instruments should classify them as financial liabilities or equity instruments.
- Issues with IAS 32 can affect how an entity’s financial position and performance are depicted, and consequently investors’ assessments of their financial position and performance

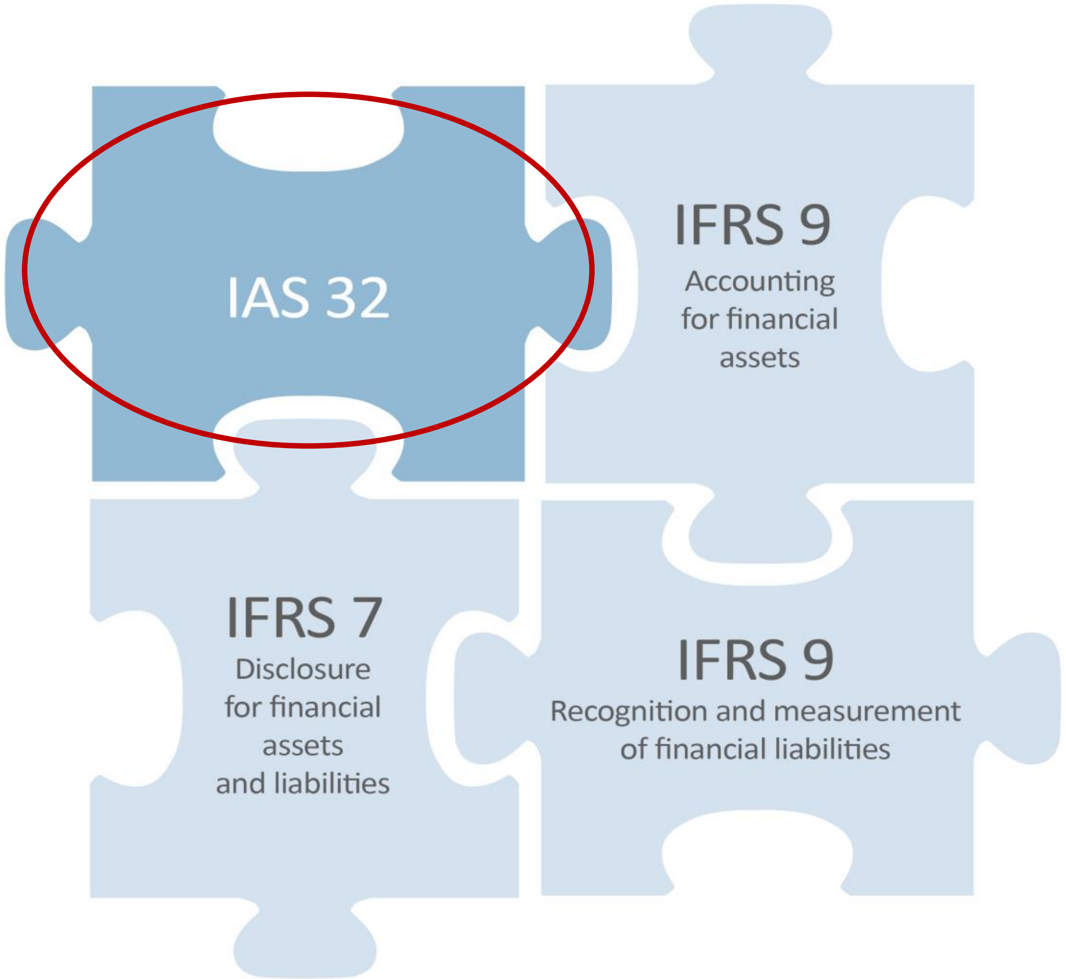
Project scope

In scope

- Classification of financial instruments as financial liabilities or equity instruments
  - issuer perspective

Not in scope

- Recognition and measurement requirements in IFRS 9
- Reconsidering the existing disclosure requirements for financial assets and liabilities and IFRS 7



What have we heard?

IAS 32 works well for most financial instruments

But financial innovation since IAS 32 was issued has resulted in challenges with applying it to a growing number of complex financial instruments

Continuing debate about the underlying rationale of the distinction between liabilities and equity

Limited information provided for equity instruments

Resulting in application challenges and accounting diversity in practice.

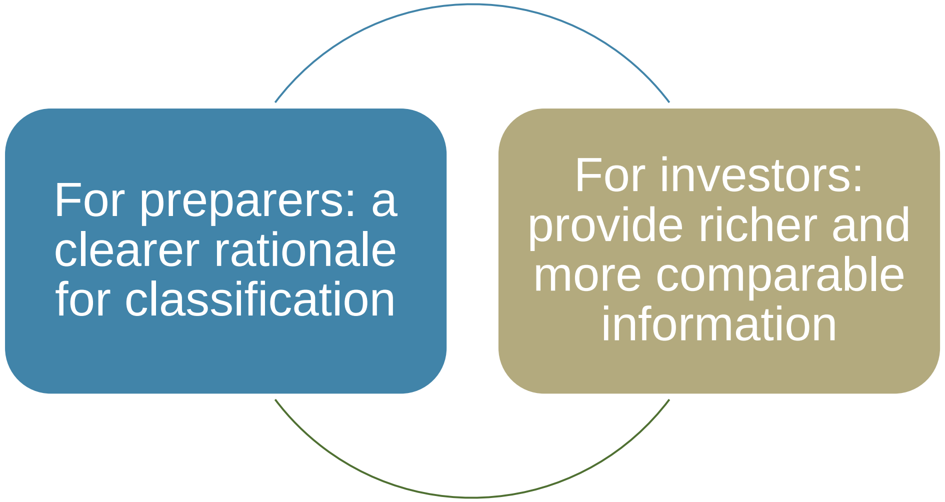
Diversity makes it difficult for investors to assess how these financial instruments affect companies' financial position and performance.

What are the causes of the problems?

Causes	How are we addressing them?
No clear rationale for the classification requirements	• Articulate the principles for the classification with a clear rationale • Improve the consistency, completeness and clarity of the requirements
Classification can only tell part of the story	• Enhance presentation and disclosure requirements about financial liabilities and equity instruments

What will be the impact?

- The Board is seeking to limit unnecessary changes to classification outcomes of IAS 32.
- Most simple instruments: no change of classification
- More complex instruments: also few changes in classification, but



What would not change?

The Board would carry forward some existing requirements largely unaltered. For example:

- the definition of a financial instrument
- the ‘puttables exception’ in IAS 32
- the conclusions in IFRIC 2
- the way in which classification would (or would not) be affected by economic compulsion and laws and regulation

Structure of the Discussion Paper

Sections	Title
1	Objective, scope and challenges
2	The Board's preferred approach
3	Classification of non-derivative financial instruments
4	Classification of derivative financial instruments
5	Compound instruments and redemption obligation arrangements
6	Presentation
7	Disclosure
8	Contractual terms

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