IAS 32 ***Financial Instruments: Presentation*** (March 2009)

IAS 32 ***Financial Instruments: Presentation*****— Classification of puttable and perpetual instruments**

The IFRIC received a request for guidance on the application of paragraph 16A(c) of IAS 32, which states that ‘All financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features’. The request asked for guidance on the classification of an entity’s puttable instruments that are subordinate to all other classes of instruments when the entity also has perpetual instruments that are classified as equity.

The IFRIC noted that a financial instrument is first classified as a liability or equity instrument in accordance with the general requirements of IAS 32. That classification is not affected by the existence of puttable instruments. As a second step, if a financial instrument would meet the general definition of a liability because it is puttable to the issuer, the entity considers the conditions in paragraphs 16A and 16B of IAS 32 to determine whether it should be classified as equity. Consequently, the IFRIC noted that IAS 32 does not preclude the existence of several classes of equity.

The IFRIC also noted that paragraph 16A(c) applies only to ‘instruments in the class of instruments that is subordinate to all other classes of instruments’. Paragraph 16A(b) specifies that the level of an instrument’s subordination is determined by its priority in liquidation. Accordingly, the existence of the put does not of itself imply that the puttable instruments are less subordinate than the perpetual instruments.

Given the requirements in IAS 32, the IFRIC did not expect significant diversity in practice to develop. Therefore the IFRIC decided not to add this issue to its agenda.