

IAS 32 *Financial Instruments: Presentation* (May 2014)

Presentation – accounting for a financial instrument that is mandatorily convertible into a variable number of shares subject to a cap and a floor

The Interpretations Committee discussed how an issuer would account for a particular mandatorily convertible financial instrument in accordance with IAS 32 *Financial Instruments: Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*. The financial instrument has a stated maturity date and, at maturity, the issuer must deliver a variable number of its own equity instruments to equal a fixed cash amount— subject to a cap and a floor, which limit and guarantee, respectively, the number of equity instruments to be delivered.

The Interpretations Committee noted that the cap and the floor are embedded derivative features whose values change in response to the price of the issuer's equity share. Therefore, assuming that the issuer has not elected to designate the entire instrument under the fair value option, the issuer must separate those features and account for the embedded derivative features separately from the host liability contract at fair value through profit or loss in accordance with IAS 39 or IFRS 9.

The Interpretations Committee considered that in the light of its analysis of the existing IFRS requirements, an Interpretation was not necessary and consequently decided not to add the issue to its agenda.