IAS 39 Financial Instruments: Recognition and Measurement (Jan 2007)

Financial Instruments puttable at an amount other than Fair Value

The IFRIC received a submission regarding the classification in the financial statements of the holders of financial instruments puttable at the option of the holders at an amount other than fair value (the puttable instruments). The submission noted that the issuer's contractual obligation to deliver cash requires the issuer to recognise financial liabilities in its financial statements in accordance with IAS 32 *Financial Instruments: Presentation*. The issues are:

- how the puttable instruments should be accounted for in the financial statements of the holders, in particular, whether the accounting for the instruments in the financial statements of the holders should be symmetrical with that in the financial statements of the issuer
- whether an entity that has control over an entity that has no equity instruments in issue is required to present consolidated financial statements in accordance with IAS 27 Consolidated and Separate Financial Statements as well as to recognise goodwill in accordance with IFRS 3 Business Combinations.

Regarding the first issue, the IFRIC noted that IAS 32 and IAS 39 do not directly address whether the accounting for financial instruments in the financial statements of the holders should be symmetrical with that in the financial statements of the issuer. However, the IFRIC noted that the issuer of a financial instrument is required to classify it in accordance with IAS 32, whereas the holder is required to classify and account for it in accordance with IAS 39.

The IFRIC noted that IAS 39 requires the holder to identify embedded derivatives of hybrid financial instruments. IAS 39 also requires the holder to account for the embedded derivatives separately if all the conditions in IAS 39 paragraph 11 are met. These requirements apply to the holder regardless of whether any embedded derivatives are accounted for separately in the financial statements of the issuer. In the light of the existing guidance in IAS 39, the IFRIC decided that the first issue should not be taken onto the agenda.

Regarding the second issue, the IFRIC noted that the control of a subsidiary, and the resulting requirement for a parent to present consolidated financial statements in accordance with IAS 27 (including the requirement to recognise goodwill in accordance with IFRS 3) does not necessarily depend on the parent's owning equity instruments of the subsidiary. The IFRIC, therefore, decided not to take the second issue onto the agenda.