

IFRS 9 *Financial Instruments* (September 2017)

Financial assets eligible for the election to present changes in fair value in other comprehensive income

The Committee received a request asking whether particular financial instruments are eligible for the presentation election in paragraph 4.1.4 of IFRS 9. That election permits the holder of particular investments in equity instruments to present subsequent changes in fair value in other comprehensive income, rather than in profit or loss. The submitter asked whether financial instruments are eligible for that presentation election if the issuer would classify them as equity applying paragraphs 16A–16D of IAS 32 *Financial Instruments: Presentation*.

The Committee observed that the presentation election in paragraph 4.1.4 of IFRS 9 refers to particular investments in equity instruments. ‘Equity instrument’ is a defined term, and Appendix A of IFRS 9 specifies that it is defined in paragraph 11 of IAS 32. IAS 32 defines an equity instrument as ‘any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities’. Consequently, a financial instrument that meets the definition of a financial liability cannot meet the definition of an equity instrument.

The Committee also observed that paragraph 11 of IAS 32 specifies that, as an exception, an instrument that meets the definition of a financial liability is classified as an equity instrument by the issuer if it has all the features and meets the conditions in paragraphs 16A and 16B or paragraphs 16C and 16D of IAS 32.

Accordingly, the Committee concluded that a financial instrument that has all the features and meets the conditions in paragraphs 16A and 16B or paragraphs 16C and 16D of IAS 32 is not eligible for the presentation election in paragraph 4.1.4 of IFRS 9. This is because such an instrument does not meet the definition of an equity instrument in IAS 32. This conclusion, based on the requirements in IFRS 9 and IAS 32, is supported by the Board’s explanation in paragraph BC5.21 of IFRS 9 of its decision in this respect.

The Committee concluded that the requirements in IFRS 9 provide an adequate basis for the holder of the instruments described in the request to classify those instruments. Consequently, the Committee decided not to add this matter to its standard-setting agenda..