

Financial Instruments with Characteristics of Equity

Webinar 6: Presentation of financial liabilities
August 2018

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

Financial Instruments with Characteristics of Equity

– Webinar Schedule

Previous Webinars

Overview of the Discussion Paper

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 applying the Board's preferred approach

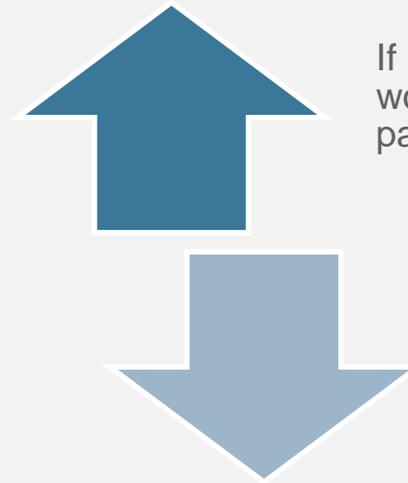
This Webinar

Presentation of financial liabilities applying the Board's preferred approach

What is the problem?

The return on some financial instruments behaves like the return on an equity instrument but are classified as financial liabilities because it contains an obligation to pay cash. What is the best way to show the effects of such financial instruments on the issuer's financial position and financial performance?

Instrument X: Company A issues a financial instrument that requires it to make a cash payment in five year's time for the fair value of 100 own shares on the settlement date



If Company A performs poorly, its share price would decrease. In turn, the amount of cash payable on Instrument X decreases.

As the amount of cash payable on Instrument X decreases, Company A records a gain on that instrument.

The scope of separate presentation

Financial liabilities that contain no obligation for an amount independent of the entity's available economic resources

Derivatives classified as financial assets/liabilities that have a net amount unaffected by any "independent variables"

Particular foreign currency derivative assets/liabilities that are "partly independent"

Separate presentation in statement of financial performance

Contains an obligation for an amount independent of the entity's available economic resources?*



Income statement (Profit or Loss)

Income and expenses from financial liabilities that have the amount independent of the entity's available economic resources	X/(X)
Profit for the period	XXX



Statement of other comprehensive income

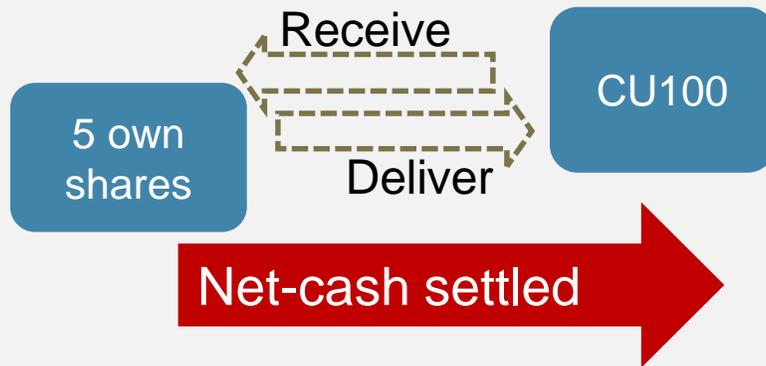
Income and expenses from financial liabilities and derivative assets/liabilities that the amount NOT independent of the entity's available economic resources	X/(X)
Other comprehensive income	XXX

No recycling

*For derivatives, is the net amount of the derivative affected by any independent variable? For partly independent own equity derivatives, consider the specific criteria (see slide 9).

Derivatives with the net amount unaffected by any independent variables

Consider an example:
Written call option on own shares



- Classified as a derivative liability because of an obligation to deliver cash
- But the net amount of the written call option is unaffected by any independent variable, ie its income and expenses are driven by changes in the entity's available economic resources.

Present total income and expenses in respect of this derivative in other comprehensive income

Partly independent derivatives

Consider an example:
Written call option on own shares
(gross physically settled)



- Classified as a derivative liability because the net amount of the call option is affected by an independent variable (FX rate)
- But its income and expenses would include the effect of changes in the entity's available economic resources

Assess whether the derivative meets specified criteria (see slide 10)

Present total income and expenses in respect of this derivative in other comprehensive income

The criteria-based approach

Criteria-based approach—apply separate presentation to income and expenses in respect of a financial instrument if the following applies:

Non-derivative financial liabilities	No contractual obligation for an amount independent of the entity’s available economic resources
Own equity derivatives	No variable independent of the entity’s available economic resources affects the net amount
Foreign currency derivatives on own equity	Meets all of the following criteria: <ul style="list-style-type: none">• the only independent variable affecting the net amount is a currency other than the entity’s functional currency.• the foreign currency (FX) exposure is not leveraged.• the FX exposure does not contain an option feature.• The FX denomination is imposed by an external factor.

Criteria-based approach vs Disaggregation approach

Written call option on own shares
(gross physically settled)



Assume that:

- Total income on the call option for the period represents a fair value gain of CU10
- Out of CU10, CU3 is attributed to the effect of the independent variable (foreign currency variable)
- the call option meets all the specific criteria (see slide 10)

The Board's preferred option

Criteria-based approach

Statement of other comprehensive income (OCI)

Fair value gain	10
Other comprehensive income	XXX

Disaggregation approach

Income statement

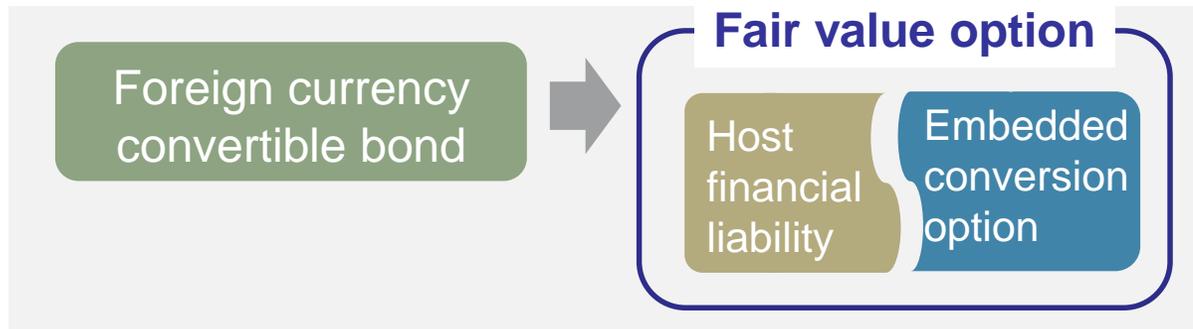
Fair value gain - "independent" portion	3
Profit	XXX

Statement of OCI

Fair value gain - "dependent" portion	7
Other comprehensive income	XXX

What if embedded derivatives are not separated?

11



No preliminary view reached

A Separate presentation does not apply to the foreign currency convertible bond as the bond as a whole includes an obligation for an amount independent of the entity's available economic resources

Apply separate presentation only to embedded derivatives that are separated and hybrid instrument that contain no obligation for an amount independent of the entity's available economic resources

B Separate presentation applies to the embedded written call option subject to specific criteria (see slide 9) *even though* the entity would have elected to measure the foreign currency convertible bond as a whole at fair value through profit or loss

Apply separate presentation to all embedded derivatives regardless of whether the FVO option is applied or not

Separate presentation in statement of financial position

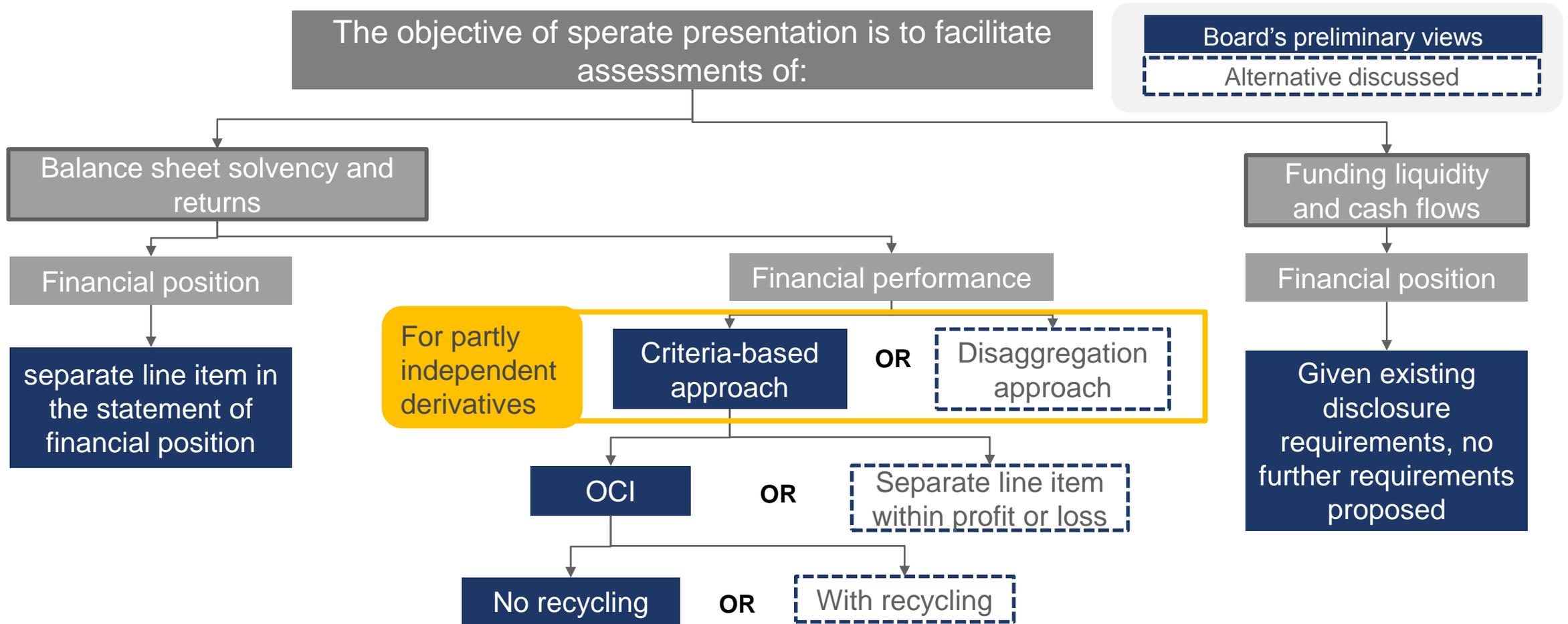
Use separate line items in the statement of financial position, for example

Statement of financial position	
Derivative financial liabilities	XXX
Non-derivative financial liabilities	XXX
economic resources	
not independent of the entity's available economic resources	XXX
Non-derivative financial liabilities	
independent of the entity's available economic resources	XXX
not independent of the entity's available economic resources	XXX

Enable users of financial statements distinguish financial instruments with different return characteristics

Enable users of financial statements distinguish financial instruments with different return characteristics

Summary of preliminary views



Note: For hybrid instruments that are measured as a whole under the Fair Value Option, no preliminary view was reached as to whether the separate presentation requirements should be applied to all embedded derivatives or separated embedded derivatives only (see slide 11).

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