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International Accounting Standards Board

INFORMATION FOR OBSERVERS

IFRIC meeting: **March 2009, London**

Project: **Classification of puttable and perpetual instruments under revised IAS 32 (Agenda Paper 4C)**

INTRODUCTION

1. In November 2008, the IFRIC published a tentative agenda decision not to add to its agenda an issue to provide guidance on whether an entity's puttable instruments that are subordinate to all other class of instruments can be classified as equity when the entity's perpetual instruments are already classified as equity.

2. One comment letter was received that agreed with the IFRIC's tentative agenda decision not to add the issue to its agenda.

STAFF RECOMMENDATION

3. The staff recommends that the IFRIC finalise the agenda decision as published. The staff has set out the wording in Appendix A.

QUESTION FOR THE IFRIC

4. Does the IFRIC agree with the staff recommendation and the wording of the final agenda decision?

APPENDIX A

The Staff proposes the following wording for the final agenda decision.

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 meet the definition of equity instruments in accordance with paragraphs 11 and 16 of IAS 32.

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 meets the definition of a liability because it is puttable to the issuer, the entity would consider the conditions in paragraphs 16A and 16B of IAS 32 to determine whether it should be classified as equity. In any case, IAS 32 does not preclude the existence of several classes of equity.

The IFRIC 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 puttable feature 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. The IFRIC therefore decided not to add this issue to its agenda.