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| Project | <b>Agenda decision</b>  |
| Topic   | <b>IAS 32 <i>Financial Instruments: Presentation</i> – Shareholder discretion</b> |

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## Introduction

1. In January 2010, the IFRIC published a tentative agenda decision not to add to its agenda a request for guidance on whether a financial instrument in the form of a preference share that includes a contractual obligation to deliver cash is a financial liability or equity, if the payment is at the ultimate discretion of the issuer's shareholders.
2. The IFRIC concluded that the agenda criteria were not met, because the Board's current *Financial Instruments with Characteristics of Equity* (FICE) project is expected to address issues relating to the distinction between equity and non-equity on a timely basis.
3. One comment letter<sup>1</sup> was received. This comment letter disagreed with the tentative agenda decision made by the IFRIC.
4. The comment letter believes that it is unlikely that the:
  - (a) issue of shareholder discretion will be addressed by the FICE project;
  - and
  - (b) FICE project will be completed and effective on a timely basis.

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<sup>1</sup> Deloitte Touche Tohmatsu

This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IFRIC. The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IFRIC or the IASB. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

Decisions made by the IFRIC are reported in *IFRIC Update*.

Interpretations are published only after the IFRIC and the Board have each completed their full due process, including appropriate public consultation and formal voting procedures. The approval of an Interpretation by the Board is reported in *IASB Update*.

## IASB Staff paper

5. The staff believe that both of the concerns raised in the comment letter were discussed by the IFRIC in the January 2010 meeting. This included consideration of both the scope of the FICE project and the expected timing of issuance of a FICE Exposure Draft in the second half of 2010.
6. As a result, the staff does not recommend any changes to the tentative agenda decision.

### **Staff recommendation and proposed wording of the final agenda decision**

1. The staff recommends that the IFRIC finalise its tentative agenda decision not to add the issue to its agenda. Does the IFRIC agree with the recommendation?
2. Appendix A includes the staff's proposed wording for the final agenda decision which is unchanged from the published tentative agenda decision. Does the IFRIC agree with proposed wording?

## Appendix A – Proposed wording for agenda decision

### **IAS 32 *Financial Instruments: Presentation* – Shareholder Discretion**

The IFRIC received a request for guidance on whether a financial instrument in the form of a preference share that includes a contractual obligation to deliver cash is a financial liability or equity, if the payment is at the ultimate discretion of the issuer's shareholders.

The IFRIC noted that paragraph AG26 of IAS 32 identifies that when distributions to holders of preference shares are at the discretion of the issuer, the shares are equity instruments.

The IFRIC identified that diversity may exist in practice in assessing whether an entity has an unconditional right to avoid delivering cash if the contractual obligation is at the ultimate discretion of the issuer's shareholders, and consequently whether a financial instrument should be classified as a financial liability or equity.

The IFRIC noted that the Board is currently undertaking a project to improve and simplify the financial reporting requirements for financial instruments with characteristics of equity. The main objectives of this project are to develop a better distinction between equity and non-equity instruments and converge IFRSs and US GAAP.

Consequently, the IFRIC concluded that the Board's current project on Financial Instruments with Characteristics of Equity is expected to address the distinction between equity and non-equity instruments on a timely basis. The IFRIC therefore {decided} not to add this issue to its agenda.