

STAFF PAPER

22-26 April 2013

REG IASB Meeting

Project	Conceptual Framework		
Paper topic	Cover paper for Section 5 — Definition of equity and distinction between liabilities and equity instruments		
CONTACT(S)	Peter Clark	pclark@ifrs.org	020 7246 6451
	Rachel Knubley	rkubley@ifrs.org	020 7246 6904

This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Background

1. This paper provides background information on Agenda Papers 10E(a) and 10E(b).
2. Agenda Paper 10E(a) *Draft Discussion Paper: Section 5— Definition of equity and distinction between liabilities and equity instruments* is a redraft of agenda paper 3D from February 2013.
3. Agenda paper 10E(b) provides draft appendices for section 5. It is a redraft of agenda papers 5E and 5F from March 2013, together with an appendix from agenda paper 3D from February 2013.
4. This paper:
 - (a) summarises the main changes to content taken from the previous papers; and
 - (b) sets out questions for the Board.

Main changes

5. The main changes made to the content are as follows:
 - (a) In paragraph 3, introduced informal descriptions of primary equity claim and secondary equity claim, to help remove some confusion that arose for some people in the last draft. These terms may not be strictly needed, but may clarify.
 - (b) Throughout the paper, replaced references to remeasuring equity with references to updating the measure.
 - (i) Previous references to remeasurement misled many readers into thinking that the approach would remeasure all classes of equity to a current value.
 - (ii) Paragraph 12 contains an expanded discussion on when the updating would involve reallocation and when it would involve remeasurement to a current value.
 - (c) Built up the notion of a narrow equity approach as a possibly viable alternative:
 - (i) Paragraph 23 notes that the narrow equity approach could be supplemented by disclosure of those items that would be treated as liabilities even when there is no obligation to transfer economic resources.
 - (ii) In paragraphs 27-31, added more discussion of pros and cons.
 - (iii) Replaced the previous terms one-step and two step approaches with narrow equity and pure cash approaches. Pure cash is not an ideal term. We will look for a better term.
 - (d) In paragraphs 34-41, expanded somewhat the description of other alternatives rejected in previous work.
 - (e) New paragraph 42 explains that any amendments to IAS 32 or other standards will require full due process.
 - (f) In paragraph 43, expanded the summary of some issues that might arise if the IASB undertakes a standards level project.

- (g) In Paragraphs 43(c) [and 16(c)] - expanded discussion of obligations that arise only on liquidation
- (h) In paragraph 47(b) – added a brief reference to an alternative for puttable instruments: separate into host equity instruments and embedded put option.
- (i) Appendix A.
 - (i) All examples: added illustration of how narrow equity approach would work. Previous versions covered only IAS 32 and the pure cash approach.
 - (ii) Example A: reverted to previous example used in education session last year (cash received up front, repaid in shares). Someone had pointed out that the last version (pay in shares for legal services) would be classified as equity under IFRS 2, so IAS 32 and the pure cash approach would give the same answer.
 - (iii) Added paragraph A2 to explain reasons for choosing this fact pattern for example A, and implications for other transactions – particularly that the initial debit would still be an expense, as this was the first question everyone asked about the original example.
 - (iv) New paragraphs A30-A32 distinguish effects of the pure cash approach from the separate decision of whether to switch to a different measurement.
- (j) Appendix B:
 - (i) Moved discussion of measurement of written put options on own shares (including NCI puts) from the main text into the appendix. It is beyond the scope of the discussion paper to seek a conclusion on this topic. The discussion is retained as background information supporting example D in appendix A.
 - (ii) Clarified and updated some of the discussion in this appendix.

Questions for the Board

- 1 Does the section contain sufficient discussion of alternatives?
- 2 Do you have any other comments on this section, and the appendices?
- 3 Do you have comments on the questions for respondents (paragraph 48)?