Tuesday 24 September 2013 The Grange City Hotel (London)

Meeting documentation

# World Standard-setters Meeting

Smaller group discussions: Conceptual Framework: liability equity split





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## Smaller group discussion

Conceptual Framework: liability equity split

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#### Approaches explored in the DP

- Simplify the distinction between liabilities and equity:
  - Narrow equity approach; or
  - Strict obligation approach.
- Provide users with more information about how different equity claims affect each other (dilution):
  - Enhance the statement of changes in equity to show wealth transfers between different equity claims.

### **SIFRS**



#### Strict obligation approach · Liabilities = present obligation to deliver assets (economic resources) to holder. • Equities = residual. - Includes all claims that may enable the holder to receive distributions of equity (eg common shares). Example - Includes all obligations to deliver equity instruments (eg some options over equity instruments). • Based on the view that claims that oblige the entity to deliver assets are fundamentally different from claims that do not. vs expressed in this presentation are those or essarily those of the IASB or IFRS Foundation IFRS **BIFRS** ation. 30 Cannon Street | London EC4M 6001 | UK. w on. 30 Cannon Street | London EC4M 6XH | UK. www.itr







						Put option
Staten	nent of C	hanges in I	Equity (SOCIE)		equity	
	Share	Retained	Total existing	Obligation to		
	capital	earnings	shareholders	issue shares	Total	
Opening 1 Feb 20X2	-		-		-	
Written option issued 17 Feb 20X2	-	-	-	5,000	5,000	Wealth transfer
Profit/OCI		-	-	-	· +	holder to
Change in carrying value of option		1,000	1,000	(1,000)		shareholder
	-	1,000	1,000	(1,000)	-	
31 Dec 20X2		1,000	1,000	4,000	5,000	Wealth transfer from option holder to
Profit/OCI			-	-		shareholder
Change in carrying value of option		1,000	1,000	(1,000)	-	
	-	1,000	1,000	(1,000)	-	Reclassification
Shares issued 15 December 20X2	3.000		3 000	(3 000)		on exercise of
31 January 20X3	3,000	2.000	5,000	(-//	5 000	option (no cash



	Narrow equity approach	Strict obligation approach		
Basis of classification	Relative to other claims – All entities will classify the most residual claim as equity even if that instrument creates an obligation to pay cash	Independent of other claims – All entities will classify a claim that creates an obligation as a liability even if that claim is the most residual - Add exception for puttable instruments if most residual?		
Effect on definitions	Will require a new definition of equity and a modification to the definition of a liability	efinition of Will retain similar definition of liability and retain the existing definition of equity		
Judgements required	Identification of the most residual claim	Identification of whether a given claim creates an obligation		





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Expressions of individual

views by members of the IASB and its staff

are encouraged.



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