



Board Meeting
June 2014
Agenda Paper 10I

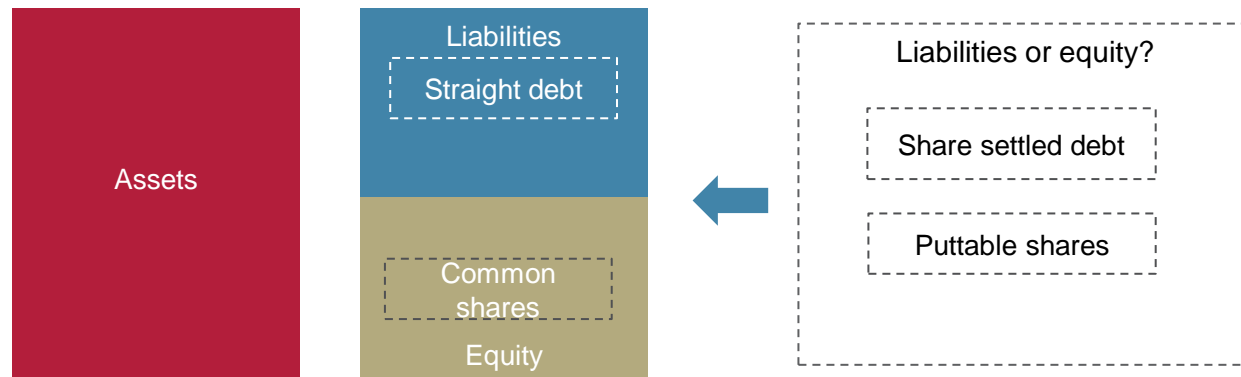
Liabilities and Equity

Education Session supplementary material
to accompany Agenda Paper 10H

The views expressed in this presentation are those of the presenter,
not necessarily those of the IASB or IFRS Foundation.

Troublesome instruments

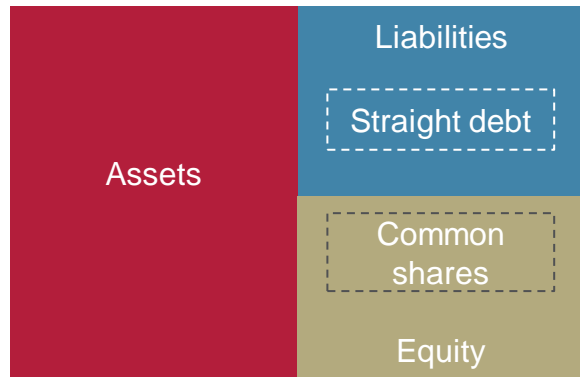
- We will focus on the following troublesome instruments:
 - **Share-settled debt:** Obligations to deliver a variable number of common shares equal to the value of straight debt.
 - **Puttable shares:** Obligations to deliver a variable amount of cash equal to the value of common shares.



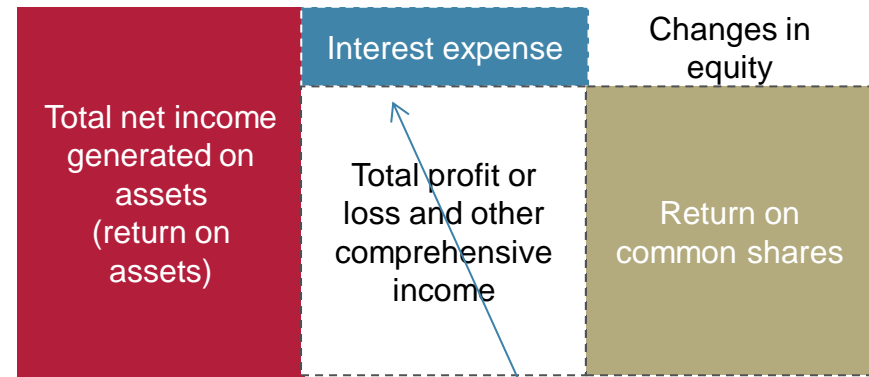
Example set-up

- The examples use the following diagrams:

Financial Position



Financial Performance



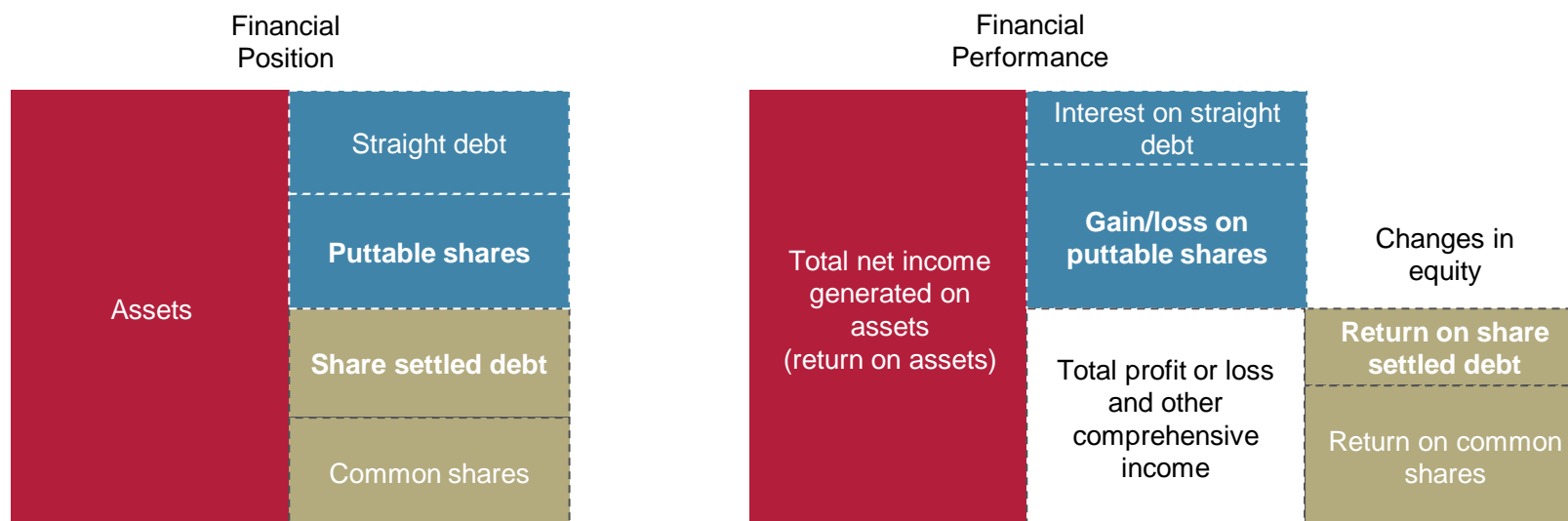
To show that total assets = total liabilities + equity

Colours are used consistently:
Red = assets
Blue = liabilities
Grey = equity

Different sizes reflect differences in distribution of returns

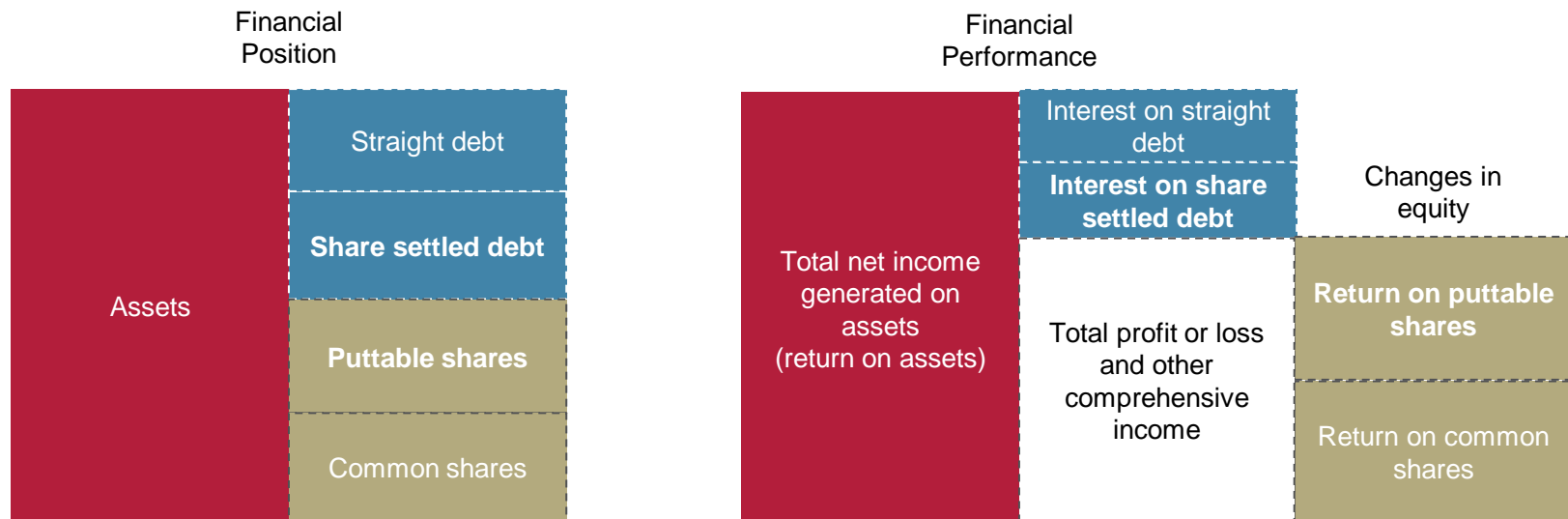
Settlement approach

- Classifying **puttable shares** as liabilities will show that a transfer of the entity's resources will be required to settle the obligation
- Classifying **share-settled debt** as equity will show that a transfer of the entity's resources will **not** be required to settle the obligation



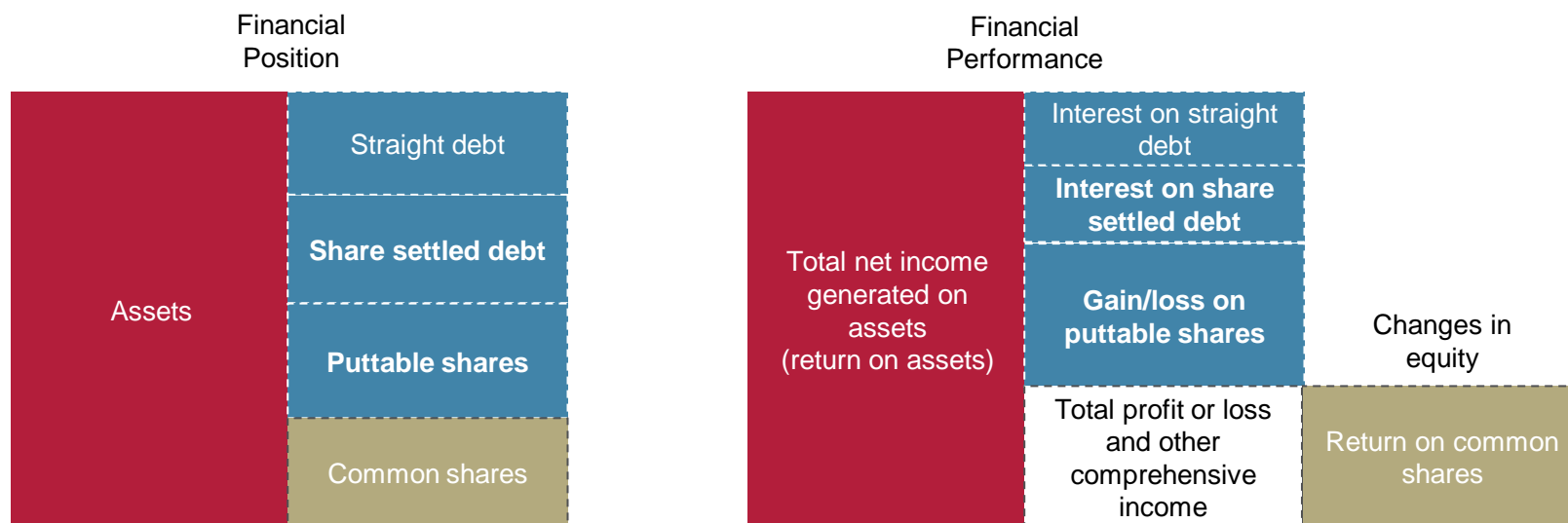
Value approach

- Classifying **share-settled debt** as a liability will show that the obligation requires the transfer of a specified value that is independent of the entity's economic resources.
- Classifying **puttable shares** as equity will show that the value of the obligation is dependent on the assets (in this case, proportionate to common stock).



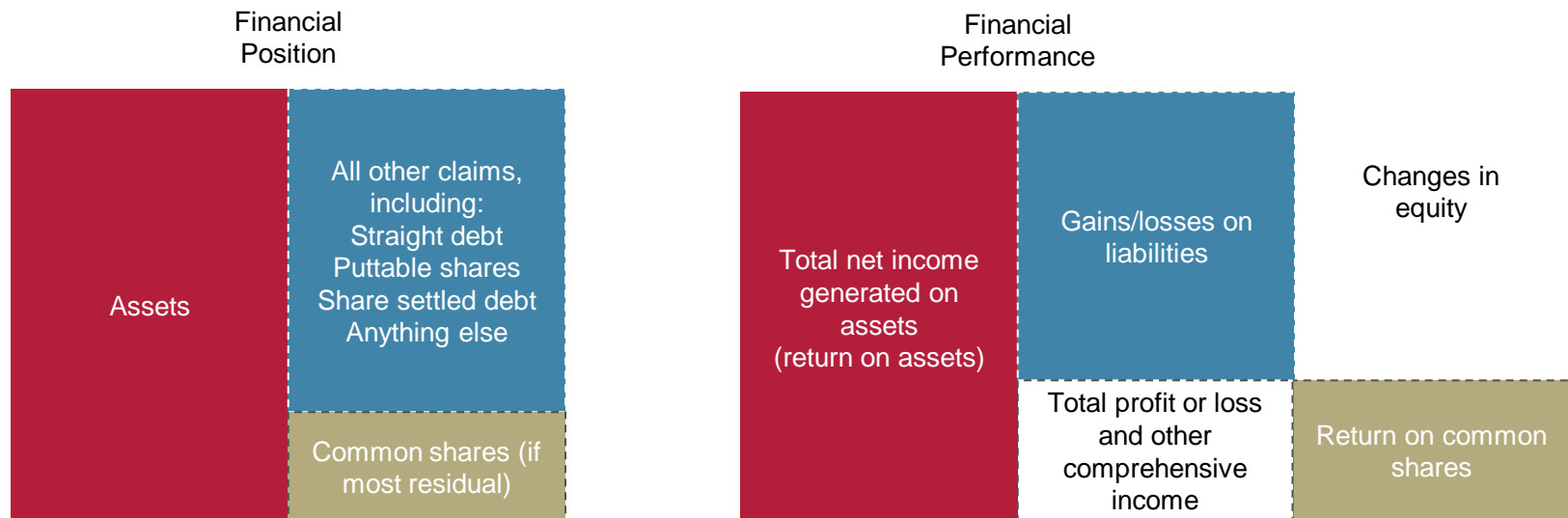
Combined settlement and value approach

- Classifying both share-settled debt and puttable shares as liabilities will show that either:
 - a transfer of the entity’s resources will be required to settle the obligation; or
 - a transfer of a specified value that is independent of the entity’s economic resources will be required to settle the obligation.



Narrow equity approach

- Will classify any claim that is not the most residual claim as a liability, may include the following if not the most residual:
 - Puttable shares
 - Share settled debt
 - Options/warrants (both cash-settled and equity settled)



Thank you



Expressions of individual views by members of the IASB and its staff are encouraged.

The views expressed in this presentation are those of the presenter. Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.