

## STAFF PAPER

September 2015

## IASB Meeting

Project	Financial Instruments with Characteristics of Equity research project		
Paper topic	Cover note		
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**Introduction**

1. At this meeting we will continue the discussion of the IASB's Financial Instruments with Characteristics of Equity research project.
2. The paper that we are discussing at this meeting is **Agenda Paper 5A: Analysis of IAS 32 and outline of potential approaches**.
3. The objective of that paper is to:
  - (a) analyse the existing definitions and other related requirements in IAS 32 *Financial Instruments: Presentation*, and identify:
    - (i) to what extent those requirements capture the features needed to make the assessments we identified in July 2015; and
    - (ii) whether there are exceptions, inconsistencies, and gaps in those requirements.
  - (b) outline possible approaches for improvements that we intend to develop further as the project progresses.
4. This cover note also includes:
  - (a) Summary of discussions to date (paragraphs 5–8)
  - (b) Summary of next steps (paragraphs 9–10)

## Summary of discussions to date

5. In May 2015, we distinguished between the:
  - (a) **Conceptual** challenges to do with identifying the underlying rationale of, and approach to, the distinction between liabilities and equity in IAS 32 and in the Conceptual Framework;
  - (b) **Application** challenges to do with the consistency, completeness and clarity of the requirements in IAS 32, in particular when those requirements are applied to particular types of transactions in practice.
6. In May 2015 we also set out a roadmap for addressing the above challenges. Importantly we noted that:
  - (a) we need to first **identify, confirm (or correct) and reinforce** the underlying rationale of the distinction between liabilities and equity in IAS 32 before attempting to improve the **consistency, completeness and clarity** of the requirements.
  - (b) we may need to identify other relevant distinctions between claims that need to be communicated by means other than the distinction between liabilities and equity.
7. In June 2015 we discussed:
  - (a) the features of claims against an entity and what makes information about a particular feature relevant to users. In particular, we stated that a feature is relevant if it potentially affects the amount, timing and uncertainty of (the prospects for) future cash flows.
  - (b) how information about relevant features is provided in financial statements. In particular we stated that to depict a feature, it must be measured and noted that there must be at least one claim that will be measured as a residual, because of partial recognition and mixed measurement.
8. In July 2015 we discussed the various assessments users might make using information in the statement of financial position and financial performance and which identified features that are relevant to those assessments.

## Summary of the next steps

9. To address the conceptual challenges, the IASB will need to continue developing the potential approaches outlined at this meeting, including:
  - (a) developing potential changes to definitions and additional guidance to implement the underlying rationale of the distinction between liabilities and equity for each approach;
  - (b) developing any requirements for additional subclasses within liabilities or within equity to help make the identified assessments under each approach.
  - (c) consider how the approaches might apply to derivatives on own equity.
10. To address the application challenges, the IASB will need to discuss the following topics:
  - (a) Discuss the challenges with accounting for derivatives on own equity.
  - (b) Discuss how IAS 32 deals with those challenges, including the ‘fixed-for-fixed’ condition and obligations in derivatives to redeem own equity instruments
  - (c) Discuss the requirements in IAS 32 to do with:
    - (i) Interaction of contractual rights and obligations with regulatory and legal overlays
    - (ii) Contingencies and conditionality
    - (iii) Recognition, derecognition and reclassification of equity instruments (and components), including on settlement, conversion, expiration modification and other events.