



Agenda Paper 6A *Financial Instruments with Characteristics of Equity*

ASAF
December 2016

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Objective of this session

- The project is nearing a stage where we would like to start planning outreach activities
- We would like your input on how we should focus our outreach efforts
- Agenda Paper 6B contains further details on the status of the Board's deliberations
- Appendix A of this Agenda Paper summarises previous input received from ASAF members

- We need to plan the overall balance of our outreach:
 - What should the overall objective be?
 - Who should we target?
 - What topics will stakeholders be interested in?
- Jurisdiction specific topics (slide 4)
- Investors and other users (slide 5)
- Other stakeholders (slide 6)

- We know from previous consultations that some issues are more prominent in some jurisdictions than others
 - Eg FX convertibles, written put options
- Should we facilitate discussion across jurisdictions, or focus on particular topics within a jurisdiction?
- Should we focus on preparers and practitioners?
- Are there any particular topics that are concentrated in a particular industry, or group of companies?

- Equity investors do not get enough information about other equity claims
 - as a result they have in the past supported a very narrow approach to equity
- Credit investors do not get enough information about the priority of claims to properly assess leverage, interest coverage, credit risk and recovery rates
- Should we target our outreach on particular areas, or should we seek input on the package as a whole?
- What areas should we target?
 - the attribution requirements for equity investors?
 - the priority disclosure requirements for credit investors?

Other stakeholders

- Are there any other particular stakeholders that we should be targeting in our outreach?
- What topics would they be interested in?

Appendix

Summary of previous consultations with ASAF

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Consultation with the ASAF

Meeting Dates	Content of Discussion	ASAF Views
September 2014	<p>The IASB staff suggested two broad alternatives of proceeding with the project:</p> <ul style="list-style-type: none"><li data-bbox="520 596 1114 675">(a) A fundamental review of IAS 32;<li data-bbox="520 732 1114 896">(b) Maintenance of IAS 32, but with improvements to its presentation and disclosure requirements.	<p>Many ASAF members stated that while a fundamental review of the requirements was necessary, the IASB should not necessarily start from an entirely blank sheet of paper.</p> <p>Work should focus on identifying the objectives of the distinction between liabilities and equity to establish a better foundation for the requirements of IAS 32.</p> <p>Some ASAF members stated that it is important to consider the distinction between liabilities and equity from the perspectives of both financial position and financial performance.</p>

Consultation with the ASAF

Meeting Dates	Content of Discussion	ASAF Views
March 2015	<p>The IASB staff:</p> <p>(a) provided feedback on the IASB’s tentative decisions regarding the scope of the research project and the interaction with the Conceptual Framework project; and</p> <p>(b) sought ASAF members’ views on the implications for the research project of the feedback that the EFRAG received on its Discussion Paper <i>Classification of Claims</i>.</p>	<p>ASAF members commented on the difficulty but necessity of communicating the interaction between the FICE project and the <i>Conceptual Framework</i> project.</p> <p>On implications of the EFRAG’s work for this project, the ASAF members suggested that the distinction between liabilities and equity plays a role in meeting various objectives of financial reporting, but it cannot achieve those objectives in isolation.</p>

Consultation with the ASAF

Meeting Dates	Content of Discussion	ASAF Views
April 2016	The IASB staff updated the ASAF members on the Financial Instruments with Characteristics of Equity research project.	<p>ASAF members suggested some topics of discussion at future ASAF meetings.</p> <p>In July 2016, the ASAF discussed the application of the ‘present obligation’ requirements proposed in the <i>Conceptual Framework</i> Exposure Draft, in particular the application of the economic compulsion concept to the classification of liabilities and equity.</p>

Consultation with the ASAF

Meeting Dates	Content of Discussion	ASAF Views
July 2016	ASAF members were asked for their views on the circumstances in which economic compulsion should be considered when classifying claims as liabilities or equity.	<p>Most ASAF members expressed concerns about considering economic compulsion in distinguishing between liabilities and equity. Particular views include:</p> <ul style="list-style-type: none">• Classification should be based only on facts and circumstances at the reporting day. Reassessment should only occur as conditions change subsequently.• ‘no practical ability to avoid a transfer’ and ‘economic compulsion’ will have limited effect in distinguishing between liabilities and equity as financial instruments are essentially about contractual rights and obligations.

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