

STAFF PAPER

March 2017

IASB Meeting

Project	Financial Instruments with Characteristics of Equity research project		
Paper topic	Due process and permission to ballot		
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (the Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB® Update.

Purpose

1. This paper:
 - (a) sets out the due process steps undertaken in developing the Financial Instruments with Characteristics of Equity (FICE) Discussion Paper (the Discussion Paper);
 - (b) discusses the comment period for the Discussion Paper; and
 - (c) seeks permission from the International Accounting Standards Board (the Board) to ballot the Discussion Paper.

Background

Purpose of the Discussion Paper

2. The Board became aware of the need to investigate potential improvements to IAS 32 *Financial Instruments: Presentation* through various avenues:
 - (a) Respondents to the 2011 Agenda Consultation indicated that improvements in the area of distinguishing liabilities from equity are required. Those responses included requests for improvements to

IAS 32. Similar responses were received on the Board's 2015 Agenda Consultation.

(b) There have been an increasing number of issues (some of them remaining unresolved) submitted to the IFRS Interpretations Committee on IAS 32 and related matters, which indicated the need for a more fundamental review of the distinction between liabilities and equity.

3. In addition to the above, the Board has acknowledged the differences between the *Conceptual Framework for Financial Reporting* (the Conceptual Framework) and IAS 32, most recently in its 2013 Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*. This inconsistency has resulted in some differences at the standards level, for example IFRS 2 adopts consistent definitions of liabilities and equity with those under the Conceptual Framework, and the inconsistency between IFRS 2 and IAS 32 has been acknowledged in the Basis for Conclusions on IFRS 2.

4. Consequently, the Board reactivated its FICE research project in October 2014, with a view to publishing a Discussion Paper.

5. The purpose of the Board's research programme is to analyse possible financial reporting problems by collecting evidence on the nature and extent of the perceived problems and assessing potential ways to improve financial reporting or to remedy a deficiency. Accordingly, the objective of the Discussion Paper is to obtain initial views and comments to help the Board decide whether it should add a project to develop potential improvements to IAS 32 to its standard-setting programme.

6. The extent of work required at this stage of Due Process depends on the Board's assessment of what it requires to make the decision to add a project to its standard-setting programme. The Board will have to be satisfied that it has sufficient information and understanding of the following, before it proceeds to the next stage of Due Process (which is to develop a specific project proposal to amend, or to replace IAS 32):

(a) that there is a potential problem that can be identified and defined that merits the Board developing a standards-level solution;

- (b) the possible approaches to addressing the problem, and their relative costs and benefits, have been identified and defined; and
 - (c) that one of the possible approaches to addressing the problem can be selected and developed into a standards-level solution.
7. Given the Board's discussions to date, the Discussion Paper will set out the Board's preliminary views on (see summary in Agenda Paper 5A):
- (a) the challenges identified;
 - (b) the possible approaches to addressing those challenges; and
 - (c) the possible approach that can be selected and developed into a standards-level solution.
8. However:
- (a) the Board has not reached preliminary views on all of the matters discussed in the Discussion Paper; and
 - (b) the Discussion Paper does not cover all the issues that the Board would expect to cover in an Exposure Draft to amend, or to replace IAS 32.

Who will be affected by the proposals in this Discussion Paper?

9. IAS 32 establishes principles for presenting financial instruments as liabilities or equity. The proposals in the Discussion Paper may ultimately lead to an amendment to, or replacement of the existing IAS 32. The preliminary views in the Discussion Paper are primarily relevant to all entities preparing their financial statements in accordance with IFRS, given that most, if not all, entities will have financial liabilities and/or equity instruments. The proposals are also relevant to auditors, regulators and users of the financial statements.
10. [Agenda Paper 5A](#) of the May 2015 meeting sets out a more detailed analysis of who might be affected by the challenges that the Board has identified with the existing requirements of IAS 32.

Development of the Discussion Paper

Work undertaken as part of other projects and consultations

11. The development of the Discussion Paper has benefited from many prior consultations on related matters.
12. Previously the Board had a project to address the distinction between liability and equity, which resulted in the publication of the discussion paper *Financial Instruments with Characteristics of Equity* in February 2008. However, that project was suspended in October 2010 when the Board reassessed its agenda.
13. In December 2012, following responses to the Board's 2011 Agenda Consultation, the FICE project was identified as one of the Board's priority research projects, which was to be undertaken in conjunction with the *Conceptual Framework* project.
14. In July 2013 the Board published a Discussion Paper *a Review of the Conceptual Framework for Financial Reporting* (the CF DP), including a separate chapter (Section 5) which discussed whether the distinction between liabilities and equity should be solely based on the definition of liability.
15. In October 2014, following responses to the CF DP, the Board decided to further explore the distinction between liabilities and equity as part of the FICE project. The Board decided that the FICE research project will primarily investigate potential ways to improve the distinction between financial liabilities and equity in IAS 32. That research will help the Board decide, in due course, whether it should add a project on amending IFRS Standards, the Conceptual Framework, or both to its Standard setting agenda.

IASB meetings

16. In addition to the IASB meetings held before the project was suspended in 2010, the Board has discussed the distinction on liabilities and equity as part of the *Conceptual Framework* project at eight public meetings between December 2012 and September 2014. Up to the time of this paper, the Board has discussed the development and proposed content of the Discussion Paper at 15 public meetings between October 2014 and March 2017.

External consultation

17. In developing this Discussion Paper, the Board received helpful input from:
- (a) Five public ASAF meetings held in September 2014, March 2015, July 2016, December 2016 and March 2017; and
 - (b) GPF and CMAC meeting held in June 2016.

Other input

18. The Board has also benefited from EFRAG's Discussion Paper *Classification of Claims* published in July 2014, the feedback on which was discussed at the March 2015 ASAF meeting.

Comment period

19. In accordance with paragraph 4.17 of the *Due Process Handbook*, the Board normally allows at least 120 days for comment on a Discussion Paper. For this Discussion Paper, we propose a comment period of 180 days. This is to provide sufficient time for constituents to consider and respond to the proposals. The extra 60 days beyond the minimum are due to the following reasons:
- (a) the expected length of the document and the possibility that it will be time consuming to translate in various jurisdictions;
 - (b) a longer comment period would allow the Board to conduct additional education and outreach to elicit sufficient comments from interested parties to inform the Board's decision on whether to add a project to its standard-setting programme;
 - (c) a longer comment period would allow constituents to have sufficient time to consider and respond to the ideas in the Discussion Paper, considering the complexity of the subject matter and expected length of the document.

Question 1 – comment period

Do you agree with the staff recommendation to give a comment period of 180 days for the Discussion Paper?

Permission to ballot

20. The Appendix summarises the due process steps undertaken so far in developing the Discussion Paper. In the staff's view, the Board has completed all the steps necessary to ensure that the DP is likely to meet its purpose.

Question 2 – due process

Is the Board satisfied that it has completed all of the steps that are necessary to ensure that the Principles of Disclosure DP is likely to meet its purpose?

21. If you are satisfied that all necessary steps are completed, the staff would like permission to begin the formal balloting process.

Question 3 – permission to ballot

Do the staff have permission to prepare a ballot draft of the Financial Instruments with Characteristics of Equity DP?

Next steps

22. If the Board grants permission to ballot, the staff will start drafting the Discussion Paper and begin the balloting process. Apart from any potential sweep issues that arise from that process, this should mark the end of technical deliberations.
23. Based on the Board's publication pipeline and workload, we expect to publish a Discussion Paper towards the end of 2017.

Appendix

Due process steps during the development of the FICE Discussion Paper

- A1. General IASB requirements: although not a mandatory step in the due process, the IASB often publishes a Discussion Paper (DP) as its first publication on any major new topic as a vehicle to explain the issue and seek early comment from interested parties. It is normally the first major milestone in a research project. The IASB normally allows a period of 120 days for comment on such papers (*Due Process Handbook*, paragraphs 4.16-4.19).
- A2. Due Process Oversight Committee (DPOC) objective: to satisfy the DPOC that a thorough process was followed in the development of the papers. The DPOC responds to any comments received on the due process that the IASB followed when it developed and published a DP or RP.

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Actions</i>
Discussion or Research Paper development			
DP developed in public meetings.	Optional	<p>Meetings held to discuss the topic.</p> <p>Project website contains a full description with up-to-date information.</p> <p>Meeting papers have been posted in a timely fashion.</p>	<p>The Board has discussed developing the content of the DP at 15 public meetings between October 2014 and March 2017.</p> <p>The website is up-to-date.</p> <p>Papers for the IASB meetings were posted before each meeting and a summary of each meeting was included in <i>IASB Update</i>.</p>
Or		Decision was supported by a	A summary of the meeting and

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Actions</i>
Decision to publish an RP is made in a public meeting, with a clear statement of the extent of the IASB’s involvement.		paper and reported in the <i>IASB Update</i> .	any preliminary views reached was included in <i>IASB Update</i> .
Consultation with the IFRS Advisory Council (the ‘Advisory Council’) has occurred.	Optional	Discussions with the Advisory Council on the topic.	The Advisory Council has received updates on the progress of the project but has not held detailed discussions on it.
Project-specific updates are sent via email alerts to registered users.	Optional	Frequency of alerts provided.	Not undertaken at this stage.

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Actions</i>
Consultative groups are established depending on the nature of issues and the level of interest among interested parties.	Optional	<p>Argument provided for or against the use of the consultative group.</p> <p>Extent of consultative group meetings that have been held.</p> <p>Feedback to the consultative group has been provided.</p>	<p>The Board has not discussed whether it should establish a consultative group at this stage. At this stage, the Board has been focusing on wider stakeholder engagement as well as continuing to seek the advice of a number of existing consultative groups, in particular the ASAF, CMAC and GPF. The Board will discuss whether to establish a distinct consultative group after it decides whether it should add a project to its Standard-setting Agenda.</p>
Online survey to generate evidence in support of or against a particular approach.	Optional	<p>Survey shown on the IASB website.</p> <p>Number and diversity of respondents.</p> <p>Analysis of the response.</p>	Not undertaken at this stage.

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Actions</i>
Outreach meetings to promote debate and hear views on the financial reporting issue that is being examined.	Optional	Schedule of the outreach meetings.	Limited outreach so far, however the Discussion Paper has been informed by previous related consultations (see paragraphs 15-16). More outreach will be performed once the DP has been published.
Public discussions with representative groups.	Optional	Meetings held.	The FICE project has been discussed with the ASAF (September 2014, March 2015, July 2016, December 2016, March 2017) and a joint meeting of the GPF and CMAC (June 2016).
Regional discussion forums, where possible, with national standard-setters with the IASB.	Optional	Extent of meetings held and the venues where issues have been discussed.	The FICE project has been discussed in meetings with Standard setters from Asia during a workshop in Tokyo, and with the AOSSG in New Zealand.

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Actions</i>
Podcasts to provide interested parties with high level updates or other useful information about the specific project.	Optional	Number of podcasts. Number of participants on podcasts.	None provided so far, but we will consider whether to provide as part of the Discussion Paper outreach plan.
Publication			
DP or RP has appropriate comment period.	Required	The IASB has set the comment period. If outside the normal comment period, an explanation from the IASB to the DPOC has been provided, and the decision has been approved.	To be discussed at the March 2017 IASB meeting. The staff recommend giving a 180-day comment period.
Press release to announce publication of the DP.	Optional	Release was announced in a timely fashion. Media coverage of the release.	Will be done in due course.

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Actions</i>
Snapshot document to explain the rationale and basic concepts included in the DP.	Optional	Snapshot prepared at the time of the release.	We will consider whether to provide as part of the publication of the Discussion Paper.
Webcast of interactive presentations streamed in real time from the IASB's office.	Optional	Number of webcasts held.	None provided so far, but we will consider whether to provide as part of the Discussion Paper outreach plan.
The IASB determines if focused investor consultation is required to supplement the comment letters.	Required if DP issued	Staff Paper.	Project team will liaise with the investor team regarding focused investor consultation.

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Actions</i>
Request for additional comment and suggestions by conducting fieldwork.	Optional	Meetings held.	Not undertaken at this stage.
Round-table meetings between external participants and members of the IASB.	Optional	Number of participants in round-table meetings and venues for the round-table meetings confirmed.	Not undertaken at this stage.