Agenda ref	**12B**

STAFF PAPER

October 2021

IASB® meeting

Project	**Accounting for Warrants that are Classified as Financial Liabilities on Initial Recognition (IAS 32)**	
Paper topic	Finalisation of agenda decision	
CONTACT(S)	Angie Ah Kun	aahkun@ifrs.org
	Riana Wiesner	rwiesner@ifrs.org

Introduction and purpose

1. At its September 2021 meeting, the IFRS Interpretations Committee (Committee) decided not to add a standard-setting project to the work plan in response to a submission about whether, applying IAS 32 *Financial Instruments: Presentation,* an issuer reclassifies a derivative financial liability to equity after initial recognition in particular circumstances. The Committee instead decided to finalise an agenda decision.

2. The purpose of this meeting is to ask Board members whether they object to the agenda decision, as required by paragraph 8.7 of the IFRS Foundation *Due Process Handbook.*

Background

3. The submission described a warrant that provides the holder with the right to buy a fixed number of equity instruments of the issuer of the warrant for an exercise price that will be fixed at a future date. At initial recognition, because of the variability in the exercise price, the issuer in applying paragraph 16 of IAS 32 classifies the warrants as financial liabilities. This is because for a derivative financial instrument to be classified as equity, it must be settled by the issuer

exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments ('fixed-for-fixed condition').

4. The submission asked whether the issuer reclassifies the warrant as an equity instrument following the fixing of the warrant's exercise price after initial recognition as specified in the contract, given that the fixed-for-fixed condition would at that stage be met.

5. In March 2021, the Committee discussed the submission and decided to publish a tentative agenda decision, having observed that:

   (a) IAS 32 contains no general requirements for reclassifying financial liabilities and equity instruments after initial recognition when the instrument's contractual terms are unchanged;

   (b) similar questions about reclassification arise in other circumstances; and

   (c) reclassification by the issuer has been identified as one of the practice issues the Board will consider as part of its Financial Instruments with Characteristics of Equity (FICE) project.

6. Accordingly, the Committee concluded that the matter described in the request is, in isolation, too narrow for the Board or the Committee to address in a cost-effective manner and recommended that the Board consider the matter as part of its broader discussions on the FICE project.

Overview of the feedback on the tentative agenda decision

7. The Committee received 8 comment letters on its tentative agenda decision by the comment letter deadline of 24 May 2021.

8. Six respondents agreed with the Committee's decision not to add a standard-setting project to the work plan broadly for the reasons set out in the tentative agenda decision.

9. Two respondents agreed with the decision not to address the specific fact pattern in isolation and, instead, consider the matter as part of the broader discussions on the FICE project. However, they were of the view that the requirements in IAS 32

are sufficient to address the fact pattern described in the submission. These respondents suggested that the agenda decision focus on paragraphs 16E-16F of IAS 32 to support a conclusion that IFRS Standards are sufficient to address the matter submitted.

10. The Committee considered this feedback at its September meeting[1]. Having done so, the Committee confirmed the analysis and observations in the tentative agenda decision, making no changes to the wording of the tentative agenda decision.

11. Twelve of 13 Committee members voted to finalise the agenda decision.

12. Appendix A to this paper includes the wording of the agenda decision, approved by the Committee.

Questions for the Board

13. The staff would like to ask the Board the following questions.

Questions for the Board
Do Board members object to the Committee's (a) decision that a standard-setting project should not be added to the work plan; and (b) conclusion that the agenda decision does not add or change requirements in IFRS Standards?

[1] Agenda Paper 3 to the Committee's September 2021 meeting analyses comments received.

Appendix A—The Agenda Decision

A1. The Agenda Decision below was approved by the Committee at its September 2021 meeting.

Accounting for Warrants that are Classified as Financial Liabilities on Initial Recognition (IAS 32 *Financial Instruments: Presentation*)

The Committee received a request about the application of IAS 32 in relation to the reclassification of warrants. Specifically, the request described a warrant that provides the holder with the right to buy a fixed number of equity instruments of the issuer of the warrant for an exercise price that will be fixed at a future date. At initial recognition, because of the variability in the exercise price, the issuer in applying paragraph 16 of IAS 32 classifies these instruments as financial liabilities. This is because for a derivative financial instrument to be classified as equity, it must be settled by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments ('fixed-for-fixed condition'). The request asked whether the issuer reclassifies the warrant as an equity instrument following the fixing of the warrant's exercise price after initial recognition as specified in the contract, given that the fixed-for-fixed condition would at that stage be met.

The Committee observed that IAS 32 contains no general requirements for reclassifying financial liabilities and equity instruments after initial recognition when the instrument's contractual terms are unchanged. The Committee acknowledged that similar questions about reclassification arise in other circumstances. Reclassification by the issuer has been identified as one of the practice issues the Board will consider addressing in its Financial Instruments with Characteristics of Equity (FICE) project. The Committee concluded that the matter described in the request is, in isolation, too narrow for the Board or the Committee to address in a cost-effective manner. Instead, the Board should consider the matter as part of its broader discussions on the FICE project. For these reasons, the Committee decided not to add a standard-setting project to the work plan.