

IAS 32 *Financial Instruments: Presentation* (November 2006)

Foreign currency instruments exchangeable into equity instruments of the parent entity of the issuer

At its meeting in April 2005, the IFRIC concluded that derivative contracts that may be settled by an entity by delivering a fixed number of its own equity instruments in exchange for a fixed amount of foreign currency are financial liabilities. At the same time, the IFRIC recommended that the issue should be referred to the Board. However, the Board, in September 2005, decided not to proceed with any amendments to IAS 32 *Financial Instruments: Presentation* in connection with convertible instruments issued by an entity in a currency other than the functional currency of the entity.

Subsequently, the IFRIC was asked to consider a question relating to the issue by a subsidiary of financial instruments that provide holders with the rights to exchange the financial instruments into a fixed number of equity instruments of the parent at a fixed amount of currency. Variants considered were that the amount of currency is fixed if it is denominated in (i) the functional currency of the issuer of the exchangeable financial instruments or (ii) the functional currency of the issuer of the equity instruments. The question was whether the conversion options embedded in the exchangeable financial instruments should be classified as equity in the consolidated financial statements of the parent in accordance with IAS 32 *Financial Instruments: Presentation*.

The IFRIC noted that a group does not have a functional currency. It therefore discussed whether it should add a project to its agenda to address which functional currency should be the reference point in determining whether or not the embedded conversion options are equity instruments. The IFRIC believed that the question was sufficiently narrow that it is not expected to have widespread relevance in practice. The IFRIC, therefore, decided not to take the matter onto the agenda.