IAS 32 ***Financial Instruments: Presentation*** (January 2014)

Classification of a financial instrument that is mandatorily convertible into a variable number of shares upon a contingent 'non-viability' event

The Interpretations Committee discussed how an issuer would classify a particular mandatorily convertible financial instrument in accordance with IAS 32 Financial Instruments: Presentation. The financial instrument did not have a stated maturity date but was mandatorily convertible into a variable number of the issuer's own equity instruments if the issuer breached the Tier 1 Capital ratio (ie described as a 'contingent non-viability event'). The financial instrument is issued at par and the value of the equity instruments that will be delivered at conversion is equal to that fixed paramount. Interest payments on the instrument are payable at the discretion of the issuer.

Specifically the Interpretations Committee discussed the following issues:

a. Whether the financial instrument meets the definition of a financial liability in its entirety or must be classified as a compound instrument comprised of a liability component and an equity component (and, in the latter case, what those components reflect); and

b. How the financial liability (or liability component) identified above in bullet a. would be measured.

The Interpretations Committee decided not to add this issue to its agenda. The Interpretations Committee noted that the scope of the issues raised in the submission is too broad for it to address in an efficient manner.