

STAFF PAPER

September 2021

IFRS® Interpretations Committee meeting

Project	Accounting for Warrants that are Classified as Financial Liabilities on Initial Recognition (IAS 32)		
Paper topic	Comment letters		
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This paper has been prepared for discussion at a public meeting of the IFRS Interpretations Committee (Committee) and does not represent the views of the International Accounting Standards Board (Board), the Committee or any individual member of the Board or the Committee. Comments on the application of IFRS Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Decisions by the Board are made in public and reported in IASB® *Update*. Decisions by the Committee are made in public and reported in IFRIC® *Update*.

Introduction

1. This paper reproduces comment letters on the IFRS Interpretations Committee's tentative agenda decision 'Accounting for Warrants that are Classified as Financial Liabilities on Initial Recognition (IAS 32)' published in March 2021.

24 May 2021

Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London
United Kingdom
E14 4HD

Dear Ms Lloyd

Tentative agenda decision – Accounting for warrants that are classified as financial liabilities on initial recognition (IAS 32)

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the March 2021 Update of the tentative decision not to take onto the Committee's agenda the request for clarification on whether an issuer reclassifies a derivative financial liability to equity after initial recognition in particular circumstances.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely



Veronica Poole
Global IFRS Leader

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Appendix A - Accounting for Warrants that are Classified as Financial Liabilities on Initial Recognition (IAS 32)

Tentative Agenda Decision

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.

24 May 2021

Ms. Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Ms. Lloyd,

IFRS Interpretations Committee Tentative Agenda Decisions

The Malaysian Accounting Standards Board (MASB) welcomes the opportunity to provide comments on the following Tentative Agenda Decisions:

- (a) Accounting for Warrants that are Classified as Financial Liabilities on Initial Recognition (IAS 32 *Financial Instruments: Presentation*)
- (b) Non-refundable Value Added Tax on Lease Payments (IFRS 16 *Leases*)

We agree with the Interpretations Committee's reasons set out in the respective Tentative Agenda Decisions for not adding these items to the work plan. However, in the event that non-refundable value added tax on lease payments is found to have a widespread effect and has, or is expected to have a material effect on those affected, we recommend that the Interpretations Committee considers adding this item to the work plan, to support the consistent application of IFRS Standards.

If you need further clarification, please contact the undersigned by email at beeleng@masb.org.my or at +603 2273 3100.

Thank you.

Yours sincerely,



TAN BEE LENG
Executive Director

May 24, 2021

Ms Sue Lloyd,
Chair, IFRS Interpretations Committee,
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Ms Sue,

Subject: Comments of the Institute of Chartered Accountants of India (the ICAI) on Tentative Agenda Decision (TAD) issued by IFRS Interpretations Committee on ‘Accounting for Warrants that are Classified as Financial Liabilities on Initial Recognition (IAS 32)’

The Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (the ICAI) welcomes the opportunity to comment on above referred Tentative Agenda Decision of the IFRS Interpretations Committee.

The TAD examines 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. At the outset, we agree with the conclusions laid down in TAD.

We agree that IAS 32, *Financial Instruments: Presentation*, contains no general requirements for reclassifying financial liabilities and equity instruments after initial recognition when the instrument’s contractual terms are unchanged. Therefore, there is a need to provide guidance on the said issue.

Further, the similar issue about reclassification arises not only in the particular fact pattern specified in the TAD, but also in other circumstances. Therefore, we agree with IFRS Interpretations Committee conclusion that reclassification by the issuer which has been identified as one of the practice issues, will be addressed by IASB in its Financial Instruments with Characteristics of Equity (FICE) project.

With kind regards,

CA. M.P. Vijay Kumar

Chairman
Accounting Standards Board,
Institute of Chartered Accountants of India



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

(Established by Act of Parliament No. 15 of 1965)

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Registrar/Chief Executive

AHMED M. KUMSHE (PROF.), FCA

May 24, 2021

ICAN/ED/R&T/MAY21/2021

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD.

Dear Sir,

Tentative Agenda Decision and comment letters: Accounting for Warrants that are Classified as Financial Liabilities on Initial Recognition (IAS 32)

Please find below our responses to the Tentative Agenda Decision named above.

Request: 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.

Response: We agree with the Committee given the foregoing on the ground of cost-effectiveness and also because the Committee planned to treat it in a broader scope in the next project having acknowledged that similar questions about reclassification exists in other circumstances.

We thank you for allowing us to contribute to the Tentative Agenda Decision and we are available should there be a need for further clarification.

Yours faithfully,
For: Registrar/Chief Executive

ICAnaso

Dr. Ijeoma Anaso

Director, Technical & Education

Buenos Aires, Argentina, May 24, 2021

**IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom**

REF: IFRS IC Tentative Agenda Decisions made in the March 16 and 17, 2021 meeting

Dear Board Members,

The “Group of Latin American Standards Setters”¹ (GLASS) appreciates the opportunity to comment on the Tentative Agenda Decisions (TAD) adopted by the IFRS IC during its meeting on March 16 and 17, 2021, which included the following topic:

- **Accounting for warrants that are classified as financial liabilities on initial recognition (IAS 32)**

This response summarizes the points of view of the members of the different countries that comprise GLASS, pursuant to the following due process.

Due process

The discussions regarding the Tentative Agenda Decisions of IFRS IC were held within a specified Permanent Technical Commission (PTC) created in December 2020. All GLASS country-members had the opportunity to appoint at least one member to participate in this PTC. Each standard setter represented in GLASS has undertaken different tasks in their respective countries (e.g., surveys, internal working groups). All results were summarized, and this summary was the platform for GLASS discussion process.

GLASS discussed the different points of view included in the summary through emails exchange between its members. In those emails GLASS developed a final document on the basis of the consensual responses and the technical points of view of its members. Finally, the GLASS document was submitted to and approved by the GLASS Board.

Comments:

Accounting for warrants that are classified as financial liabilities on initial recognition (IAS 32)

GLASS considers that, although the subject does not have a generalized application in our region in which such instruments are not frequent, it agrees with the IFRS IC proposal in the sense that it should form part of a more exhaustive and comprehensive analysis on the issue. Therefore, it considers appropriate the proposal to ask the Board to include it specifically within the project on Financial Instruments with Characteristics of Equity (FICE) and not add it to its own work plan.

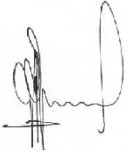
However, GLASS understands that there are guidelines in existing IFRS that are applicable to the case, specifically in paragraph 16E of IAS 32, which is applicable until the IASB completes the treatment of the subject described in the previous paragraph. However, it seems very clear to us that the warrant must be reclassified to equity when the condition of “fixed-for-fixed” is met. We believe that the Agenda Decision should focus on paragraphs 16E and 16F added to IAS 32 several years ago to support that existing standards are sufficient.

¹ The overall objective of the Group of Latin American Accounting Standard Setters (GLASS) is to present technical contributions with respect to all Exposure Drafts issued by the IASB. Therefore, GLASS aims to have a single regional voice before the IASB. GLASS is constituted by: Argentina (Chairman), Bolivia, Brazil (Board), Chile (Board), Colombia (Board), Costa Rica (Board), Ecuador, Guatemala, Honduras, Mexico (Vice Chairman), Panama, Paraguay, Peru (Board), Dominican Republic, Uruguay (Board) and Venezuela (Board).

Contact

If you have any questions about our comments, please contact glenif@glenif.org.

Sincerely yours,



Jorge José Gil

Chairman

Group of Latin American Accounting Standard Setters (GLASS)



May 24, 2021

International Accounting Standards Board
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Committee Members:

Consejo Mexicano de Normas de Información Financiera (CINIF), the accounting standard setting body in Mexico, welcomes the opportunity to submit its comments on the Tentative Agenda Decision of the IFRS Interpretations Committee (the Committee) on *Accounting for Warrants that are Classified as Financial Liabilities on Initial Recognition* (the TAD), issued for comments in March 2021. Set forth below you will find our comments on the conclusions reached in the TAD.

Overall comments

The responses we received in our investigation indicate agreement with the decision not to address the specific case in isolation, but rather to consider the matter as part of its broader discussions on the *Financial Instruments with Characteristics of Equity* (FICE) project, when analyzing the requirements for reclassifying financial liabilities and equity instruments after initial recognition when the instrument's contractual terms are unchanged.

Specific comments

However, we do not agree that existing standards are insufficient regarding this issue. Paragraph 16E of IAS 32, *Financial Instruments: Presentation*, establishes that "An entity shall classify a financial instrument as an equity instrument in accordance with paragraphs 16A and 16B or paragraphs 16C and 16D from the date when the instrument has all the features and meets the conditions set out in those paragraphs."

Additionally, paragraph 16F of IAS 32 states:

"An entity shall account as follows for the reclassification of an instrument in accordance with paragraph 16E:

(a) ...

(b) It shall reclassify a financial liability as equity from the date when the instrument has all the features and meets the conditions set out in paragraphs 16A and 16B or paragraphs 16C and 16D."

Based on the above, we believe it is very clear that a warrant must be subsequently reclassified to equity when the fixed-for-fixed condition is met. Therefore, we believe the Agenda Decision should focus on the aforementioned paragraphs added to IAS 32 several year ago to sustain that existing standards are sufficient.

Should you require additional information on our comments listed above, please contact William A. Biese at (52) 55-5433-3070 or me at (52) 55-5403-8309 or by e-mail at wbiese@cinif.org.mx or egarcia@cinif.org.mx, respectively.

Sincerely,



C.P.C. Elsa Beatriz García Bojorges
President of the Mexican Financial Reporting Standards Board
Consejo Mexicano de Normas de Información Financiera (CINIF)

Cc: Mr. Tadeu Cendon

PO Box 1411
Beenleigh QLD 4207
24 May 2021

Ms Sue Lloyd
Chair IFRS Interpretations Committee
International Accounting Standards Board
Columbus Building, 7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Online submission: <https://www.ifrs.org/projects/work-plan/accounting-for-warrants-that-are-classified-as-financial-liabilities-on-initial-recognition-ias-32/>

Dear Sue

Tentative agenda decision - Accounting for warrants that are classified as financial liabilities on initial recognition (IAS 32)

I am pleased to make this submission on the above Tentative Agenda Decision (TAD) relating to Accounting for warrants that are classified as financial liabilities on initial recognition (IAS 32).

I have extensive experience in accounting advice on International Financial Reporting Standards across a wide range of clients, industries and issues in the for-profit, not-for-profit, private and public sectors.

My clients have included listed companies, unlisted and private companies, charitable and not-for-profit organisations, federal, state and local government departments and agencies in the public sector, and government owned corporations (government business enterprises). I also have some commercial, standard setting and academic experience.

Overall

I agree with issuing the tentative agenda decision as drafted for the reasons given.

Yours sincerely,

David Hardidge
<https://www.linkedin.com/in/davidhardidge/>

Rio de Janeiro, May 24, 2021

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Ms. Lloyd, Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD, United Kingdom

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

Reference: Tentative Agenda Decision (TAD)

Dear Ms. Lloyd,

Petrobras welcomes the opportunity to comment on the IFRS Interpretations Committee's Tentative Agenda Decision - Accounting for Warrants that are Classified as Financial Liabilities on Initial Recognition (IAS 32 Financial Instruments: Presentation). We believe this is an important opportunity for all parties interested in the future of IFRS and we hope to contribute to the progress of the Committee's activities.

We agree with the Committee's tentative decision not to add a standard-setting project to the work plan. We also agree that the matter should be considered as part of the discussions on the Financial Instruments with Characteristics of Equity (FICE) project.

If you have any questions in relation to the content of this letter, please do not hesitate to contact us (cc-contrib@petrobras.com.br).

Respectfully,

/s/Edmilson Nascimento das Neves
Edmilson Nascimento das Neves
Chief Accountant and Tax Officer