IAS 32 *Financial Instruments: Presentation* (March 2010)

Shareholder discretion

The IFRIC received a request for guidance on whether a financial instrument, in the form of a preference share that includes a contractual obligation to deliver cash, is a financial liability or equity, if the payment is at the ultimate discretion of the issuer's shareholders.

The IFRIC noted that paragraph AG26 of IAS 32 identifies that when distributions to holders of preference shares are at the discretion of the issuer, the shares are equity instruments.

The IFRIC identified that diversity may exist in practice in assessing whether an entity has an unconditional right to avoid delivering cash if the contractual obligation is at the ultimate discretion of the issuer's shareholders, and consequently whether a financial instrument should be classified as a financial liability or equity.

The IFRIC noted that the Board is currently undertaking a project to improve and simplify the financial reporting requirements for financial instruments with characteristics of equity. The main objectives of this project are to develop a better distinction between equity and non-equity instruments and converge IFRSs and US GAAP.

Consequently, the IFRIC recommended that the Board address this issue as part of its current project on *Financial Instruments with Characteristics of Equity*. The Board's project is expected to address the distinction between equity and non-equity instruments in a shorter period than the IFRIC would require to complete its due process. Therefore, the IFRIC decided not to add this issue to its agenda.