Australian Government
Australian Accounting Standards Board

Level 7, 600 Bourke Street
MELBOURNE VIC 3000
Postal Address
PO Box 204
Collins Street West VIC 8007
Telephone: (03) 9617 7600
Facsimile: (03) 9617 7608

14 March 2014

Mr Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear Wayne

Tentative agenda decision - IAS 32 *Financial Instruments: Presentation* – accounting for a financial instrument that is mandatorily convertible into a variable number of shares subject to a cap and a floor

The AASB is pleased to respond to the IFRS Interpretations Committee's tentative decision (published in the January 2014 IFRIC Update) not to add to its agenda a request to clarify the accounting for a financial instrument that is mandatorily convertible into a variable number of shares subject to a cap and a floor.

In the tentative decision, the following views are expressed:

- the instrument is a non-derivative instrument that meets the definition of a financial liability in paragraph 11(b)(i) of IAS 32 because the issuer has a contractual obligation to deliver a variable number of its own equity instruments;

- the cap and the floor are embedded derivative features whose values change in response to the price of the issuer's equity share. Therefore, assuming that the issuer has not elected to designate the entire instrument under the fair value option, the issuer must separate those embedded derivative features from the host liability contract and account for them at fair value through profit or loss in accordance with IAS 39 or IFRS 9; and

- it is inappropriate to consider that there are separate conversion features for each of the scenarios in which the issuer will deliver a different number of its own equity instruments because the conversion outcomes are mutually exclusive. That is, IAS 32 does not permit an issuer to divide a conversion feature into multiple outcomes for the purposes of evaluating whether the instrument contains a component that meets the definition of equity in that Standard.

Whilst the AASB agrees with the IFRS Interpretations Committee's tentative decision not to add the issue to the Committee's agenda, the AASB has concerns that a strong rationale for the conclusion is not expressed in the tentative agenda decision. In particular, the AASB notes that the views expressed in the second and third bullet points above have not been articulated by reference to the relevant paragraphs in IAS 32.

The AASB recommends that the tentative agenda decision be redrafted to provide a more robust discussion of the reasons why the conclusion reached is the most appropriate accounting treatment for the instrument. However, if a clear rationale cannot be readily found in IAS 32 (which the AASB considers to be the case) the agenda decision should instead indicate that the classification of debt and equity is a broad issue that may not be efficiently addressed by the Committee on a timely basis.

If you have any questions on the comments above, please contact me or Sue Lightfoot (slightfoot@aasb.gov.au).

Yours sincerely

K.M. Stevenson

Kevin M. Stevenson
Chairman and CEO