



Australian Government
**Australian Accounting
Standards Board**

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

Dear Wayne

Agenda decisions - IAS 32 Financial Instruments: Presentation

The AASB has asked me to write to you to express a general comment about the importance of agenda decisions being consistent when relating to the same Standard.

Recently, the IFRS Interpretations Committee (IFRS IC) has responded to a number of requests in relation to IAS 32 *Financial Instruments: Presentation*. We note, in particular, the IFRS IC has made agenda decisions on the following issues (the date of the agenda decision relating to the issue is given in brackets):

- Accounting for a financial instrument that is mandatorily convertible into a variable number of shares subject to a cap and a floor (May 2014);
- A financial instrument that is mandatorily convertible into a variable number of shares (subject to a cap and a floor) but gives the issuer the option to settle by delivering the maximum (fixed) number of shares (January 2014);
- Classification of financial instruments that give the issuer the contractual right to choose the form of settlement (September 2013); and
- Classification of a financial instrument that is mandatorily convertible into a variable number of shares upon a contingent 'not-viability' event (January 2014);

The IFRS IC decided not to add these issues to its agenda. Although the AASB agrees with the IFRS IC's decisions not to add the issues to its agenda, the AASB is concerned that inconsistent rationales have been used to justify the rejections.

The IFRS IC's rationale for rejecting the first three issues was as follows:

'in the light of its analysis of the existing IFRS requirements, an Interpretation was not necessary'.

In one of these agenda decisions¹ the IFRS IC acknowledged that financial instruments, in particular those that are more structured or complex, require careful analysis to determine whether they contain equity and non-equity components that must be accounted for separately in accordance with IAS 32. The AASB is not convinced that a clear rationale² can be readily found in IAS 32 to address all of these issues.

The IFRS IC's rationale for not adding the last issue (the contingent 'non-viability' event) to its agenda was that:

'the scope of the issues raised in the submission is too broad for it to address in an efficient manner'.

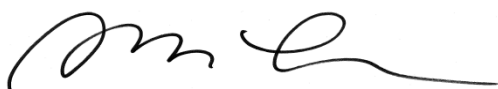
The IASB has recently decided to undertake a research project on 'Financial instruments with characteristics of equity' (FICE). As noted on the IASB project page, the research project will 'focus on identifying financial instruments that are difficult to classify under the current requirements, or for which preparers or users question the classification. These instruments will provide test cases for the staff developing the elements chapter of the Conceptual Framework'.

We also note that in June 2014 the IASB decided that the issue previously discussed at the IFRS IC of accounting for put options written on non-controlling interests has been incorporated into the broader project looking at the distinction between liabilities and equity.

We recommend that, instead of addressing the accounting for specific instruments under IAS 32, the IFRS IC should take a strategic decision to acknowledge that the classification of debt and equity is a broad issue that may not be efficiently addressed by the IFRS IC on a timely basis and instead bring these issues to the Research project for consideration.

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

Yours sincerely



Angus Thomson
Acting Chair

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- 1 Namely, the agenda decision on classification of financial instruments that give the issuer a contractual right to choose the form of settlement.
 - 2 In a letter to the IFRS IC dated 14 March 2014, the AASB wrote concerning the tentative agenda decision published in the January 2014 IFRS IC Update on accounting for a financial instrument that is mandatorily convertible into a variable number of shares subject to a cap and a floor. In the letter the AASB expressed the view that a strong rationale for the conclusion was not expressed in the tentative agenda decision and that 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.