

**Table of Concordance for IFRS Convergence IPSASs
IPSAS 28, “Financial Instruments: Presentation”**

AASB-FRSB 27-28 October 2010
Agenda paper B3.4

IFRS Paragraph #	IPSAS Paragraph	Explanation
Objective		
IAS 32.1	{deleted}	IAS 32.1; paragraph deleted from IAS 32.
IAS 32.2	1. The objective of this Standard is to establish principles for presenting financial instruments as liabilities or <u>net assets/equity</u> and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends or <u>similar distributions</u> , losses and gains; and the circumstances in which financial assets and financial liabilities should be offset.	IAS 32.2; amended wording to align with terminology used in other IPSASs.
IAS 32.3	2. The principles in this Standard complement the principles for recognizing and measuring financial assets and financial liabilities in <u>IPSAS 29</u> , “Financial Instruments: Recognition and Measurement”, and for disclosing information about them in <u>IPSAS 30</u> , “Financial Instruments: Disclosures”.	IAS 32.3; amended referencing from IASs to IPSASs.
Scope (see also paragraphs AG3-AG9)		
IAS 32.4	3. <u>An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard to</u> This Standard shall be applied by all entities to all types of financial instruments except:	IAS 32.4; amended to add standard wording in IPSAS regarding the application of IPSAS by entities that apply accrual accounting.
IAS 32.4	(a) <u>Those interests in controlled entities</u> subsidiaries , associates or joint ventures that are accounted for in accordance with <u>IAS 27 IPSAS 6</u> , “Consolidated and Separate Financial Statements”, <u>IAS 28 IPSAS 7</u> , “Investments in Associates” or <u>IPSAS 8, IAS 31 “Interests in Joint Ventures”</u> . However, in some cases, <u>IAS 27-IPSAS 6, IAS 28 IPSAS 7 or IAS 31 IPSAS 8</u> permits an entity to account for an interest in a <u>controlled entity</u> subsidiary , associate or joint venture using <u>IPSAS 29 IAS 39</u> ; in those cases, entities shall apply the requirements of this Standard. Entities shall also apply this Standard to all derivatives	IAS 32.4; amendments made for references to IPSAS and not IASs; changed terminology from subsidiary to controlled entity. Amendments resulting from the 2007/08 Improvements Project have also been incorporated.

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	linked to interests in <u>controlled entities</u> subsidiaries , associates or joint ventures.	
IAS 32.4	(b) Employers’ rights and obligations under employee benefit plans, to which <u>IPSAS 25, IAS 19</u> “Employee Benefits” applies.	IAS 32.4; amendments made for references to IPSAS and not IASs.
IAS 32.4	(e) [deleted]	IAS 32.4(c) deleted from IAS 32
IAS 32.4	<p><u>(c) Obligations arising from insurance contracts. –as defined in the IFRS 4 insurance contracts. However, this Standard applies to:</u></p> <p>(i) Derivatives that are embedded in insurance contracts if <u>IPSAS 29 IAS 39</u> requires the entity to account for them separately; and</p> <p>(ii) Moreover, an issuer shall apply this Standard to financial guarantee contracts, if the issuer applies <u>IPSAS 29 IAS 39</u> in recognizing and measuring the contracts, but shall apply the relevant international or national accounting standard dealing with insurance contracts <u>IFRS 4</u> if the issuer elects, in accordance with paragraph 4(d) of IFRS 4, to apply that standard <u>IFRS 4</u> in recognizing and measuring them.</p> <p><u>In addition to (i) and (ii) above, an entity may apply this Standard to insurance contracts which involve the transfer of financial risk.</u></p>	<p>IAS 32.4; based on comment received, retained wording of existing IPSAS 15 with regards to the treatment of insurance contracts as the IPSASB has not addressed insurance contracts in the public sector yet. Added existing guidance from IPSAS 15 and the definition of insurance contracts in IFRS 4 to the Application Guidance explaining this issue.</p> <p>All financial guarantees are to be treated as financial instruments and not insurance contracts. See the Basis for Conclusions for supporting rationale.</p> <p>Included existing paragraph 6 of IPSAS 15 as Application Guidance. This paragraph encouraged entities to consider accounting for some insurance contracts as financial instruments, where the insurance contract involves the transfer of financial risk. Retained in ED 37 in the absence of an IPSAS on insurance contracts.</p>
IAS 32.4	(ed) Financial instruments that are within the scope of the <u>international or national accounting standard dealing with insurance contracts <u>IFRS 4</u></u> because they contain a discretionary participation feature. The issuer of these instruments is exempt from applying to these features paragraphs 15–32–13–37 and AG25–AG35–AG49–AG60 of this Standard regarding the distinction between financial liabilities and equity instruments. However, these instruments are subject to all other requirements of this Standard. Furthermore, this Standard applies to derivatives that are embedded in these instruments (see <u>IPSAS 29 IAS 39</u>).	IAS 32.4; amendments made for references to IPSAS and not IASs.

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IAS 32.4	<p>(6) Financial instruments, contracts and obligations under share-based payment transactions to which the <u>international or national accounting standard dealing with share-based payments IFRS 2-Share-based Payment</u> applies, except for:</p> <p>(i) Contracts within the scope of paragraphs 8-10 <u>4-6</u> of this Standard, to which this Standard applies;</p> <p>(ii) Paragraphs 33 <u>38</u> and 34 <u>39</u> of this Standard, which shall be applied to treasury shares purchased, sold, issued or cancelled in connection with employee share option plans, employee share purchase plans, and all other share-based payment arrangements.</p>	IAS 32.4; amendments made for references to IPSAS and not IASs.
IAS 32.5-7	{Deleted}	Paragraphs 5-7 of IAS 32 deleted by IASB.
IAS 32.8	<p>4. This Standard shall be applied to those contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity’s expected purchase, sale or usage requirements.</p>	IAS 32.8; no amendment.
IAS 32.9	<p>5. There are various ways in which a contract to buy or sell a non-financial item can be settled net in cash or another financial instrument or by exchanging financial instruments. These include:</p> <p>(a) When the terms of the contract permit either party to settle it net in cash or another financial instrument or by exchanging financial instruments;</p> <p>(b) When the ability to settle net in cash or another financial instrument, or by exchanging financial instruments, is not explicit in the terms of the contract, but the entity has a practice of settling similar contracts net in cash or another financial instrument, or by exchanging financial instruments (whether with the counterparty, by entering into offsetting contracts or by selling the contract before its exercise or lapse);</p> <p>(c) When, for similar contracts, the entity has a practice of taking delivery of the underlying and selling it within a short period after delivery for the</p>	IAS 32.9; reference to a ‘dealer’s margin’ in paragraph 5(c) is probably not appropriate as these situations are not likely to exist in the public sector. However, wording retained in line with recommendations of the Zurich meeting.

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	<p>purpose of generating a profit from short-term fluctuations in price or dealer’s margin; and</p> <p>(d) When the non-financial item that is the subject of the contract is readily convertible to cash.</p> <p>A contract to which (b) or (c) applies is not entered into for the purpose of the receipt or delivery of the non-financial item in accordance with the entity’s expected purchase, sale or usage requirements, and, accordingly, is within the scope of this Standard. Other contracts to which paragraph 4 8 applies are evaluated to determine whether they were entered into and continue to be held for the purpose of the receipt or delivery of the non-financial item in accordance with the entity’s expected purchase, sale or usage requirement, and accordingly, whether they are within the scope of this Standard.</p>	
IAS 32.10	<p>6. A written option to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, in accordance with paragraph 9-5(a) or (d) is within the scope of this Standard. Such a contract cannot be entered into for the purpose of the receipt or delivery of the non-financial item in accordance with the entity’s expected purchase, sale or usage requirements.</p>	IAS 32.10; no amendment.
-	<p><u>7. This Standard applies to all public sector entities other than Government Business Enterprises.</u></p>	Added standard wording from IPSAS regarding the application of the standards to GBEs.
-	<p><u>8. The “Preface to International Public Sector Accounting Standards” issued by the IPSASB explains that Government Business Enterprises (GBEs) apply IFRSs issued by the IASB. GBEs are defined in IPSAS 1, “Presentation of Financial Statements.”</u></p>	Added standard wording from IPSAS regarding the application of the standards to GBEs.
Definitions (see also paragraphs AG310–AG2348)		
IAS 32.11	<p>9. The following terms are used in this Standard with the meanings specified:</p> <p>An <u>equity instrument</u> is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.</p> <p><u>Fair value</u> is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.</p>	IAS 32.11; Changed ordering of definitions to be alphabetical in accordance with normal IPSASB drafting conventions.

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	<p>A <u>financial instrument</u> is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.</p> <p>A <u>financial asset</u> is any asset that is:</p> <ul style="list-style-type: none"> (a) Cash; (b) An equity instrument of another entity; (c) A contractual right: <ul style="list-style-type: none"> (i) To receive cash or another financial asset from another entity; or (ii) To exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity; or (d) A contract that will or may be settled in the entity’s own equity instruments and is: <ul style="list-style-type: none"> (i) A non-derivative for which the entity is or may be obliged to receive a variable number of the entity’s own equity instruments; or (ii) A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity’s own equity instruments. For this purpose the entity’s own equity instruments do not include puttable financial instruments classified as equity instruments in accordance with paragraphs 16A15 and 16B16, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 16C17 and 16D18, or instruments that are contracts for the future receipt or delivery of the entity’s own equity instruments. <p>A <u>financial liability</u> is any liability that is:</p> <ul style="list-style-type: none"> (a) A contractual obligation: <ul style="list-style-type: none"> (i) To deliver cash or another financial asset to another entity; or (ii) To exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the 	<p>Included amendments made to IAS 32 in February 2008 relating to puttable financial instruments and obligations arising on liquidation.</p>
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	<p style="text-align: center;">entity; or</p> <p>(b) A contract that will or may be settled in the entity’s own equity instruments and is:</p> <p>(i) A non-derivative for which the entity is or may be obliged to deliver a variable number of the entity’s own equity instruments; or</p> <p>(ii) A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity’s own equity instruments. For this purpose the entity’s own equity instruments do not include puttable financial instruments classified as equity instruments in accordance with paragraphs 16A15 and 16B16, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 16C17 and 16D18, or instruments that are contracts for the future receipt or delivery of the entity’s own equity instruments.</p> <p>As an exception, an instrument that meets the definition of a financial liability is classified as an equity instrument if it has all the features and meets the conditions in paragraphs 16A15 and 16B16 or paragraphs 16C17 and 16D18.</p> <p>A <u>puttable instrument</u> is a financial instrument that gives the holder the right to put the instrument back to the issuer for cash or another financial asset or is automatically put back to the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder.</p> <p><u>Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meanings as in those other Standards, and are reproduced in the Glossary of Defined Terms published separately.</u></p>	<p>Included amendments made to IAS 32 in February 2008 relating to puttable financial instruments and obligations arising on liquidation.</p> <p>Included definition of a puttable instrument as a result of amendments made to IAS 32 in February 2008 relating to puttable financial instruments and obligations arising on liquidation.</p> <p>Added standard wording to the definitions section.</p>
IAS 32.12	10. The following terms are defined in paragraph 910 of IAS 39 <u>IPSAS 29</u> and are used in this Standard with the meaning specified in that Standard.	IAS 32.12; amended referencing to IPSAS and amended for terminology used in ED 38.

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	<ul style="list-style-type: none"> • amortized cost of a financial asset or financial liability • available-for-sale financial assets • derecognizing • derivative • effective interest method • financial asset or financial liability at fair value through <u>surplus or deficit</u> profit or loss • financial guarantee contract • firm commitment • forecast transaction • hedge effectiveness • hedged item • hedging instrument • held-to-maturity investments • loans and receivables • regular way purchase or sale • transaction costs. 	
IAS 32.13	11. In this Standard, “ contract ” and “ contractual ” refer to an agreement between two or more parties that has clear economic consequences that the parties have little, if any, discretion to avoid, usually because the agreement is enforceable by law. Contracts, and thus financial instruments, may take a variety of forms and need not be in writing.	IAS 32.13; no amendment.
IAS 32.14	12. In this Standard, “ entity ” includes <u>public sector entities</u> , individuals, partnerships, incorporated bodies; <u>and trusts</u> . and government agencies .	IAS 32.14; amended ‘government agencies’ to ‘public sector entities’.
Presentation		
Liabilities and <u>Net Assets/Equity</u> (see also paragraphs AG13-AG14J and AG25-AG29A-AG49-AG54)		

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IAS 32.15	<p>13. The issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument.</p>	IAS 32.15; no amendment.
IAS 32.16	<p>14. When an issuer applies the definitions in paragraph 14<u>9</u> to determine whether a financial instrument is an equity instrument rather than a financial liability, the instrument is an equity instrument if, and only if, both conditions (a) and (b) below are met.</p> <p>(a) The instrument includes no contractual obligation:</p> <p style="padding-left: 20px;">(i) To deliver cash or another financial asset to another entity; or</p> <p style="padding-left: 20px;">(ii) To exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the issuer.</p> <p>(b) If the instrument will or may be settled in the issuer’s own equity instruments, it is:</p> <p style="padding-left: 20px;">(i) A non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or</p> <p style="padding-left: 20px;">(ii) A derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments. For this purpose the issuer’s own equity instruments do not include instruments that have all the features and meet the conditions described in paragraphs 16A<u>15</u> and 16B<u>16</u> or paragraphs 16C<u>17</u> and 16D<u>18</u>, or instruments that are contracts for the future receipt or delivery of the issuer’s own equity instruments.</p> <p>A contractual obligation, including one arising from a derivative financial instrument, that will or may result in the future receipt or delivery of the issuer’s own equity instruments, but does not meet conditions (a) and (b) above, is not an equity instrument. As an exception, an instrument that meets the definition of a financial liability is classified as an equity instrument if it has all the features and meets the conditions in paragraphs 16A<u>15</u> and 16B<u>16</u> or paragraphs 16C<u>17</u> and 16D<u>18</u>.</p>	<p>IAS32.16; no amendment.</p> <p>Highlighted as part of the Application Guidance that these kinds of instruments are not likely to be common in the public sector.</p> <p>Included amendments made to IAS 32 in February 2008 relating to puttable financial instruments and obligations arising on liquidation.</p> <p>Included amendments made to IAS 32 in February</p>

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		2008 relating to puttable financial instruments and obligations arising on liquidation.
Puttable Instruments		
IAS 32.16A	<p>15. A puttable financial instrument includes a contractual obligation for the issuer to repurchase or redeem that instrument for cash or another financial asset on exercise of the put. As an exception to the definition of a financial liability, an instrument that includes such an obligation is classified as an equity instrument if it has all of the following features:</p> <p>(a) It entitles the holder to a pro rata share of the entity’s net assets in the event of the entity’s liquidation. The entity’s net assets are those assets that remain after deducting all other claims on its assets. A pro rata share is determined by:</p> <p style="padding-left: 20px;">(i) Dividing the entity’s net assets on liquidation into units of equal amount; and</p> <p style="padding-left: 20px;">(ii) Multiplying that amount by the number of the units held by the financial instrument holder.</p> <p>(b) The instrument is in the class of instruments that is subordinate to all other classes of instruments. To be in such a class the instrument:</p> <p style="padding-left: 20px;">(i) Has no priority over other claims to the assets of the entity on liquidation; and</p> <p style="padding-left: 20px;">(ii) Does not need to be converted into another instrument before it is in the class of instruments that is subordinate to all other classes of instruments.</p> <p>(c) All financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features. For example, they must all be puttable, and the formula or other method used to calculate the repurchase or redemption price is the same for all instruments in that class.</p> <p>(d) Apart from the contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with</p>	<p>IAS 32.16A - Included amendments made to IAS 32 in February 2008 relating to puttable financial instruments and obligations arising on liquidation.</p> <p>Amended for public sector terminology.</p>

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	<p>another entity under conditions that are potentially unfavourable to the entity, and it is not a contract that will or may be settled in the entity’s own equity instruments as set out in subparagraph (b) of the definition of a financial liability.</p> <p>(e) The total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the <u>surplus or deficit</u> profit or loss, the change in the recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument (excluding any effects of the instrument).</p>	
IAS 32.16B	<p>16. For an instrument to be classified as an equity instrument, in addition to the instrument having all the above features, the issuer must have no other financial instrument or contract that has:</p> <p>(a) Total cash flows based substantially on the <u>surplus or deficit</u> profit or loss, the change in the recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the entity (excluding any effects of such instrument or contract); and</p> <p>(b) The effect of substantially restricting or fixing the residual return to the puttable instrument holders.</p> <p>For the purposes of applying this condition, the entity shall not consider non-financial contracts with a holder of an instrument described in paragraph 16A.15 that have contractual terms and conditions that are similar to the contractual terms and conditions of an equivalent contract that might occur between a non-instrument holder and the issuing entity. If the entity cannot determine that this condition is met, it shall not classify the puttable instrument as an equity instrument.</p>	<p>IAS 32.16B - Included amendments made to IAS 32 in February 2008 relating to puttable financial instruments and obligations arising on liquidation.</p> <p>Amended for public sector terminology: profit or loss to ‘surplus or deficit’.</p>
<p>Instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation</p>		
IAS 32.16C	<p>17. Some financial instruments include a contractual obligation for the issuing entity to deliver to another entity a pro rata share of its net assets only on liquidation. The obligation arises because liquidation either is certain to occur and outside the control of the entity (for example, a limited life entity) or is uncertain to occur but is at the option of the instrument holder. As an exception to the definition of a financial liability, an instrument that includes such an</p>	<p>IAS 32.16C - Included amendments made to IAS 32 in February 2008 relating to puttable financial instruments and obligations arising on liquidation.</p> <p>No amendment.</p>

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	<p>obligation is classified as an equity instrument if it has all of the following features:</p> <ul style="list-style-type: none"> (a) It entitles the holder to a pro rata share of the entity’s net assets in the event of the entity’s liquidation. The entity’s net assets are those assets that remain after deducting all other claims on its assets. A pro rata share is determined by: <ul style="list-style-type: none"> (i) Dividing the net assets of the entity on liquidation into units of equal amount; and (ii) Multiplying that amount by the number of the units held by the financial instrument holder. (b) The instrument is in the class of instruments that is subordinate to all other classes of instruments. To be in such a class the instrument: <ul style="list-style-type: none"> (i) Has no priority over other claims to the assets of the entity on liquidation, and (ii) Does not need to be converted into another instrument before it is in the class of instruments that is subordinate to all other classes of instruments. (c) All financial instruments in the class of instruments that is subordinate to all other classes of instruments must have an identical contractual obligation for the issuing entity to deliver a pro rata share of its net assets on liquidation. 	
IAS 32.16D	<p>18. For an instrument to be classified as an equity instrument, in addition to the instrument having all the above features, the issuer must have no other financial instrument or contract that has:</p> <ul style="list-style-type: none"> (a) Total cash flows based substantially on the surplus or deficit profit or loss, the change in the recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the entity (excluding any effects of such instrument or contract); and (b) The effect of substantially restricting or fixing the residual return to the instrument holders. <p>For the purposes of applying this condition, the entity shall not consider non-financial contracts with a holder of an instrument described in paragraph</p>	<p>IAS 32.16D - Included amendments made to IAS 32 in February 2008 relating to puttable financial instruments and obligations arising on liquidation.</p> <p>Amended for public sector terminology: profit or loss to ‘surplus or deficit’.</p>

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	<p>16C17 that have contractual terms and conditions that are similar to the contractual terms and conditions of an equivalent contract that might occur between a non-instrument holder and the issuing entity. If the entity cannot determine that this condition is met, it shall not classify the instrument as an equity instrument.</p>	
<p>Reclassification of puttable instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation</p>		
IAS 32.16E	<p>19. An entity shall classify a financial instrument as an equity instrument in accordance with paragraphs 16A15 and 16B16 or paragraphs 16C17 and 16D18 from the date when the instrument has all the features and meets the conditions set out in those paragraphs. An entity shall reclassify a financial instrument from the date when the instrument ceases to have all the features or meet all the conditions set out in those paragraphs. For example, if an entity redeems all its issued non-puttable instruments and any puttable instruments that remain outstanding have all of the features and meet all the conditions in paragraphs 16A15 and 16B16, the entity shall reclassify the puttable instruments as equity instruments from the date when it redeems the non-puttable instruments.</p>	<p>IAS 32.16E - Included amendments made to IAS 32 in February 2008 relating to puttable financial instruments and obligations arising on liquidation.</p> <p>No amendment.</p>
IAS 32.16F	<p>20. An entity shall account as follows for the reclassification of an instrument in accordance with paragraph 16E19:</p> <p>(a) It shall reclassify an equity instrument as a financial liability from the date when the instrument ceases to have all of the features or meet the conditions in paragraphs 16A15 and 16B16 or paragraphs 16C17 and 16D18. The financial liability shall be measured at the instrument’s fair value at the date of reclassification. The entity shall recognize in <u>net assets/equity</u> any difference between the carrying value of the equity instrument and the fair value of the financial liability at the date of reclassification.</p> <p>(b) It shall reclassify a financial liability as an equity instrument from the date when the instrument has all of the features and meets the conditions set out in paragraphs 16A15 and 16B16 or paragraphs 16C17 and 16D18. An equity instrument shall be measured at the carrying value of the financial liability at the date of reclassification.</p>	<p>IAS 32.16F - Included amendments made to IAS 32 in February 2008 relating to puttable financial instruments and obligations arising on liquidation.</p> <p>Amended for public sector terminology: profit or loss to ‘net assets/equity’</p>
<p>No Contractual Obligation to Deliver Cash or Another Financial Asset (paragraph 16(a)14(a))</p>		

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IAS 32.17	<p>21. With the exception of the circumstances described in paragraphs 16A.15 and 16B.16 or paragraphs 16C.17 and 16D.18, a critical feature in differentiating a financial liability from an equity instrument is the existence of a contractual obligation of one party to the financial instrument (the issuer) either to deliver cash or another financial asset to the other party (the holder) or to exchange financial assets or financial liabilities with the holder under conditions that are potentially unfavorable to the issuer. Although the holder of an equity instrument may be entitled to receive a pro rata share of any dividends <u>or similar distributions declared, or distributions of the net assets/equity</u> or other distributions of equity, the issuer does not have a contractual obligation to make such distributions because it cannot be required to deliver cash or another financial asset to another party.</p>	<p>IAS 32.17.Redrafted wording slightly to reflect the concept of ‘returns of or on capital’, while amending the references to ‘dividends <u>or similar distributions</u>’.</p> <p>Included amendments made to IAS 32 in February 2008 relating to puttable financial instruments and obligations arising on liquidation.</p>
IAS 32.18	<p>22. The substance of a financial instrument, rather than its legal form, governs its classification on the entity’s statement of financial position. Substance and legal form are commonly consistent, but not always. Some financial instruments take the legal form of <u>equity instruments</u> equity but are liabilities in substance and others may combine features associated with equity instruments and features associated with financial liabilities. For example:</p> <p>(a) A preference share that provides for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the issuer to redeem the instrument at or after a particular date for a fixed or determinable amount, is a financial liability.</p> <p>(b) A financial instrument that gives the holder the right to put it back to the issuer for cash or another financial asset (a ‘puttable instrument’) is a financial liability, except for those instruments classified as equity instruments in accordance with paragraphs 16A.15 and 16B.16 or paragraphs 16C.17 and 16D.18. The financial instrument is a financial liability even when the amount of cash or other financial assets is determined on the basis of an index or other item that has the potential to increase or decrease. The existence of an option for the holder to put the instrument back to the issuer for cash or another financial asset means that the puttable instrument meets the definition of a financial liability, except for those instruments classified as equity instruments in accordance with paragraphs 16A.15 and 16B.16 or paragraphs 16C.17 and 16D.18. For example, open-ended mutual funds, unit trusts, partnerships and some</p>	<p>IAS 32.18; amended the word ‘equity instrument’ to be consistent with the remainder of the Standard, changed reference to <u>net assets/equity</u>.</p> <p>Included amendments made to IAS 32 in February 2008 relating to puttable financial instruments and obligations arising on liquidation.</p>

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	<p>co-operative entities may provide their unitholders or members with a right to redeem their interests in the issuer at any time for cash, which results in the unitholders’ or members’ interests being classified as financial liabilities, except for those instruments classified as equity instruments in accordance with paragraphs 16A.15 and 16B.16 or paragraphs 16C.17 and 16D.18. However, classification as a financial liability does not preclude the use of descriptors such as ‘net asset value attributable to unitholders’ and ‘change in net asset value attributable to unitholders’ on the face of the financial statements of an entity that has no contributed equity (such as some mutual funds and unit trusts, see Illustrative Example 7) or the use of additional disclosure to show that total members’ interests comprise items such as reserves that meet the definition of <u>net assets/equity</u> and puttable instruments that do not (see Illustrative Example 8).</p>	
IAS 32.19	<p>23. If an entity does not have an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the obligation meets the definition of a financial liability, except for those instruments classified as equity instruments in accordance with paragraphs 16A.15 and 16B.16 or paragraphs 16C.17 and 16D.18. For example:</p> <p>(a) A restriction on the ability of an entity to satisfy a contractual obligation, such as lack of access to foreign currency or the need to obtain approval for payment from a regulatory authority, does not negate the entity’s contractual obligation or the holder’s contractual right under the instrument.</p> <p>(b) A contractual obligation that is conditional on a counterparty exercising its right to redeem is a financial liability because the entity does not have the unconditional right to avoid delivering cash or another financial asset.</p>	IAS 32.19; no amendment. Included amendments made to IAS 32 in February 2008 relating to puttable financial instruments and obligations arising on liquidation.
IAS 32.20	<p>24. A financial instrument that does not explicitly establish a contractual obligation to deliver cash or another financial asset may establish an obligation indirectly through its terms and conditions. For example:</p> <p>(a) A financial instrument may contain a non-financial obligation that must be settled if, and only if, the entity fails to make distributions or to redeem the instrument. If the entity can avoid a transfer of cash or another financial asset only by settling the non-financial obligation, the financial instrument is a financial liability.</p> <p>(b) A financial instrument is a financial liability if it provides that on</p>	IAS 32.20; no amendment.

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	<p>settlement the entity will deliver either:</p> <p>(i) Cash or another financial asset; or</p> <p>(ii) Its own shares whose value is determined to exceed substantially the value of the cash or other financial asset.</p> <p>Although the entity does not have an explicit contractual obligation to deliver cash or another financial asset, the value of the share settlement alternative is such that the entity will settle in cash. In any event, the holder has in substance been guaranteed receipt of an amount that is at least equal to the cash settlement option (see paragraph 24<u>25</u>).</p>	
Settlement in the Entity’s Own Equity Instruments (paragraph 16(b)<u>14(b)</u>)		
IAS 32.21	<p>25. A contract is not an equity instrument solely because it may result in the receipt or delivery of the entity’s own equity instruments. An entity may have a contractual right or obligation to receive or deliver a number of its own shares or other equity instruments that varies so that the fair value of the entity’s own equity instruments to be received or delivered equals the amount of the contractual right or obligation. Such a contractual right or obligation may be for a fixed amount or an amount that fluctuates in part or in full in response to changes in a variable other than the market price of the entity’s own equity instruments (for example, an interest rate, a commodity price or a financial instrument price). Two examples are (a) a contract to deliver as many of the entity’s own equity instruments as are equal in value to CU100, and (b) a contract to deliver as many of the entity’s own equity instruments as are equal in value to the value of 100 barrels of oil ounces of gold. Such a contract is a financial liability of the entity even though the entity must or can settle it by delivering its own equity instruments. It is not an equity instrument because the entity uses a variable number of its own equity instruments as a means to settle the contract. Accordingly, the contract does not evidence a residual interest in the entity’s assets after deducting all of its liabilities.</p>	IAS 32.21; amended example of gold to oil as the IPSASB will deal separately with gold as both a commodity and a currency in future financial instrument projects.
IAS 32.22	<p>26. Except as stated in paragraph 22A<u>27</u>, a contract that will be settled by the entity (receiving or) delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset is an equity instrument. For example, an issued share option that gives the counterparty a right to buy a fixed number of the entity’s shares for a fixed price or for a fixed stated principal amount of a bond is an equity instrument. Changes in the fair</p>	IAS 32.22; aligned terminology with other IPSASs. Included amendments made to IAS 32 in February 2008 relating to puttable financial instruments and obligations arising on liquidation.

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	<p>value of a contract arising from variations in market interest rates that do not affect the amount of cash or other financial assets to be paid or received, or the number of equity instruments to be received or delivered, on settlement of the contract do not preclude the contract from being an equity instrument. Any consideration received (such as the premium received for a written option or warrant on the entity’s own shares) is added directly to <u>net asset/equity</u>. Any consideration paid (such as the premium paid for a purchased option) is deducted directly from <u>net assets/equity</u>. Changes in the fair value of an equity instrument are not recognized in the financial statements.</p>	
IAS 32.22A	<p>27. If the entity’s own equity instruments to be received, or delivered, by the entity upon settlement of a contract are puttable financial instruments with all of the features and meeting the conditions described in paragraphs 16A15 and 16B16, or instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation with all of the features and meeting the conditions described in paragraphs 16C17 and 16D18, the contract is a financial asset or a financial liability. This includes a contract that will be settled by the entity receiving or delivering a fixed number of such instruments in exchange for a fixed amount of cash or another financial asset.</p>	IAS 32.22A - Included amendments made to IAS 32 in February 2008 relating to puttable financial instruments and obligations arising on liquidation.
IAS 32.23	<p>28. With the exception of the circumstances described in paragraphs 16A15 and 16B16 or paragraphs 16C17 and 16D18, a contract that contains an obligation for an entity to purchase its own equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount (for example, for the present value of the forward repurchase price, option exercise price or other redemption amount). This is the case even if the contract itself is an equity instrument. One example is an entity’s obligation under a forward contract to purchase its own equity instruments for cash. When the financial liability is recognized initially under <u>IPSAS 29</u> IAS 39, its fair value (the present value of the redemption amount) is reclassified from <u>net assets/equity</u>. Subsequently, the financial liability is measured in accordance with <u>IPSAS 29</u> IAS 39. If the contract expires without delivery, the carrying amount of the financial liability is reclassified to <u>net assets/equity</u>. An entity’s contractual obligation to purchase its own equity instruments gives rise to a financial liability for the present value of the redemption amount even if the obligation to purchase is conditional on the counterparty exercising a right to redeem (for example, a written put option that gives the counterparty the right to sell an entity’s own equity instruments to the entity for a fixed price).</p>	<p>IAS 32.23; aligned terminology with other IPSASs and amended referencing from IASs to IPSASs.</p> <p>Included amendments made to IAS 32 in February 2008 relating to puttable financial instruments and obligations arising on liquidation.</p>

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IAS 32.24	29. A contract that will be settled by the entity delivering or receiving a fixed number of its own equity instruments in exchange for a variable amount of cash or another financial asset is a financial asset or financial liability. An example is a contract for the entity to deliver 100 of its own equity instruments in return for an amount of cash calculated to equal the value of 100 barrels of oil ounces of gold .	IAS 32.24; amended example of gold to oil as the IPSASB will deal separately with gold as both a commodity and a currency in future financial instrument projects..
Contingent Settlement Provisions		
IAS 32.25	30. A financial instrument may require the entity to deliver cash or another financial asset, or otherwise to settle it in such a way that it would be a financial liability, in the event of the occurrence or non-occurrence of uncertain future events (or on the outcome of uncertain circumstances) that are beyond the control of both the issuer and the holder of the instrument, such as a change in a stock market index, consumer price index, interest rate or taxation requirements, or the issuer’s future revenues, net income <u>surplus or deficit</u> or debt-to-equity ratio. The issuer of such an instrument does not have the unconditional right to avoid delivering cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability). Therefore, it is a financial liability of the issuer unless: <ul style="list-style-type: none"> (a) The part of the contingent settlement provision that could require settlement in cash or another financial asset (or otherwise in such a way that it would be a financial liability) is not genuine; (b) The issuer can be required to settle the obligation in cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability) only in the event of liquidation of the issuer; or (c) The instrument has all of the features and meets the conditions in paragraphs 16A<u>15</u> and 16B<u>16</u>. 	IAS 32.25; deleted reference to ‘net income’ as this is not a measure used in the IPSASs, replaced net income with surplus or deficit in accordance with standard IPSASB terminology.. Included amendments made to IAS 32 in February 2008 relating to puttable financial instruments and obligations arising on liquidation.
Settlement Options		
IAS 32.26	31. When a derivative financial instrument gives one party a choice over how it is settled (example e.g., the issuer or the holder can choose settlement net in cash or by exchanging shares for cash), it is a financial asset or a financial liability unless all of the settlement alternatives would result in it being an equity instrument.	IAS 32.26; no amendment.

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IAS 32.27	32. An example of a derivative financial instrument with a settlement option that is a financial liability is a share option that the issuer can decide to settle net in cash or by exchanging its own shares for cash. Similarly, some contracts to buy or sell a non-financial item in exchange for the entity’s own equity instruments are within the scope of this Standard because they can be settled either by delivery of the non-financial item or net in cash or another financial instrument (see paragraphs 8–10 4–6). Such contracts are financial assets or financial liabilities and not equity instruments.	IAS 32.27; no amendment.
Compound Financial Instruments (see also paragraphs AG3055–AG3560 and Illustrative Examples 9–12)		
IAS 32.28	33. The issuer of a non-derivative financial instrument shall evaluate the terms of the financial instrument to determine whether it contains both a liability component and a component of net assets/equity an equity component. Such components shall be classified separately as financial liabilities, financial assets or equity instruments in accordance with paragraph 1513.	IAS 32.28; amended wording to address the issue of ‘equity components’ in the public sector. As an alternative, the following is suggested: ...whether it contains both a liability and a <u>net assets/equity component</u> an equity component .
IAS 32.29	34. An entity recognizes separately the components of a financial instrument that (a) creates a financial liability of the entity and (b) grants an option to the holder of the instrument to convert it into an equity instrument of the entity. For example, a bond or similar instrument convertible by the holder into a fixed number of ordinary shares of the entity is a compound financial instrument. From the perspective of the entity, such an instrument comprises two components: a financial liability (a contractual arrangement to deliver cash or another financial asset) and an equity instrument (a call option granting the holder the right, for a specified period of time, to convert it into a fixed number of ordinary shares of the entity). The economic effect of issuing such an instrument is substantially the same as issuing simultaneously a debt instrument with an early settlement provision and warrants to purchase ordinary shares, or issuing a debt instrument with detachable share purchase warrants. Accordingly, in all cases, the entity presents the liability <u>component</u> and <u>the component of net assets/equity</u> and equity components separately in its statement of financial position.	IAS 32.29; amended wording to address the issue of ‘equity components’ in the public sector. As an alternative, the following is suggested: ...an entity presents the liability and <u>net assets/equity components</u> ... an equity component .
IAS 32.30	35. Classification of <u>a convertible instrument into its</u> the components liability and equity components of a convertible instrument is not revised as a result of a change in the likelihood that a conversion option will be exercised, even when exercise of the option may appear to have become economically advantageous to some holders. Holders may not always act in the way that might be expected	IAS 32.30; redrafted sentence to reflect the notion of a component of net assets/equity rather than an ‘equity component’.

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	because, for example, the tax consequences resulting from conversion may differ among holders. Furthermore, the likelihood of conversion will change from time to time. The entity’s contractual obligation to make future payments remains outstanding until it is extinguished through conversion, maturity of the instrument or some other transaction.	
IAS 32.31	36. IPSAS 29 IAS 39 deals with the measurement of financial assets and financial liabilities. Equity instruments evidence a residual interest in the assets of an entity after deducting all of its liabilities. Therefore, when the initial carrying amount of a compound financial instrument is allocated into its equity and liability components, the <u>component of net assets/equity component</u> is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. The value of any derivative features (such as a call option) embedded in the compound financial instrument <u>is included in the liability component unless it forms part of the component of net assets/equity other than the equity component</u> (such as an equity conversion option) is included in the liability component . The sum of the carrying amounts assigned to the liability <u>component</u> and the <u>component of net assets/equity</u> equity components on initial recognition is always equal to the fair value that would be ascribed to the instrument as a whole. No gain or loss arises from initially recognizing the components of the instrument separately.	IAS 32.31; amended wording to address the notion of net assets/equity components rather than ‘equity components’ in the public sector; aligned terminology with other IPSASs. Aligned text with other IPSASs; amended ‘deals with’ to ‘addresses’.
IAS 32.32	37. Under the approach described in paragraph 34 <u>36</u> , the issuer of a bond convertible into ordinary shares first determines the carrying amount of the liability component by measuring the fair value of a similar liability (including any embedded non-equity derivative features) that does not have an associated <u>component of net assets/equity</u> equity component . The carrying amount of the equity instrument represented by the option to convert the instrument into ordinary shares is then determined by deducting the fair value of the financial liability from the fair value of the compound financial instrument as a whole.	IAS 32.32; amended wording to address the issue of ‘equity components’ in the public sector; changed other public sector terminology.
Treasury Shares (see also paragraph AG3661)		
IAS 32.33	38. If an entity reacquires its own equity instruments, those instruments (‘treasury shares’) shall be deducted from net assets/equity. No gain or loss shall be recognized in surplus or deficit profit or loss on the purchase, sale, issue or cancellation of an entity’s own equity instruments. Such treasury shares may be acquired and held by the entity or by other members of the	IAS 32.33; amendments made to text for public sector terminology.

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	<u>economic entity consolidated group</u>. Consideration paid or received shall be recognized directly in <u>net assets/equity</u>.	
IAS 32.34	39. The amount of treasury shares held is disclosed separately either in the statement of financial position or in the notes, in accordance with IPSAS 1- IAS 1 “Presentation of Financial Statements”. An entity provides disclosure in accordance with <u>IPSAS 20</u> , IAS 24 “Related Party Disclosures” if the entity reacquires its own equity instruments from related parties.	IAS 32.34; amendments made to text for public sector terminology.
<u>Interest, Dividends or Similar Distributions, Losses and Gains (see also paragraph AG3762)</u>		
IAS 32.35	40. Interest, dividends <u>or similar distributions</u>, losses and gains relating to a financial instrument or a component that is a financial liability shall be recognized as <u>revenue income</u> or expense in <u>surplus or deficit profit or loss</u>. Distributions to holders of an equity instrument shall be debited by the entity directly to <u>net assets/equity</u>, net of any related income tax benefit. Transaction costs <u>incurred on transactions in net assets/equity of an equity transaction</u> shall be accounted for as a deduction from <u>net assets/equity</u>, net of any related income tax benefit.	IAS 32.35; redrafted sentence relating to costs of an equity transaction and aligned terminology with other IPSASs.
IAS 32.36	41. The classification of a financial instrument as a financial liability or an equity instrument determines whether interest, dividends <u>or similar distributions</u> , losses and gains relating to that instrument are recognized as <u>revenue income</u> or expense in <u>surplus or deficit profit or loss</u> . Thus, dividends <u>or similar distributions payments</u> on shares wholly recognized as liabilities are recognized as expenses in the same way as interest on a bond. Similarly, gains and losses associated with redemptions or refinancings of financial liabilities are recognized in <u>surplus or deficit profit or loss</u> , whereas redemptions or refinancings of equity instruments are recognized as changes in <u>net assets/equity</u> . Changes in the fair value of an equity instrument are not recognized in the financial statements.	IAS 32.36; aligned terminology with other IPSASs.
IAS 32.37	42. An entity typically incurs various costs in issuing or acquiring its own equity instruments. Those costs might include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties. Any related The transaction costs of an equity transaction are accounted for as a deduction from <u>net assets/equity</u> (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the	IAS 32.37; wording amended to accommodate the notion of an ‘equity transaction’ in the public sector.

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	<p>equity transaction that otherwise would have been avoided. The costs of an equity <u>such a</u> transaction that is abandoned are recognized as an expense.</p>	
IAS 32.38	<p>43. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability <u>component</u> and the <u>component of net assets/equity</u> equity components of the instrument in proportion to the allocation of proceeds. Transaction costs that relate jointly to more than one transaction (for example, costs of a concurrent offering of some shares and a stock exchange listing of other shares) are allocated to those transactions using a basis of allocation that is rational and consistent with similar transactions.</p>	IAS 32.38; amended wording to accommodate ‘equity components’; changed text to eliminate examples that are not public sector specific.
IAS 32.39	<p>44. The amount of transaction costs accounted for as a deduction from <u>net assets/equity</u> in the period is disclosed separately under <u>IPSAS 1 IAS 1</u>. The related amount of income taxes recognised directly in equity is included in the aggregate amount of current and deferred income tax credited or charged to equity that is disclosed under IAS 12 Income Taxes.</p>	IAS 32.39; amended to incorporate public sector terminology; deleted references to income taxes as these transactions do not commonly occur in the public sector.
IAS 32.40	<p>45. Dividends <u>or similar distributions</u> classified as an expense <u>are presented in the statement of financial performance</u> may be presented in the statement of comprehensive income or separate income statement (if presented) either with interest on other liabilities or as a separate item. In addition to the requirements of this Standard, disclosure of interest and dividends <u>or similar distributions</u> is subject to the requirements of <u>IPSAS 1 IAS 1</u> and <u>IPSAS 30 IFRS 7</u>. In some circumstances, because of the differences between interest and dividends <u>or similar distributions</u> with respect to matters such as tax deductibility, it is desirable to disclose them separately in the statement <u>financial performance of comprehensive income or separate income statement (if presented)</u>. Disclosures of the tax effects are made in accordance with IAS 12.</p>	IAS 32.40; amended to incorporate public sector terminology; deleted references to income taxes as these transactions do not commonly occur in the public sector. Drafted the document on the basis that a statement of comprehensive income as envisaged in the revisions to IAS 1 does not exist in IPSAS 1. IAS 32 prior to the IAS 1 revisions required recognition of dividends paid in the income statement.
IAS 32.41	<p>46. Gains and losses related to changes in the carrying amount of a financial liability are recognized as <u>revenue income</u> or expense in surplus or deficit profit or loss even when they relate to an instrument that includes a right to the residual interest in the assets of the entity in exchange for cash or another financial asset (see paragraph 4822(b)). Under <u>IPSAS 1 IAS 1</u> the entity presents any gain or loss arising from remeasurement of such an instrument separately in the statement of <u>financial performance comprehensive income</u> comprehensive income when it is relevant in explaining the entity’s performance.</p>	IAS 32.41; amended to incorporate public sector terminology; drafted the document on the basis that a statement of comprehensive income as envisaged in the revisions to IAS 1 does not exist in IPSAS 1. IAS 32 prior to the IAS 1 revisions required recognition of such gains and losses in the income statement.

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Offsetting a Financial Asset and a Financial Liability (see also paragraphs AG3863 and AG3964)		
IAS 32.42	47. A financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when, and only when, an entity: (a) Currently has a legally enforceable right to set off the recognized amounts; and (b) Intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity shall not offset the transferred asset and the associated liability (see <u>IPSAS 29 IAS 39</u>, paragraph 36XX).	IAS 32.42; no amendment.
IAS 32.43	48. This Standard requires the presentation of financial assets and financial liabilities on a net basis when doing so reflects an entity’s expected future cash flows from settling two or more separate financial instruments. When an entity has the right to receive or pay a single net amount and intends to do so, it has, in effect, only a single financial asset or financial liability. In other circumstances, financial assets and financial liabilities are presented separately from each other consistently with their characteristics as resources or obligations of the entity.	IAS 32.43; no amendment.
IAS 32.44	49. Offsetting a recognized financial asset and a recognized financial liability and presenting the net amount differs from the derecognition of a financial asset or a financial liability. Although offsetting does not give rise to recognition of a gain or loss, the derecognition of a financial instrument not only results in the removal of the previously recognized item from the statement of financial position but also may result in recognition of a gain or loss.	IAS 32.44; no amendment.
IAS 32.45	50. A right of set-off is a debtor’s legal right, by contract or otherwise, to settle or otherwise eliminate all or a portion of an amount due to a creditor by applying against that amount an amount due from the creditor. In unusual circumstances, a debtor may have a legal right to apply an amount due from a third party against the amount due to a creditor provided that there is an agreement between the three parties that clearly establishes the debtor’s right of set-off. Because the right of set-off is a legal right, the conditions supporting the right may vary from one legal jurisdiction to another and the laws applicable to the relationships	IAS 32.45; no amendment.

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	between the parties need to be considered.	
IAS 32.46	51. The existence of an enforceable right to set off a financial asset and a financial liability affects the rights and obligations associated with a financial asset and a financial liability and may affect an entity’s exposure to credit and liquidity risk. However, the existence of the right, by itself, is not a sufficient basis for offsetting. In the absence of an intention to exercise the right or to settle simultaneously, the amount and timing of an entity’s future cash flows are not affected. When an entity intends to exercise the right or to settle simultaneously, presentation of the asset and liability on a net basis reflects more appropriately the amounts and timing of the expected future cash flows, as well as the risks to which those cash flows are exposed. An intention by one or both parties to settle on a net basis without the legal right to do so is not sufficient to justify offsetting because the rights and obligations associated with the individual financial asset and financial liability remain unaltered.	IAS 32.46; no amendment.
IAS 32.47	52. An entity’s intentions with respect to settlement of particular assets and liabilities may be influenced by its normal operating business practices, the requirements of the financial markets and other circumstances that may limit the ability to settle net or to settle simultaneously. When an entity has a right of set-off, but does not intend to settle net or to realize the asset and settle the liability simultaneously, the effect of the right on the entity’s credit risk exposure is disclosed in accordance with paragraph 42 36 of <u>IPSAS 30</u> IFRS 7 .	IAS 32.47; slight wording amendments to reflect public sector terminology.
IAS 32.48	53. Simultaneous settlement of two financial instruments may occur through, for example, the operation of a clearing house in an organized financial market or a face-to-face exchange. In these circumstances the cash flows are, in effect, equivalent to a single net amount and there is no exposure to credit or liquidity risk. In other circumstances, an entity may settle two instruments by receiving and paying separate amounts, becoming exposed to credit risk for the full amount of the asset or liquidity risk for the full amount of the liability. Such risk exposures may be significant even though relatively brief. Accordingly, realization of a financial asset and settlement of a financial liability are treated as simultaneous only when the transactions occur at the same moment.	IAS 32.48; no amendment.
IAS 32.49	54. The conditions set out in paragraph 42 <u>47</u> are generally not satisfied and offsetting is usually inappropriate when: (a) Several different financial instruments are used to emulate the features of a	IAS 32.49; no amendment.

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	<p>single financial instrument (a ‘synthetic instrument’);</p> <p>(b) Financial assets and financial liabilities arise from financial instruments having the same primary risk exposure (for example, assets and liabilities within a portfolio of forward contracts or other derivative instruments) but involve different counterparties;</p> <p>(c) Financial or other assets are pledged as collateral for non-recourse financial liabilities;</p> <p>(d) Financial assets are set aside in trust by a debtor for the purpose of discharging an obligation without those assets having been accepted by the creditor in settlement of the obligation (for example, a sinking fund arrangement); or</p> <p>(e) Obligations incurred as a result of events giving rise to losses are expected to be recovered from a third party by virtue of a claim made under an insurance contract.</p>	
IAS 32.50	<p>55. An entity that undertakes a number of financial instrument transactions with a single counterparty may enter into a ‘master netting arrangement’ with that counterparty. Such an agreement provides for a single net settlement of all financial instruments covered by the agreement in the event of default on, or termination of, any one contract. These arrangements may be are commonly used by financial institutions to provide protection against loss in the event of bankruptcy or other circumstances that result in a counterparty being unable to meet its obligations. A master netting arrangement commonly creates a right of set-off that becomes enforceable and affects the realization or settlement of individual financial assets and financial liabilities only following a specified event of default or in other circumstances not expected to arise in the normal course of operations-business. A master netting arrangement does not provide a basis for offsetting unless both of the criteria in paragraph 4247 are satisfied. When financial assets and financial liabilities subject to a master netting arrangement are not offset, the effect of the arrangement on an entity’s exposure to credit risk is disclosed in accordance with paragraph 4236 of <u>IPSAS 30</u> IFRS 7.</p>	IAS 32.50; aligned terminology with changes made in paragraph 45. Added in “may be” as these arrangements are not commonly used by all entities. Such netting arrangements exist, therefore deleted references to financial institutions.
<u>Transitional Provisions</u>		
-	<p>56. An entity shall apply this Standard retrospectively on first time application. However, where an entity previously did not apply IPSAS 15.</p>	Added transitional provision paragraph. Entities should apply the Standard retrospectively, with

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	<u>(2001) or adopts accrual accounting for the first time, it need not present comparative information if such information is not available.</u>	certain concessions made for those entities that previously did not apply IPSAS 15 or did not apply accrual accounting. This concession is based on the transitional provision in IPSAS 15 as well as previous versions of IAS 32.
-	<u>57. When an entity that previously applied IPSAS 15 applies the requirements in paragraphs 15 to 18, an entity is required to split a compound financial instrument with an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation into a liability component and component of net assets/equity. If the liability component is no longer outstanding, a retrospective application of these requirements would involve separating two components of net assets/equity. The first component would be in accumulated surpluses and deficits and represent the cumulative interest accreted on the liability component. The other component would represent the original component of net assets/equity. Therefore, an entity need not separate these two components if the liability component is no longer outstanding when the Standard is adopted.</u>	Added transitional provision to provide entities relief relating to puttable instruments.
-	<u>58. An entity that either previously did not apply IPSAS 15 or adopts accrual accounting for the first time, applies the transitional provision in paragraph 57 to all compound financial instruments.</u>	Added transitional provision to provide entities that move from a different reporting framework or basis of accounting additional relief for compound instruments.
Disclosure		
IAS 32.51-95	{Deleted}	IAS 32 paragraphs 51-95 deleted.
Effective Date and transition		
-	<u>59. An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2013. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2013, it shall disclose that fact.</u>	Added standard wording included in IPSAS.
-	<u>60. An entity shall not apply this Standard before January 1, 2013, unless it also applies IPSAS 29 and IPSAS 30.</u>	Added paragraph to explain the early adoption of the financial instrument standards as a package of Standards.

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-	61. <u>When an entity adopts the accrual basis of accounting, as defined by IPSASs, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity’s annual financial statements covering periods beginning on or after the date of adoption.</u>	Standard wording in IPSASs.
IAS 32.96-97D	[IAS 32 Transitional provisions]	IAS 32 transitional provisions deleted – replaced with new transitional provisions.
<u>Withdrawal of other pronouncements and Replacement of IPSAS 15 (2001)</u>		
-	62. <u>This Standard and IPSAS 30 supersede IPSAS 15, “Financial Instruments: Disclosure and Presentation” issued in 2001. IPSAS 15 remains applicable until IPSAS 28 and IPSAS 30 are applied or become effective, whichever is earlier.</u>	Added standard wording. This may need to be amended depending on the decision to be taken in February 2009 regarding the withdrawal/replacement of IPSAS 15.
IAS 32.98-100	[IAS 32 superseding and withdrawal paragraphs]	IAS 32.98; paragraph specific to IPSAS 15 included.

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IFRS Paragraph #	IPSAS Paragraph	Explanation
Appendix A - Application Guidance		
<i>This appendix is an integral part of the Standard IPSAS 28.</i>		
IAS32.AG1	AG1. This Application Guidance explains the application of particular aspects of the Standard.	IAS32.AG1; no amendment.
IAS32.AG2	AG2. The Standard does not deal with the recognition or measurement of financial instruments. Requirements about the recognition and measurement of financial assets and financial liabilities are set out in <u>IPSAS 29</u> IAS 39 .	IAS32.AG2; amended referencing from IAS to IPSAS.
<u>Scope (paragraphs 3-6)</u>		
<u>Financial Guarantee Contracts</u>		
-	<u>AG3. Financial guarantee contracts are those contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original terms of a debt instrument. Governments may issue financial guarantees for a variety of reasons. They are often issued to further a government’s policy objectives, for example, to create affordability in infrastructure projects and stabilize the financial market in times of distress. Governments and public sector entities may be granted the power to issue financial guarantees in terms of legislation or other authority. In assessing whether a guarantee is contractual or non-contractual, an entity distinguishes the right to issue the guarantee and the actual issue of the guarantee. The right to issue the guarantee in terms of legislation or other authority is non-contractual, while the actual issue of the guarantee should be assessed using the principles in paragraph AG20 to determine whether the guarantee is contractual.</u>	Added paragraph to clarify when financial guarantees are deemed to be contractual.
-	<u>AG4. The issuing of financial guarantees in favor of a third party, whether explicitly or implicitly, may result in a contractual arrangement. Financial guarantees may</u>	Added paragraph to clarify when financial guarantees are deemed to be contractual.

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	<p><u>be issued to a specific party or they may be issued to the holder of an instrument. Consider the following two examples:</u></p> <ul style="list-style-type: none"> • <u>In a service concession arrangement, a government may issue a financial guarantee directly to the financiers of the transaction stating that, in the event of default, it would assume payment for any outstanding principal and interest payments of a loan. In this instance, the financial guarantee is explicitly issued in favor of an identified counterparty.</u> • <u>Road authority A is responsible for constructing and maintaining a country’s road infrastructure. It finances the construction of new roads by issuing long term bonds. National government A exercises its powers in legislation and guarantees the bond issue of road authority A. At the time the guarantee is issued, there are no specific counterparties that have been identified, rather the guarantee is implicitly issued in favor of the holders of a specific instrument</u> <p><u>In both these scenarios, assuming that all the other features of a contract are met, the financial guarantee is contractual in nature.</u></p>	
<u>Insurance Contracts</u>		
-	<p><u>AG5. Some economic entities in the public sector may include entities that issue insurance contracts. Those entities are within the scope of this Standard, but the insurance contracts themselves are outside the scope of this Standard.</u></p>	<p>Added principles of existing paragraph 6 of IPSAS 15 to explain the application of the Standard to insurance contracts. However, paragraph 6 was split into three paragraphs.</p>
-	<p><u>AG6. For the purposes of this Standard, an insurance contract is a contract that exposes the insurer to identified risks of loss from events or circumstances occurring or discovered within a specified period, including death (i.e., in the case of an annuity, the survival of the annuitant), sickness, disability, property damage, injury to others, and interruption of operations. Additional guidance on insurance contracts is available in the relevant international or national standard dealing with insurance contracts.</u></p>	<p>Added principles of existing paragraph 6 of IPSAS 15 to explain the application of the Standard to insurance contracts. However, paragraph 6 was split into three paragraphs. Rather than include the IPSAS 15 description of an insurance contract, included definition of an insurance contract from IFRS 4.</p>
-	<p><u>AG7. Some financial instruments take the form of insurance contracts but principally involve the transfer of financial risks, such as market, credit, or liquidity risk. Examples of such instruments include financial guarantee contracts, reinsurance and guaranteed investment contracts issued by public sector insurers and other entities. An entity is required to apply this Standard to financial guarantee</u></p>	<p>Added principles of existing paragraph 6 of IPSAS 15 to explain the application of the Standard to insurance contracts. However, paragraph 6 was split into three paragraphs, and excluded the text that dealt with the encouraged application of</p>

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	<u>contracts, and is encouraged to apply this Standard to other insurance contracts that involve the transfer of financial risk.</u>	financial instruments to obligations arising from insurance contracts. Clarified that this Standard is mandatory for financial guarantee contracts.
-	<p><u>AG8. Financial guarantee contracts are treated as financial instruments unless an entity elects to treat them as insurance contracts in accordance with this paragraph and also complies with the requirements of paragraph AG9. An entity may make this election in the following instances:</u></p> <p>(a) <u>If an entity previously applied accounting applicable to insurance contracts and adopted an accounting policy that treated financial guarantee contracts as insurance contracts, it may continue to treat such contracts either as insurance contracts or as financial instruments in accordance with this Standard.</u></p> <p>(b) <u>If an entity previously did not apply accounting applicable to insurance contracts, it may elect to treat financial guarantee contracts either as insurance contracts or as financial instruments when an entity adopts this Standard.</u></p> <p><u>In both (a) and (b) above, the election is made on a contract by contract basis, and the choice is irrevocable.</u></p>	
-	<p><u>AG9. In accordance with paragraph 3(c), an entity treats financial guarantee contracts as financial instruments unless it elects to treat such contracts as insurance contracts in accordance with the relevant international or national standard dealing with insurance contracts. An entity is permitted to treat a financial guarantee contract as an insurance contract using a national accounting standard only if that standard requires the measurement of insurance liabilities at an amount that is not less than the carrying amount that would be determined if the relevant insurance liabilities were within the scope of IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets.” In determining the carrying amount of insurance liabilities, an entity considers the current estimates of all cash flows arising from its insurance contracts and of related cash flows.</u></p>	
Definitions (paragraphs 11-149-12)		
Financial Assets and Financial Liabilities		

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IAS32.AG3	<p>AG10. Currency (cash) is a financial asset because it represents the medium of exchange and is therefore the basis on which all transactions are measured and recognized in financial statements. A deposit of cash with a bank or similar financial institution is a financial asset because it represents the contractual right of the depositor to obtain cash from the institution or to draw a check or similar instrument against the balance in favor of a creditor in payment of a financial liability. <u>Unissued currency held by a central bank does not meet the definition of a financial instrument. An entity applies IPSAS 12, “Inventories” in accounting for any unissued currency. Currency that has been issued by a central bank, i.e. notes and coins in circulation, is not addressed in this Standard.</u></p>	IAS32.AG3; clarified the application of this Standard to cash held by a central bank.
IAS32.AG4	<p>AG11. Common examples of financial assets representing a contractual right to receive cash in the future and corresponding financial liabilities representing a contractual obligation to deliver cash in the future are:</p> <ul style="list-style-type: none"> (a) trade-Accounts receivable and payable; (b) Notes receivable and payable; (c) Loans receivable and payable; and (d) Bonds receivable and payable. <p>In each case, one party’s contractual right to receive (or obligation to pay) cash is matched by the other party’s corresponding obligation to pay (or right to receive).</p>	IAS32.AG4; deleted the word ‘trade’ receivables.
IAS32.AG5	<p>AG12. Another type of financial instrument is one for which the economic benefit to be received or given up is a financial asset other than cash. For example, a note payable in government bonds gives the holder the contractual right to receive and the issuer the contractual obligation to deliver government bonds, not cash. The bonds are financial assets because they represent obligations of the issuing government to pay cash. The note is, therefore, a financial asset of the note holder and a financial liability of the note issuer.</p>	IAS32.AG5; no amendment.
IAS32.AG6	<p>AG13. “Perpetual” debt instruments (such as “perpetual” bonds, debentures and capital notes) normally provide the holder with the contractual right to receive payments on account of interest at fixed dates extending into the indefinite future, either with no right to receive a return of principal or a right to a return of principal under terms that make it very unlikely or very far in the future. For</p>	IAS32.AG6; no amendment.

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	<p>example, an entity may issue a financial instrument requiring it to make annual payments in perpetuity equal to a stated interest rate of 8 per cent applied to a stated par or principal amount of CU1,000. Assuming 8 per cent to be the market rate of interest for the instrument when issued, the issuer assumes a contractual obligation to make a stream of future interest payments having a fair value (present value) of CU1,000 on initial recognition. The holder and issuer of the instrument have a financial asset and a financial liability, respectively.</p>	
IAS32.AG7	<p>AG14. A contractual right or contractual obligation to receive, deliver or exchange financial instruments is itself a financial instrument. A chain of contractual rights or contractual obligations meets the definition of a financial instrument if it will ultimately lead to the receipt or payment of cash or to the acquisition or issue of an equity instrument.</p>	IAS32.AG7; no amendment.
IAS32.AG8	<p>AG15. The ability to exercise a contractual right or the requirement to satisfy a contractual obligation may be absolute, or it may be contingent on the occurrence of a future event. For example, a financial guarantee is a contractual right of the lender to receive cash from the guarantor, and a corresponding contractual obligation of the guarantor to pay the lender, if the borrower defaults. The contractual right and obligation exist because of a past transaction or event (assumption of the guarantee), even though the lender’s ability to exercise its right and the requirement for the guarantor to perform under its obligation are both contingent on a future act of default by the borrower. A contingent right and obligation meet the definition of a financial asset and a financial liability, even though such assets and liabilities are not always recognized in the financial statements. Some of these contingent rights and obligations may be insurance contracts, within the scope of IFRS 4.</p>	IAS32.AG8; deleted reference to IFRS 4.
IAS32.AG9	<p>AG16. Under IPSAS 13, “Leases” IAS 17 Leases a finance lease is regarded as primarily an entitlement of the lessor to receive, and an obligation of the lessee to pay, a stream of payments that are substantially the same as blended payments of principal and interest under a loan agreement. The lessor accounts for its investment in the amount receivable under the lease contract rather than the leased asset itself. An operating lease, on the other hand, is regarded as primarily an uncompleted contract committing the lessor to provide the use of an asset in future periods in exchange for consideration similar to a fee for a service. The lessor continues to account for the leased asset itself rather than any amount receivable in the future under the contract. Accordingly, a finance lease is</p>	IAS32.AG9; amended references from IASs to IPSASs.

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	regarded as a financial instrument and an operating lease is not regarded as a financial instrument (except as regards individual payments currently due and payable).	
IAS32.AG10	AG17. Physical assets (such as inventories, property, plant and equipment), leased assets and intangible assets (such as patents and trademarks) are not financial assets. Control of such physical and intangible assets creates an opportunity to generate an inflow of cash or another financial asset, but it does not give rise to a present right to receive cash or another financial asset.	IAS32.AG10; no amendment.
IAS32.AG11	AG18. Assets (such as prepaid expenses) for which the future economic benefit is the receipt of goods or services, rather than the right to receive cash or another financial asset, are not financial assets. Similarly, items such as deferred revenue and most warranty obligations are not financial liabilities because the outflow of economic benefits associated with them is the delivery of goods and services rather than a contractual obligation to pay cash or another financial asset.	IAS32.AG11; no amendment.
IAS32.AG12	<u>AG19. Assets and liabilities in the public sector arise out of both contractual and non-contractual arrangements. Assets and liabilities arising out of non-contractual arrangements are not financial assets or financial liabilities.</u> Liabilities or assets that are not contractual (such as income taxes) that are created as a result of statutory requirements imposed by governments) are not financial liabilities or financial assets. Accounting for income taxes is dealt with in IAS 12. Similarly, constructive obligations, as defined in IAS 37- Provisions, Contingent Liabilities and Contingent Assets, do not arise from contracts and are not financial liabilities.	IA 32.AG12; clarified that assets and liabilities can arise out of both contractual and non-contractual arrangement, and separated the discussion on statutory and constructive obligations.
-	<u>AG20. Contractual arrangements, for the purposes of this Standard, are generally evidenced by the following (although this may differ from jurisdiction to jurisdiction):</u> <ul style="list-style-type: none"> • <u>Contractual arrangements typically involve willing parties entering into an arrangement. This means that arrangements that compel parties to transact with one another, such as when a government levies taxes on its citizens, are non-contractual in nature.</u> • <u>The terms of the contract create rights and obligations for the parties to the contract, and those rights and obligations need not result in equal</u> 	Added paragraph to clarify what the features of a contractual arrangement in the public sector may constitute.

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	<p><u>performance by each party. For example, a donor funding arrangement creates an obligation for the donor to transfer resources to the recipient in terms of the agreement concluded, and establishes the right of the recipient to receive those resources. These types of arrangements may be contractual even though the recipient did not provide equal consideration in return i.e. the arrangement does not result in equal performance by the parties; and</u></p> <ul style="list-style-type: none"> • <u>The contract is enforceable by law.</u> 	
-	<p><u>AG21. In the public sector, it is possible that contractual and non-contractual arrangements are non-exchange in nature. Assets and liabilities arising from non-exchange revenue transactions are accounted for in accordance with IPSAS 23, “Revenue from Non-Exchange Transactions (Taxes and Transfers).” If non-exchange revenue transactions are contractual, an entity assesses if the assets or liabilities arising from such transactions are financial assets or financial liabilities by using paragraphs 10 and AG10–AG18 of this Standard. An entity uses the guidance in this Standard and IPSAS 23 in assessing whether a non-exchange transaction gives rise to a liability or an equity instrument (contribution from owners).</u></p>	<p>Added paragraph to clarify the accounting requirements for contractual and non-contractual non-exchange revenue transactions.</p> <p>Note: This will require a consequential amendment to the text of IPSAS 23 dealing with this issue.</p>
-	<p><u>AG22. An entity would particularly consider the classification requirements of this Standard in determining whether an inflow of resources as part of a contractual non-exchange revenue transaction is in substance a liability or an equity instrument.</u></p>	<p>Added paragraph to clarify that entities should also consider the requirements of this Standard for receivables arising from contractual non-exchange revenue transactions, specifically the classification thereof into either liabilities or residual interests.</p> <p>Note: A consequential amendment to the text of IPSAS 23 has been proposed dealing with this issue.</p>
-	<p><u>AG23. Statutory obligations can be accounted for in a number of ways:</u></p> <ul style="list-style-type: none"> • <u>Obligations to pay income taxes are accounted for in accordance with the international or national accounting standard dealing with income taxes.</u> • <u>Obligations to provide social benefits are accounted for in accordance with IPSAS 3 “Accounting Policies, Changes in Accounting Estimates and Errors” and IPSAS 19, “Accounting Policies, Changes in Accounting Estimates and Errors”.</u> 	<p>Added paragraph to clarify how statutory obligations are accounted for. Text relating to the treatment of taxes taken from IAS 32.AG12.</p>

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	<ul style="list-style-type: none"> • <u>Other statutory obligations are accounted for in accordance with IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets”.</u> 	
-	<u>AG24. Constructive obligations, as defined in IPSAS 19, also do not arise from contracts and are therefore not financial liabilities.</u>	Text separated from original IAS 32.AG12.
Equity Instruments		
-	<u>AG25. It is not common for entities in the public sector to have contributed capital comprising equity instruments, for example, shares and other forms of unitized capital. Where entities do issue equity instruments, the ownership and use of those instruments may be restricted by legislation. For example, legislation may stipulate that shares in a public sector entity may only be owned by another public sector entity and may therefore not be used as consideration for the settlement of transactions.</u>	Added paragraph to explain the use of equity instruments in the public sector.
-	<p><u>AG26. Contributed capital in the public sector may also be evidenced by transfers of resources between parties. The issuance of equity instruments in respect of a transfer of resources is not essential for the transfer to meet the definition of a contribution from owners. Transfers of resources that result in an interest in the net assets/equity of an entity are distinguished from other transfers of resources because they may be evidenced by the following:</u></p> <ul style="list-style-type: none"> • <u>A formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity’s net assets/equity, either before the contribution occurs or at the time of the contribution. For example, on establishing a new entity, the budget office of the department of finance may deem that the initial transfers of resources to an entity establish an interest in the net assets/equity of an entity rather than provide funding to meet operational requirements.</u> • <u>A formal agreement, in relation to the transfer, establishing or increasing an existing financial interest in the net assets/equity of an entity that can be sold, transferred or redeemed.</u> <p><u>Even though transfers of resources may be evidenced by a designation or formal agreement, an entity assesses the nature of transfers of resources based on their substance and not merely their legal form.</u></p>	IPSAS 23 acknowledges the different forms of ‘capital’ that exist in the public sector in paragraph 38. The two bullets in this paragraph have been drawn from IPSAS 23.38.

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-	<p><u>AG27. For the purposes of this Standard, the term “equity instrument” may be used to denote the following:</u></p> <ul style="list-style-type: none"> • <u>A form of unitized capital such as ordinary or preference shares;</u> • <u>Transfers of resources (either designated or agreed as such between the parties to the transaction) that evidence a residual interest in the net assets of another entity; and/or</u> • <u>Financial liabilities in the legal form of debt that, in substance, represent an interest in entity’s net assets .</u> 	<p>Added paragraph to clarify that “equity instruments” refers to all instruments that evidence a residual interest in the net assets of an entity, including some liabilities.</p>
Puttable Instruments		
IAS32.AG13	<p><u>AG28. Where an entity’s contributed capital is comprised of shares or other forms of unitized capital, these instruments may take a number of forms, e.g.,</u>Examples of equity instruments include<u> non-puttable ordinary shares, some puttable instruments (see paragraphs 16A15 and 16B16), some instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation (see paragraphs 16C17 and 16D18), some types of preference shares (see paragraphs AG2549 and AG2650), and warrants or written call options that allow the holder to subscribe for or purchase a fixed number of non-puttable ordinary shares in the issuing entity in exchange for a fixed amount of cash or another financial asset. An entity’s obligation to issue or purchase a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset is an equity instrument of the entity (except as stated in paragraph 22A27). However, if such a contract contains an obligation for the entity to pay cash or another financial asset (other than a contract classified as an equity instrument in accordance with paragraphs 16A15 and 16B16 or paragraphs 16C17 and 16D18), it also gives rise to a liability for the present value of the redemption amount (see paragraph AG2751(a)). An issuer of non-puttable ordinary shares assumes a liability when it formally acts to make a distribution and becomes legally obliged to the shareholders to do so. This may be the case following the declaration of a dividend or when the entity is being wound up and any assets remaining after the satisfaction of liabilities become distributable to shareholders.</u></p>	<p>IAS32.AG13; redrafted slightly based on the previous paragraph.</p> <p>Included amendments made to IAS 32 in February 2008 relating to puttable financial instruments and obligations arising on liquidation. Amended reference to “equity” to “an equity instrument”.</p>
IAS32.AG14	<p><u>AG29. A purchased call option or other similar contract acquired by an entity that gives it the right to reacquire a fixed number of its own equity instruments in exchange</u></p>	<p>IAS32.AG14; amended terminology to be public sector specific.</p>

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	for delivering a fixed amount of cash or another financial asset is not a financial asset of the entity (except as stated in paragraph 22A27). Instead, any consideration paid for such a contract is deducted from <u>net assets</u> /equity.	Included amendments made to IAS 32 in February 2008 relating to puttable financial instruments and obligations arising on liquidation.
The class of instruments that is subordinate to all other classes (paragraphs 16A15(b) and 16C17(b))		
IAS32. AG14A	AG30. One of the features of paragraphs 16A15 and 16C17 is that the financial instrument is in the class of instruments that is subordinate to all other classes.	IAS32.AG14A - Included amendments made to IAS 32 in February 2008 relating to puttable financial instruments and obligations arising on liquidation. No amendment to text.
IAS32. AG14B	AG31. When determining whether an instrument is in the subordinate class, an entity evaluates the instrument’s claim on liquidation as if it were to liquidate on the date when it classifies the instrument. An entity shall reassess the classification if there is a change in relevant circumstances. For example, if the entity issues or redeems another financial instrument, this may affect whether the instrument in question is in the class of instruments that is subordinate to all other classes.	IAS32.AG14B - Included amendments made to IAS 32 in February 2008 relating to puttable financial instruments and obligations arising on liquidation. No amendment to text.
IAS32. AG14C	AG32. An instrument that has a preferential right on liquidation of the entity is not an instrument with an entitlement to a pro rata share of the net assets of the entity. For example, an instrument has a preferential right on liquidation if it entitles the holder to a fixed dividend on liquidation, in addition to a share of the entity’s net assets, when other instruments in the subordinate class with a right to a pro rata share of the net assets of the entity do not have the same right on liquidation.	IAS32.AG14C - Included amendments made to IAS 32 in February 2008 relating to puttable financial instruments and obligations arising on liquidation. No amendment to text.
IAS32. AG14D	AG33. If an entity has only one class of financial instruments, that class shall be treated as if it were subordinate to all other classes.	IAS32.AG14D - Included amendments made to IAS 32 in February 2008 relating to puttable financial instruments and obligations arising on liquidation. No amendment to text.
Total expected cash flows attributable to the instrument over the life of the instrument (paragraph 16A15(e))		
IAS32. AG14E	AG34. The total expected cash flows of the instrument over the life of the instrument must be substantially based on the <u>surplus or deficit</u> profit or loss , change in the recognised net assets or fair value of the recognised and unrecognised net assets of the entity over the life of the instrument. Surplus or deficit Profit or loss and the change in the recognised net assets shall be measured in accordance with	AG32.AG14E - Included amendments made to IAS 32 in February 2008 relating to puttable financial instruments and obligations arising on liquidation. Amended for public sector terminology.

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	relevant <u>IPSASs</u> IFRSs .	
Transactions entered into by an instrument holder other than as owner of the entity (paragraphs 16A15 and 16C17)		
IAS32. AG14F	AG35. The holder of a puttable financial instrument or an instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation may enter into transactions with the entity in a role other than that of an owner. For example, an instrument holder also may be an employee of the entity. Only the cash flows and the contractual terms and conditions of the instrument that relate to the instrument holder as an owner of the entity shall be considered when assessing whether the instrument should be classified as <u>an equity instrument</u> under paragraph 16A15 or paragraph 16C17 .	AG32.AG14F - Included amendments made to IAS 32 in February 2008 relating to puttable financial instruments and obligations arising on liquidation. Amended for public sector terminology.
IAS32. AG14G	AG36. An example is a limited partnership that has limited and general partners. Some general partners may provide a guarantee to the entity and may be remunerated for providing that guarantee. In such situations, the guarantee and the associated cash flows relate to the instrument holders in their role as guarantors and not in their roles as owners of the entity. Therefore, such a guarantee and the associated cash flows would not result in the general partners being considered subordinate to the limited partners, and would be disregarded when assessing whether the contractual terms of the limited partnership instruments and the general partnership instruments are identical.	AG32.AG14G - Included amendments made to IAS 32 in February 2008 relating to puttable financial instruments and obligations arising on liquidation.
IAS32. AG14H	AG37. Another example is <u>surplus or deficit</u> profit or loss sharing arrangement that allocates <u>surpluses and deficits</u> profit or loss to the instrument holders on the basis of services rendered or business generated during the current and previous years. Such arrangements are transactions with instrument holders in their role as non-owners and should not be considered when assessing the features listed in paragraph 16A15 or paragraph 16C17 . However, such profit or loss sharing arrangements that allocate <u>surpluses and deficits</u> profit or loss to instrument holders based on the nominal amount of their instruments relative to others in the class represent transactions with the instrument holders in their roles as owners and should be considered when assessing the features listed in paragraph 16A15 or paragraph 16C17 .	AG32.AG14H - Included amendments made to IAS 32 in February 2008 relating to puttable financial instruments and obligations arising on liquidation. Amended terminology to be more public sector specific.
IAS32. AG14I	AG38. The cash flows and contractual terms and conditions of a transaction between the instrument holder (in the role as a non-owner) and the issuing entity must be similar to an equivalent transaction that might occur between a non-instrument	AG32.AG14I - Included amendments made to IAS 32 in February 2008 relating to puttable financial instruments and obligations arising on liquidation.

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	holder and the issuing entity.	
No other financial instrument or contract with total cash flows that substantially fixes or restricts the residual return to the instrument holder (paragraphs 16B16 and 16D18)		
IAS32. AG14J	<p>AG39. A condition for classifying <u>an equity instrument</u> as a financial instrument that otherwise meets the criteria in paragraph 16A15 or paragraph 16C17 is that the entity has no other financial instrument or contract that has (a) total cash flows based substantially on the <u>surplus or deficit profit or loss</u>, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the entity and (b) the effect of substantially restricting or fixing the residual return. The following instruments, when entered into on normal commercial terms with unrelated parties, are unlikely to prevent instruments that otherwise meet the criteria in paragraph 16A15 or paragraph 16C17 from being classified as equity <u>instruments</u>:</p> <ul style="list-style-type: none"> (a) Instruments with total cash flows substantially based on specific assets of the entity. (b) Instruments with total cash flows based on a percentage of revenue. (c) Contracts designed to reward individual employees for services rendered to the entity. (d) Contracts requiring the payment of an insignificant percentage of profit for services rendered or goods provided. 	<p>AG32.AG14J - Included amendments made to IAS 32 in February 2008 relating to puttable financial instruments and obligations arising on liquidation.</p> <p>Amended for public sector terminology.</p>
Derivative Financial Instruments		
IAS32.AG15	<p>AG40. Financial instruments include primary instruments (such as receivables, payables and equity instruments) and derivative financial instruments (such as financial options, futures and forwards, interest rate swaps and currency swaps). Derivative financial instruments meet the definition of a financial instrument and, accordingly, are within the scope of this Standard.</p>	IAS32.AG15; no amendment.
IAS32.AG16	<p>AG41. Derivative financial instruments create rights and obligations that have the effect of transferring between the parties to the instrument one or more of the financial risks inherent in an underlying primary financial instrument. On inception, derivative financial instruments give one party a contractual right to exchange financial assets or financial liabilities with another party under conditions that are potentially favorable, or a contractual obligation to exchange</p>	IAS32.AG16; no amendment.

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	<p>financial assets or financial liabilities with another party under conditions that are potentially unfavorable. However, they generally¹ do not result in a transfer of the underlying primary financial instrument on inception of the contract, nor does such a transfer necessarily take place on maturity of the contract. Some instruments embody both a right and an obligation to make an exchange. Because the terms of the exchange are determined on inception of the derivative instrument, as prices in financial markets change those terms may become either favorable or unfavorable.</p>	
IAS32.AG17	<p>AG42. A put or call option to exchange financial assets or financial liabilities (i.e. financial instruments other than an entity’s own equity instruments) gives the holder a right to obtain potential future economic benefits associated with changes in the fair value of the financial instrument underlying the contract. Conversely, the writer of an option assumes an obligation to forgo potential future economic benefits or bear potential losses of economic benefits associated with changes in the fair value of the underlying financial instrument. The contractual right of the holder and obligation of the writer meet the definition of a financial asset and a financial liability, respectively. The financial instrument underlying an option contract may be any financial asset, including shares in other entities and interest-bearing instruments. An option may require the writer to issue a debt instrument, rather than transfer a financial asset, but the instrument underlying the option would constitute a financial asset of the holder if the option were exercised. The option-holder’s right to exchange the financial asset under potentially favorable conditions and the writer’s obligation to exchange the financial asset under potentially unfavorable conditions are distinct from the underlying financial asset to be exchanged upon exercise of the option. The nature of the holder’s right and of the writer’s obligation are not affected by the likelihood that the option will be exercised.</p>	IAS32.AG17; no amendment.
IAS32.AG18	<p>AG43. Another example of a derivative financial instrument is a forward contract to be settled in six months’ time in which one party (the purchaser) promises to deliver CU1,000,000 cash in exchange for CU1,000,000 face amount of fixed rate government bonds, and the other party (the seller) promises to deliver CU1,000,000 face amount of fixed rate government bonds in exchange for CU1,000,000 cash. During the six months, both parties have a contractual right and a contractual obligation to exchange financial instruments. If the market</p>	IAS32.AG18; no amendment.

¹ This is true of most, but not all derivatives, e.g. in some cross-currency interest rate swaps principal is exchanged on inception (and re-exchanged on maturity).

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	<p>price of the government bonds rises above CU1,000,000, the conditions will be favorable to the purchaser and unfavorable to the seller; if the market price falls below CU1,000,000, the effect will be the opposite. The purchaser has a contractual right (a financial asset) similar to the right under a call option held and a contractual obligation (a financial liability) similar to the obligation under a put option written; the seller has a contractual right (a financial asset) similar to the right under a put option held and a contractual obligation (a financial liability) similar to the obligation under a call option written. As with options, these contractual rights and obligations constitute financial assets and financial liabilities separate and distinct from the underlying financial instruments (the bonds and cash to be exchanged). Both parties to a forward contract have an obligation to perform at the agreed time, whereas performance under an option contract occurs only if and when the holder of the option chooses to exercise it.</p>	
IAS32.AG19	<p>AG44. Many other types of derivative instruments embody a right or obligation to make a future exchange, including interest rate and currency swaps, interest rate caps, collars and floors, loan commitments, note issuance facilities and letters of credit. An interest rate swap contract may be viewed as a variation of a forward contract in which the parties agree to make a series of future exchanges of cash amounts, one amount calculated with reference to a floating interest rate and the other with reference to a fixed interest rate. Futures contracts are another variation of forward contracts, differing primarily in that the contracts are standardized and traded on an exchange.</p>	IAS32.AG19; no amendment.
Contracts to Buy or Sell Non-Financial Items (paragraphs 8-104-6)		
IAS32.AG20	<p>AG45. Contracts to buy or sell non-financial items do not meet the definition of a financial instrument because the contractual right of one party to receive a non-financial asset or service and the corresponding obligation of the other party do not establish a present right or obligation of either party to receive, deliver or exchange a financial asset. For example, contracts that provide for settlement only by the receipt or delivery of a non-financial item (for example, an option, futures or forward contract on oil silver) are not financial instruments. Many commodity contracts are of this type. Some are standardized in form and traded on organized markets in much the same fashion as some derivative financial instruments. For example, a commodity futures contract may be bought and sold readily for cash because it is listed for trading on an exchange and may change hands many times. However, the parties buying and selling the contract are, in</p>	IAS32.AG20; amended example to be more public sector specific.

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	<p>effect, trading the underlying commodity. The ability to buy or sell a commodity contract for cash, the ease with which it may be bought or sold and the possibility of negotiating a cash settlement of the obligation to receive or deliver the commodity do not alter the fundamental character of the contract in a way that creates a financial instrument. Nevertheless, some contracts to buy or sell non-financial items that can be settled net or by exchanging financial instruments, or in which the non-financial item is readily convertible to cash, are within the scope of the Standard as if they were financial instruments (see paragraph 84).</p>	
IAS32.AG21	<p>AG46. A contract that involves the receipt or delivery of physical assets does not give rise to a financial asset of one party and a financial liability of the other party unless any corresponding payment is deferred past the date on which the physical assets are transferred. Such is the case with the purchase or sale of goods on trade credit.</p>	IAS32.AG21; amendment of wording for the public sector.
IAS32.AG22	<p>AG47. Some contracts are commodity-linked, but do not involve settlement through the physical receipt or delivery of a commodity. They specify settlement through cash payments that are determined according to a formula in the contract, rather than through payment of fixed amounts. For example, the principal amount of a bond may be calculated by applying the market price of oil prevailing at the maturity of the bond to a fixed quantity of oil. The principal is indexed by reference to a commodity price, but is settled only in cash. Such a contract constitutes a financial instrument.</p>	IAS32.AG22; no amendment.
IAS32.AG23	<p>AG48. The definition of a financial instrument also encompasses a contract that gives rise to a non-financial asset or non-financial liability in addition to a financial asset or financial liability. Such financial instruments often give one party an option to exchange a financial asset for a non-financial asset. For example, an oil-linked bond may give the holder the right to receive a stream of fixed periodic interest payments and a fixed amount of cash on maturity, with the option to exchange the principal amount for a fixed quantity of oil. The desirability of exercising this option will vary from time to time depending on the fair value of oil relative to the exchange ratio of cash for oil (the exchange price) inherent in the bond. The intentions of the bondholder concerning the exercise of the option do not affect the substance of the component assets. The financial asset of the holder and the financial liability of the issuer make the bond a financial instrument, regardless of the other types of assets and liabilities</p>	IAS32.AG23; no amendment.

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	also created.	
IAS32.AG24	{Deleted}	IAS 32.AG24; paragraph deleted from IAS 32.
Presentation		
Liabilities and <u>Net Assets/Equity</u> (paragraphs 15-27<u>13-32</u>)		
No Contractual Obligation to Deliver Cash or Another Financial Asset (paragraphs 17-20<u>21-24</u>)		
IAS32.AG25	AG49. Preference shares may be issued with various rights. In determining whether a preference share is a financial liability or an equity instrument, an issuer assesses the particular rights attaching to the share to determine whether it exhibits the fundamental characteristic of a financial liability. For example, a preference share that provides for redemption on a specific date or at the option of the holder contains a financial liability because the issuer has an obligation to transfer financial assets to the holder of the share. The potential inability of an issuer to satisfy an obligation to redeem a preference share when contractually required to do so, whether because of a lack of funds, a statutory restriction or insufficient surpluses profits or reserves, does not negate the obligation. An option of the issuer to redeem the shares for cash does not satisfy the definition of a financial liability because the issuer does not have a present obligation to transfer financial assets to the shareholders. In this case, redemption of the shares is solely at the discretion of the issuer. An obligation may arise, however, when the issuer of the shares exercises its option, usually by formally notifying the shareholders of an intention to redeem the shares.	IAS32.AG25; clarified in paragraph AG 22 that the issue of equity instruments may not be common in the public sector, therefore only terminology amendments proposed to this paragraph.
IAS32.AG26	AG50. When preference shares are non-redeemable, the appropriate classification is determined by the other rights that attach to them. Classification is based on an assessment of the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. When distributions to holders of the preference shares, whether cumulative or non-cumulative, are at the discretion of the issuer, the shares are equity instruments. The classification of a preference share as an equity instrument or a financial liability is not affected by, for example: <ul style="list-style-type: none"> (a) A history of making distributions; (b) An intention to make distributions in the future; 	IAS32.AG26: aligned terminology with other IPSASs.

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	<p>(c) A possible negative impact on the price of ordinary shares of the issuer if distributions are not made (because of restrictions on paying dividends on the ordinary shares if dividends are not paid on the preference shares);</p> <p>(d) The amount of the issuer’s reserves;</p> <p>(e) An issuer’s expectation of a <u>surplus or deficit</u> profit or loss for a period; or</p> <p>(f) An ability or inability of the issuer to influence the amount of its <u>surplus or deficit</u> profit or loss for the period.</p>	
Settlement in the Entity’s Own Equity Instruments (paragraphs 21-2425-29)		
IAS32.AG27	<p><u>AG51. As noted in paragraph AG23, it is not common for entities in the public sector to issue equity instruments comprising shares or other forms of unitized capital; and where such instruments do exist, their use and ownership is usually restricted in legislation. As a result of the capital structure of public sector entities generally being different from private sector entities and the legislative environment in which public sector entities operate, transactions that are settled in an entity’s own equity instruments are not likely to occur as frequently in the public sector as in the private sector. However, where such transactions do occur, the following examples may assist in illustrating how to classify different types of contracts on an entity’s own equity instruments:</u></p> <p>(a) A contract that will be settled by the entity receiving or delivering a fixed number of its own shares for no future consideration, or exchanging a fixed number of its own shares for a fixed amount of cash or another financial asset, is an equity instrument (except as stated in paragraph 22A27). Accordingly, any consideration received or paid for such a contract is added directly to or deducted directly from <u>net assets/equity</u>. One example is an issued share option that gives the counterparty a right to buy a fixed number of the entity’s shares for a fixed amount of cash. However, if the contract requires the entity to purchase (redeem) its own shares for cash or another financial asset at a fixed or determinable date or on demand, the entity also recognizes a financial liability for the present value of the redemption amount (with the exception of instruments that have all the features and meet the conditions in paragraphs 16A15 and 16B16 or paragraphs 16C17 and 16D18). One example is an entity’s obligation under a forward contract to repurchase a fixed number of its own shares for a fixed amount of cash.</p>	<p>IAS32.AG27; clarified that these kinds of transactions are not common in the public sector; amended for public sector terminology and replaced “gold” with “oil”.</p> <p>Included amendments made to IAS 32 in February 2008 relating to puttable financial instruments and obligations arising on liquidation.</p>

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	<p>(b) An entity’s obligation to purchase its own shares for cash gives rise to a financial liability for the present value of the redemption amount even if the number of shares that the entity is obliged to repurchase is not fixed or if the obligation is conditional on the counterparty exercising a right to redeem (except as stated in paragraphs 16A15 and 16B16 or paragraphs 16C17 and 16D18). One example of a conditional obligation is an issued option that requires the entity to repurchase its own shares for cash if the counterparty exercises the option.</p> <p>(c) A contract that will be settled in cash or another financial asset is a financial asset or financial liability even if the amount of cash or another financial asset that will be received or delivered is based on changes in the market price of the entity’s own <u>equity instruments</u> (except as stated in paragraphs 16A15 and 16B16 or paragraphs 16C17 and 16D18). One example is a net cash-settled share option.</p> <p>(d) A contract that will be settled in a variable number of the entity’s own shares whose value equals a fixed amount or an amount based on changes in an underlying variable (e.g. a commodity price) is a financial asset or a financial liability. An example is a written option to buy <u>oil</u> gold that, if exercised, is settled net in the entity’s own instruments by the entity delivering as many of those instruments as are equal to the value of the option contract. Such a contract is a financial asset or financial liability even if the underlying variable is the entity’s own share price rather than <u>oil</u> gold. Similarly, a contract that will be settled in a fixed number of the entity’s own shares, but the rights attaching to those shares will be varied so that the settlement value equals a fixed amount or an amount based on changes in an underlying variable, is a financial asset or a financial liability.</p>	
Contingent Settlement Provisions (paragraph <u>2530</u>)		
IAS32.AG28	AG52. Paragraph <u>2530</u> requires that if a part of a contingent settlement provision that could require settlement in cash or another financial asset (or in another way that would result in the instrument being a financial liability) is not genuine, the settlement provision does not affect the classification of a financial instrument. Thus, a contract that requires settlement in cash or a variable number of the entity’s own shares only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur is an equity instrument. Similarly,	IAS32.AG28; no amendment.

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	settlement in a fixed number of an entity’s own shares may be contractually precluded in circumstances that are outside the control of the entity, but if these circumstances have no genuine possibility of occurring, classification as an equity instrument is appropriate.	
Treatment in Consolidated Financial Statements		
IAS32.AG29	AG53. In consolidated financial statements, an entity presents non-controlling interests—i.e. the interests of other parties in the <u>net assets/equity and revenue income</u> —of its <u>controlled entities subsidiaries</u> —in accordance with <u>IPSAS 1 IAS 4</u> and <u>IPSAS 6 IAS 27</u> . When classifying a financial instrument (or a component of it) in consolidated financial statements, an entity considers all terms and conditions agreed between members of the <u>economic entity group</u> and the holders of the instrument in determining whether the <u>economic entity group</u> as a whole has an obligation to deliver cash or another financial asset in respect of the instrument or to settle it in a manner that results in liability classification. When a <u>controlled entity subsidiary in a group</u> issues a financial instrument and a <u>controlling entity parent</u> or other <u>entity within the economic group</u> entity agrees additional terms directly with the holders of the instrument (for example, a guarantee), the <u>economic entity group</u> may not have discretion over distributions or redemption. Although the <u>controlled entity subsidiary</u> may appropriately classify the instrument without regard to these additional terms in its individual financial statements, the effect of other agreements between members of the <u>economic entity group</u> and the holders of the instrument is considered in order to ensure that consolidated financial statements reflect the contracts and transactions entered into by the <u>economic entity group</u> as a whole. To the extent that there is such an obligation or settlement provision, the instrument (or the component of it that is subject to the obligation) is classified as a financial liability in consolidated financial statements.	IAS32.AG29; aligned terminology with other IPSASs.
IAS32.AG29A	AG54. Some types of instruments that impose a contractual obligation on the entity are classified as equity instruments in accordance with paragraphs 46A15 and 46B16 or paragraphs 46C17 and 46D18 . Classification in accordance with those paragraphs is an exception to the principles otherwise applied in this Standard to the classification of an instrument <u>and cannot be applied by analogy to other instruments</u> . This exception is not extended to the classification of non-controlling interests in the consolidated financial	IAS 32.29A. Included amendments made to IAS 32 in February 2008 relating to puttable financial instruments and obligations arising on liquidation. Added wording from paragraph 96B of the amendments to IAS 32 (part of the transitional provisions), to clarify that the exceptions may not be applied to other transactions by analogy.

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	statements. Therefore, instruments classified as equity instruments in accordance with either paragraphs 16A15 and 16B16 or paragraphs 16C17 and 16D18 in the separate or individual financial statements that are non-controlling interests are classified as liabilities in the consolidated financial statements of the <u>economic entity group</u> .	Amended for public sector terminology.
Compound Financial Instruments (paragraphs 28-3233-37)		
IAS32.AG30	AG55. Paragraph 2833 applies only to issuers of non-derivative compound financial instruments. Paragraph 33 does not deal with compound financial instruments from the perspective of holders. <u>IPSAS 29</u> IAS 39 deals with the separation of embedded derivatives from the perspective of holders of compound financial instruments that contain <u>the features of both debt and equity instruments</u> . debt and equity features.	IAS32.AG30; amended referencing from IAS to IPSAS, and amended wording to accommodate the concept of “equity components” in the public sector.
IAS32.AG31	AG56. <u>Compound financial instruments are not common in the public sector because of the capital structure of public sector entities. The following discussion does however illustrate how a compound financial instrument would be analyzed into its component parts.</u> A common form of compound financial instrument is a debt instrument with an embedded conversion option, such as a bond convertible into ordinary shares of the issuer, and without any other embedded derivative features. Paragraph 33 requires the issuer of such a financial instrument to present the liability component and <u>the component of net assets/equity component</u> separately in the statement of financial position, as follows: <ul style="list-style-type: none"> (a) The issuer’s obligation to make scheduled payments of interest and principal is a financial liability that exists as long as the instrument is not converted. On initial recognition, the fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option. (b) The equity instrument is an embedded option to convert the liability into net assets/equity of the issuer. The fair value of the option comprises its time value and its intrinsic value, if any. This option has value on initial recognition even when it is out of the money. 	IAS32.AG31; added wording to clarify the compound financial instruments are not common in the public sector; amended wording to refer to components of net assets.

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IAS32.AG32	AG57. On conversion of a convertible instrument at maturity, the entity derecognizes the liability component and recognizes it as <u>net assets/equity</u> . The original equity component of <u>net assets/equity</u> remains as <u>net assets/equity</u> (although it may be transferred from one line item within <u>net assets/equity</u> to another). There is no gain or loss on conversion at maturity.	IAS32.AG32; aligned wording with other IPSASs.
IAS32.AG33	AG58. When an entity extinguishes a convertible instrument before maturity through an early redemption or repurchase in which the original conversion privileges are unchanged, the entity allocates the consideration paid and any transaction costs for the repurchase or redemption to the liability and equity components of the instrument at the date of the transaction. The method used in allocating the consideration paid and transaction costs to the separate components is consistent with that used in the original allocation to the separate components of the proceeds received by the entity when the convertible instrument was issued, in accordance with paragraphs 28-32 <u>33-37</u> .	IAS32.AG33; deleted references to liability and equity components as the terminology used in this IPSAS is different (liability component and component of net assets/equity). .
IAS32.AG34	AG59. Once the allocation of the consideration is made, any resulting gain or loss is treated in accordance with accounting principles applicable to the related component, as follows: (a) The amount of gain or loss relating to the liability component is recognized in <u>surplus or deficit</u> profit or loss ; and (b) The amount of consideration relating to the <u>component of net assets/equity</u> component is recognized in <u>net assets/equity</u> .	IAS32.AG34; aligned terminology with other IPSASs.
IAS32.AG35	AG60. An entity may amend the terms of a convertible instrument to induce early conversion, for example by offering a more favorable conversion ratio or paying other additional consideration in the event of conversion before a specified date. The difference, at the date the terms are amended, between the fair value of the consideration the holder receives on conversion of the instrument under the revised terms and the fair value of the consideration the holder would have received under the original terms is recognized as a loss in <u>surplus or deficit</u> profit or loss .	IAS32.AG35; aligned terminology with other IPSASs.
Treasury Shares (paragraphs 33<u>38</u> and 34<u>39</u>)		
IAS32.AG36	AG61. An entity’s own equity instruments are not recognized as a financial asset	IAS32.AG36; retained reference to ‘equity

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	<p>regardless of the reason for which they are reacquired. Paragraph 3338 requires an entity that reacquires its own equity instruments to deduct those equity instruments from <u>net assets/equity</u>. However, when an entity holds its own equity <u>instruments</u> on behalf of others, for example, a financial institution holding its own <u>equity instruments</u> on behalf of a client, there is an agency relationship and as a result those holdings are not included in the entity’s statement of financial position.</p>	<p>instruments’ as it is not likely that these transactions will take place with other forms of contributed capital.</p>
<p>Interest, Dividends <u>or Similar Distributions</u>, Losses and Gains (paragraphs 35-4140–46)</p>		
IAS32.AG37	<p>AG62. The following example illustrates the application of paragraph 3540 to a compound financial instrument. Assume that a non-cumulative preference share is mandatorily redeemable for cash in five years, but that dividends are payable at the discretion of the entity before the redemption date. Such an instrument is a compound financial instrument, with the liability component being the present value of the redemption amount. The unwinding of the discount on this component is recognized in <u>surplus or deficit</u> profit or loss and classified as interest expense. Any dividends paid relate to the <u>component of net assets/equity component</u> and, accordingly, are recognized as a distribution of <u>surplus or deficit</u> profit or loss. A similar treatment would apply if the redemption was not mandatory but at the option of the holder, or if the share was mandatorily convertible into a variable number of ordinary shares calculated to equal a fixed amount or an amount based on changes in an underlying variable (for example, a commodity). However, if any unpaid dividends <u>or similar distributions</u> are added to the redemption amount, the entire instrument is a liability. In such a case, any dividends <u>or similar distributions</u> are classified as interest expense.</p>	<p>IAS32.AG37; amended for public sector terminology; retained references to shares & dividends in instances to be consistent with the example used. Amended reference to dividends or similar distributions where used more generally.</p>
<p>Offsetting a Financial Asset and a Financial liability (paragraphs 42-5047–55)</p>		
IAS32.AG38	<p>AG63. To offset a financial asset and a financial liability, an entity must have a currently enforceable legal right to set off the recognized amounts. An entity may have a conditional right to set off recognized amounts, such as in a master netting agreement or in some forms of non-recourse debt, but such rights are enforceable only on the occurrence of some future event, usually a default of the counterparty. Thus, such an arrangement does not meet the conditions for offset.</p>	<p>IAS32.AG38; no amendment.</p>

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IAS32.AG39	AG64. The Standard does not provide special treatment for so-called ‘synthetic instruments’, which are groups of separate financial instruments acquired and held to emulate the characteristics of another instrument. For example, a floating rate long-term debt combined with an interest rate swap that involves receiving floating payments and making fixed payments synthesizes a fixed rate long-term debt. Each of the individual financial instruments that together constitute a ‘synthetic instrument’ represents a contractual right or obligation with its own terms and conditions and each may be transferred or settled separately. Each financial instrument is exposed to risks that may differ from the risks to which other financial instruments are exposed. Accordingly, when one financial instrument in a ‘synthetic instrument’ is an asset and another is a liability, they are not offset and presented in an entity’s statement of financial position on a net basis unless they meet the criteria for offsetting in paragraph 4247.	IAS32.AG39; no amendment.
Disclosure		
Financial Assets and Financial Liabilities at Fair Value Through Profit or Loss (paragraph 94(f))		
IAS32.AG40	{Deleted}	IAS 32.AG40; deleted from IAS 32.

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IFRS Paragraph #	IPSAS Paragraph	Explanation
<u>Appendix BIFRIC Interpretation 2 – Member’s Share in Co-operative Entities and Similar Instruments</u>		
<i>This appendix is an integral part of IPSAS 28.</i>		
<u>Background Introduction</u>		
IFRIC2.1	B1. Co-operatives and other similar entities are formed by groups of persons to meet common economic or social needs. National laws typically define a co-operative as a society endeavouring to promote its members’ economic advancement by way of a joint business operation (the principle of self-help). Members’ interests in a co-operative are often characterised as members’ shares, units or the like, and are referred to below as ‘members’ shares’. <u>This Appendix applies to financial instruments issued to members of co-operative entities that evidence the members’ ownership interest in the entity and does not apply to financial instruments that will or may be settled in the entity’s own equity instruments.</u>	
IFRIC2.2	B2. <u>IPSAS 28 IAS 32</u> establishes principles for the classification of financial instruments as financial liabilities or <u>net assets/equity</u> . In particular, those principles apply to the classification of puttable instruments that allow the holder to put those instruments to the issuer for cash or another financial instrument. The application of those principles to members’ shares in co-operative entities and similar instruments is difficult. <u>This guidance is provided to illustrate the application of the principles in IPSAS 28</u> Some of the International Accounting Standards Board’s constituents have asked for help in understanding how the principles in IAS 32 apply to members’ shares and similar instruments that have certain features, and the circumstances in which those features affect the classification as liabilities or <u>net assets/equity</u>.	
<u>Scope</u>		
IFRIC2.3	3 — This Interpretation applies to financial instruments within the scope of IAS 32, including financial instruments issued to members of co-operative entities that evidence the members’ ownership interest in the entity. This Interpretation does	

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	not apply to financial instruments that will or may be settled in the entity’s own equity instruments.	
Issue		
IFRIC2.4	B3. Many financial instruments, including members’ shares, have characteristics of equity <u>instruments</u> , including voting rights and rights to participate in dividend or <u>similar</u> distributions. Some financial instruments give the holder the right to request redemption for cash or another financial asset, but may include or be subject to limits on whether the financial instruments will be redeemed. The following paragraphs outline How should those redemption terms <u>should</u> be evaluated in determining whether the financial instruments should be classified as liabilities or <u>net assets/equity</u> .	
<u>Consensus Application of IPSASs to Members’ Shares in Co-operative Entities and Similar Instruments</u>		
IFRIC2.5	B4. The contractual right of the holder of a financial instrument (including members’ shares in co-operative entities) to request redemption does not, in itself, require that financial instrument to be classified as a financial liability. Rather, the entity must consider all of the terms and conditions of the financial instrument in determining its classification as a financial liability or <u>an equity instrument</u> . Those terms and conditions include relevant local laws, regulations and the entity’s governing charter in effect at the date of classification, but not expected future amendments to those laws, regulations or charter.	
IFRIC2.6	B5. Members’ shares that would be classified as equity <u>instruments</u> if the members did not have a right to request redemption are <u>equity instruments</u> if either of the conditions described in paragraphs 76 and 87 is present or the members’ shares have all the features and meet the conditions in paragraphs 16A15 and 16B16 or paragraphs 16C17 and 16D18 of IPSAS 28 IAS 32 . Demand deposits, including current accounts, deposit accounts and similar contracts that arise when members act as customers are financial liabilities of the entity.	
IFRIC2.7	B6. Members’ shares are equity <u>instruments</u> if the entity has an unconditional right to refuse redemption of the members’ shares.	
IFRIC2.8	B7. Local law, regulation or the entity’s governing charter can impose various types of prohibitions on the redemption of members’ shares, e.g. unconditional	

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	prohibitions or prohibitions based on liquidity criteria. If redemption is unconditionally prohibited by local law, regulation or the entity’s governing charter, members’ shares are equity <u>instruments</u> . However, provisions in local law, regulation or the entity’s governing charter that prohibit redemption only if conditions—such as liquidity constraints—are met (or are not met) do not result in members’ shares being equity <u>instruments</u> .	
IFRIC2.9	B8. An unconditional prohibition may be absolute, in that all redemptions are prohibited. An unconditional prohibition may be partial, in that it prohibits redemption of members’ shares if redemption would cause the number of members’ shares or amount of paid-in capital from members’ shares to fall below a specified level. Members’ shares in excess of the prohibition against redemption are liabilities, unless the entity has the unconditional right to refuse redemption as described in paragraph 76 or the members’ shares have all the features and meet the conditions in paragraphs 16A 15 and 16B 16 or paragraphs 16C 17 and 16D 18 of <u>IPSAS 28 IAS 32</u> . In some cases, the number of shares or the amount of paid-in capital subject to a redemption prohibition may change from time to time. Such a change in the redemption prohibition leads to a transfer between financial liabilities and <u>net assets/equity</u> .	
IFRIC2.10	B9. At initial recognition, the entity shall measure its financial liability for redemption at fair value. In the case of members’ shares with a redemption feature, the entity measures the fair value of the financial liability for redemption at no less than the maximum amount payable under the redemption provisions of its governing charter or applicable law discounted from the first date that the amount could be required to be paid (see example 3).	
IFRIC2.11	B10. As required by paragraph 35 40 of <u>IPSAS 28 IAS 32</u> , distributions to holders of equity instruments are recognised directly in <u>net assets/equity</u> , net of any income tax benefits. Interest, dividends or <u>similar distributions</u> and other returns relating to financial instruments classified as financial liabilities are expenses, regardless of whether those amounts paid are legally characterised as dividends or <u>similar distributions</u> , interest or otherwise.	
Disclosure		
IFRIC2.13	B11. When a change in the redemption prohibition leads to a transfer between financial liabilities and <u>net assets/equity</u> , the entity shall disclose separately the	

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	amount, timing and reason for the transfer.	
IFRIC2.12	B12. The following Appendix, which is an integral part of the consensus, provides examples illustrate the of the application of the preceding paragraphs this consensus .	
Effective Date		
IFRIC2.14	14 — The effective date and transition requirements of this Interpretation are the same as those for IAS 32 (as revised in 2003). An entity shall apply this Interpretation for annual periods beginning on or after 1 January 2005. If an entity applies this Interpretation for a period beginning before 1 January 2005, it shall disclose that fact. This Interpretation shall be applied retrospectively.	
IFRIC2.14A	14A — An entity shall apply the amendments in paragraphs 6, 9, A1 and A12 for annual periods beginning on or after 1 January 2009. If an entity applies <i>Puttable Financial Instruments and Obligations Arising on Liquidation</i> (Amendments to IAS 32 and IAS 1), issued in February 2008, for an earlier period, the amendments in paragraphs 6, 9, A1 and A12 shall be applied for that earlier period.	
<u>Illustrative Examples</u> Appendix – Examples of application of the consensus		
IFRIC2. A1	This appendix sets out seven examples of the application of the IFRIC consensus. The examples do not constitute an exhaustive list; other fact patterns are possible. Each example assumes that there are no conditions other than those set out in the facts of the example that would require the financial instrument to be classified as a financial liability and that the financial instrument does not have all the features or does not meet the conditions in paragraph 16A15 and 16B16 or paragraphs 16C17 and 16D18 of <u>IPSAS 28</u>IAS 32.	
Unconditional right to refuse redemption (paragraph 76)		
<i>Example 1</i>		
Facts		
IFRIC2. A2	B13. The entity’s charter states that redemptions are made at the sole discretion of	

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	the entity. The charter does not provide further elaboration or limitation on that discretion. In its history, the entity has never refused to redeem members’ shares, although the governing board has the right to do so.	
Classification		
IFRIC2. A3	<p>B14. The entity has the unconditional right to refuse redemption and the members’ shares are equity <u>instruments</u>. IPSAS 28 IAS 32 establishes principles for classification that are based on the terms of the financial instrument and notes that a history of, or intention to make, discretionary payments does not trigger liability classification. Paragraph AG2650 of IPSAS28IAS 32 states:</p> <p>When preference shares are non-redeemable, the appropriate classification is determined by the other rights that attach to them. Classification is based on an assessment of the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. When distributions to holders of the preference shares, whether cumulative or non-cumulative, are at the discretion of the issuer, the shares are equity instruments. The classification of a preference share as an equity instrument or a financial liability is not affected by, for example:</p> <ul style="list-style-type: none"> (a) A history of making distributions; (b) An intention to make distributions in the future; (c) A possible negative impact on the price of ordinary shares of the issuer if distributions are not made (because of restrictions on paying dividends on the ordinary shares if dividends are not paid on the preference shares); (d) The amount of the issuer’s reserves; (e) An issuer’s expectation of a <u>surplus or deficit</u> profit or loss for a period; or (f) An ability or inability of the issuer to influence the amount of its <u>surplus or deficit</u> profit or loss for the period. 	
Example 2		
Facts		
IFRIC2. A4	B15. The entity’s charter states that redemptions are made at the sole discretion of the entity. However, the charter further states that approval of a redemption request is automatic unless the entity is unable to make payments without	

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	violating local regulations regarding liquidity or reserves.	
Classification		
IFRIC2. A5	<p>B16. The entity does not have the unconditional right to refuse redemption and the members’ shares are <u>classified as</u> a financial liability. The restrictions described above are based on the entity’s ability to settle its liability. They restrict redemptions only if the liquidity or reserve requirements are not met and then only until such time as they are met. Hence, they do not, under the principles established in <u>IPSAS 28</u>IAS 32, result in the classification of the financial instrument as <u>equity instruments</u>. Paragraph AG2549 of <u>IPSAS 28</u>IAS 32-states:</p> <p style="padding-left: 40px;">Preference shares may be issued with various rights. In determining whether a preference share is a financial liability or an equity instrument, an issuer assesses the particular rights attaching to the share to determine whether it exhibits the fundamental characteristic of a financial liability. For example, a preference share that provides for redemption on a specific date or at the option of the holder contains a financial liability because the issuer has an obligation to transfer financial assets to the holder of the share. <i>The potential inability of an issuer to satisfy an obligation to redeem a preference share when contractually required to do so, whether because of a lack of funds, a statutory restriction or insufficient surpluses profits or reserves, does not negate the obligation.</i> [Emphasis added]</p>	
Prohibitions against <u>R</u>edemption (paragraphs <u>8B7</u> and <u>9B8</u>)		
<i>Example 3</i>		
Facts		
IFRIC2. A6	<p>B17. A co-operative entity has issued shares to its members at different dates and for different amounts in the past as follows:</p> <p style="padding-left: 40px;">(a) ±January 20X1, <u>1</u> 100,000 shares at CU10 each (CU1,000,000);</p> <p style="padding-left: 40px;">(b) ±January, <u>1</u> 20X2 100,000 shares at CU20 each (a further CU2,000,000, so that the total for shares issued is CU3,000,000).</p> <p>Shares are redeemable on demand at the amount for which they were issued.</p>	

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IFRIC2. A7	B18. The entity’s charter states that cumulative redemptions cannot exceed 20 per cent of the highest number of its members’ shares ever outstanding. At 31 December, <u>31</u> 20X2 the entity has 200,000 of outstanding shares, which is the highest number of members’ shares ever outstanding and no shares have been redeemed in the past. On 1 January, <u>1</u> 20X3 the entity amends its governing charter and increases the permitted level of cumulative redemptions to 25 per cent of the highest number of its members’ shares ever outstanding.	
Classification		
<i>Before the governing charter is amended</i>		
IFRIC2. A8	B19. Members’ shares in excess of the prohibition against redemption are financial liabilities. The co-operative entity measures this financial liability at fair value at initial recognition. Because these shares are redeemable on demand, the co-operative entity determines the fair value of such financial liabilities as required by paragraph 49 <u>52</u> of IPSAS 29 <u>IAS 39</u> , which states: “The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand ...” Accordingly, the co-operative entity classifies as financial liabilities the maximum amount payable on demand under the redemption provisions.	
IFRIC2. A9	B20. On 1 January, 1 20X1 the maximum amount payable under the redemption provisions is 20,000 shares at CU10 each and accordingly the entity classifies CU200,000 as financial liability and CU800,000 as equity instruments. However, on 1 January, 1 20X2 because of the new issue of shares at CU20, the maximum amount payable under the redemption provisions increases to 40,000 shares at CU20 each. The issue of additional shares at CU20 creates a new liability that is measured on initial recognition at fair value. The liability after these shares have been issued is 20 per cent of the total shares in issue (200,000), measured at CU20, or CU800,000. This requires recognition of an additional liability of CU600,000. In this example no gain or loss is recognized. Accordingly the entity now classifies CU800,000 as financial liabilities and CU2,200,000 as equity instruments. This example assumes these amounts are not changed between 1 January, 1 20X1 and 31 December, 31 20X2.	

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<i>After the governing charter is amended</i>		
IFRIC2. A10	B21.	Following the change in its governing charter the co-operative entity can now be required to redeem a maximum of 25 per cent of its outstanding shares or a maximum of 50,000 shares at CU20 each. Accordingly, on + January, 1 20X3 the co-operative entity classifies as financial liabilities an amount of CU1,000,000 being the maximum amount payable on demand under the redemption provisions, as determined in accordance with paragraph 49 52 of <u>IPSAS 28</u> IAS 39 . It therefore transfers on + January, 1 20X3 from <u>net assets/equity</u> to financial liabilities an amount of CU200,000, leaving CU2,000,000 classified as equity <u>instruments</u> . In this example the entity does not recognize a gain or loss on the transfer.
Example 4		
Facts		
IFRIC2. A11	B22.	Local law governing the operations of co-operatives, or the terms of the entity’s governing charter, prohibit an entity from redeeming members’ shares if, by redeeming them, it would reduce paid-in capital from members’ shares below 75 per cent of the highest amount of paid-in capital from members’ shares. The highest amount for a particular co-operative is CU1,000,000. At the end of the reporting period the balance of paid-in capital is CU900,000.
Classification		
IFRIC2. A12	B23.	In this case, CU750,000 would be classified as equity <u>instruments</u> and CU150,000 would be classified as financial liabilities. In addition to the paragraphs already cited, paragraph 18 22 (b) of <u>IPSAS 28</u> IAS 32 states in part: ... a financial instrument that gives the holder the right to put it back to the issuer for cash or another financial asset (a ‘puttable instrument’) is a financial liability, except for those instruments classified as equity instruments in accordance with paragraphs 16 A15 and 16 B16 or paragraphs 16 C17 and 16 D18 . The financial instrument is a financial liability even when the amount of cash or other financial assets is determined on the basis of an index or other item that has the potential to increase or decrease. The existence of an option for the holder to put the instrument back to the issuer for cash or another financial asset means that the puttable instrument meets the

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	definition of a financial liability, except for those instruments classified as equity instruments in accordance with paragraphs 46A15 and 46B16 or paragraphs 46C17 and 46D18 .	
IFRIC2. A13	B24. The redemption prohibition described in this example is different from the restrictions described in paragraphs 1923 and AG3249 of IPSAS 28IAS 32 . Those restrictions are limitations on the ability of the entity to pay the amount due on a financial liability, i.e. they prevent payment of the liability only if specified conditions are met. In contrast, this example describes an unconditional prohibition on redemptions beyond a specified amount, regardless of the entity’s ability to redeem members’ shares (e.g. given its cash resources, surpluses profits or distributable reserves). In effect, the prohibition against redemption prevents the entity from incurring any financial liability to redeem more than a specified amount of paid-in capital. Therefore, the portion of shares subject to the redemption prohibition is not a financial liability. While each member’s shares may be redeemable individually, a portion of the total shares outstanding is not redeemable in any circumstances other than liquidation of the entity.	
Example 5		
Facts		
IFRIC2. A14	B25. The facts of this example are as stated in example 4. In addition, at the end of the reporting period, liquidity requirements imposed in the local jurisdiction prevent the entity from redeeming any members’ shares unless its holdings of cash and short-term investments are greater than a specified amount. The effect of these liquidity requirements at the end of the reporting period is that the entity cannot pay more than CU50,000 to redeem the members’ shares.	
Classification		
IFRIC2. A15	B26. As in example 4, the entity classifies CU750,000 as equity <u>instruments</u> and CU150,000 as a financial liability. This is because the amount classified as a liability is based on the entity’s unconditional right to refuse redemption and not on conditional restrictions that prevent redemption only if liquidity or other conditions are not met and then only until such time as they are met. The provisions of paragraphs 1923 and AG2549 of IPSAS 28IAS 32 apply in this	

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	case.	
Example 6		
Facts		
IFRIC2. A16	B27. The entity’s governing charter prohibits it from redeeming members’ shares, except to the extent of proceeds received from the issue of additional members’ shares to new or existing members during the preceding three years. Proceeds from issuing members’ shares must be applied to redeem shares for which members have requested redemption. During the three preceding years, the proceeds from issuing members’ shares have been CU12,000 and no member’s shares have been redeemed.	
Classification		
IFRIC2. A17	B28. The entity classifies CU12,000 of the members’ shares as financial liabilities. Consistently with the conclusions described in example 4, members’ shares subject to an unconditional prohibition against redemption are not financial liabilities. Such an unconditional prohibition applies to an amount equal to the proceeds of shares issued before the preceding three years, and accordingly, this amount is classified as equity <u>instruments</u> . However, an amount equal to the proceeds from any shares issued in the preceding three years is not subject to an unconditional prohibition on redemption. Accordingly, proceeds from the issue of members’ shares in the preceding three years give rise to financial liabilities until they are no longer available for redemption of members’ shares. As a result the entity has a financial liability equal to the proceeds of shares issued during the three preceding years, net of any redemptions during that period.	
Example 7		
Facts		
IFRIC2. A18	B29. The entity is a co-operative bank. Local law governing the operations of co-operative banks state that at least 50 per cent of the entity’s total ‘outstanding liabilities’ (a term defined in the regulations to include members’ share accounts) has to be in the form of members’ paid-in capital. The effect of	

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	<p>the regulation is that if all of a co-operative’s outstanding liabilities are in the form of members’ shares, it is able to redeem them all. On 31December, <u>31</u> 20X1 the entity has total outstanding liabilities of CU200,000, of which CU125,000 represent members’ share accounts. The terms of the members’ share accounts permit the holder to redeem them on demand and there are no limitations on redemption in the entity’s charter.</p>	
Classification		
IFRIC2. A19	<p>B30. In this example members’ shares are classified as financial liabilities. The redemption prohibition is similar to the restrictions described in paragraphs 1923 and AG2549 of <u>IPSAS 28</u>IAS 32. The restriction is a conditional limitation on the ability of the entity to pay the amount due on a financial liability, i.e. they prevent payment of the liability only if specified conditions are met. More specifically, the entity could be required to redeem the entire amount of members’ shares (CU125,000) if it repaid all of its other liabilities (CU75,000). Consequently, the prohibition against redemption does not prevent the entity from incurring a financial liability to redeem more than a specified number of members’ shares or amount of paid-in capital. It allows the entity only to defer redemption until a condition is met, i.e. the repayment of other liabilities. Members’ shares in this example are not subject to an unconditional prohibition against redemption and are therefore classified as financial liabilities.</p>	