

**Accounting Standard**

**AASB 2008-2**

March 2008

**Amendments to Australian  
Accounting Standards –  
Puttable Financial  
Instruments and Obligations  
arising on Liquidation**

**[AASB 7, AASB 101, AASB 132 &  
AASB 139 and Interpretation 2]**



**Australian Government**

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**Australian Accounting  
Standards Board**

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ISSN 1036-4803

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## **PREFACE**

### **Standards Amended by AASB 2008-2**

This Standard makes amendments to the following Australian Accounting Standards and Interpretation:

1. AASB 7 *Financial Instruments: Disclosures*
2. AASB 101 *Presentation of Financial Statements*
3. AASB 132 *Financial Instruments: Presentation*
4. AASB 139 *Financial Instruments: Recognition and Measurement*
5. Interpretation 2 *Members' Shares in Co-operative Entities and Similar Instruments*.

These amendments arise from the issuance by the International Accounting Standards Board in February 2008 of amendments to IAS 32 *Financial Instruments: Presentation* regarding puttable financial instruments and obligations arising on liquidation.

### **Main Features of this Standard**

#### **Application Date**

This Standard is applicable to annual reporting periods beginning on or after 1 January 2009, with early adoption permitted for annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009.

#### **Main Requirements**

This Amending Standard introduces an exception to the definition of financial liability to classify as equity instruments certain puttable financial instruments and certain instruments that impose on an entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation of the entity.

This amendment of AASB 132 necessitates consequential amendments to AASB 7, AASB 101, AASB 139 and Interpretation 2.

## ACCOUNTING STANDARD AASB 2008-2

The Australian Accounting Standards Board makes Accounting Standard AASB 2008-2 *Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation* under section 334 of the *Corporations Act 2001*.

Dated 5 March 2008

D.G. Boymal  
Chair – AASB

## ACCOUNTING STANDARD AASB 2008-2

### ***AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – PUTTABLE FINANCIAL INSTRUMENTS AND OBLIGATIONS ARISING ON LIQUIDATION***

#### **Objective**

- 1 The objective of this Standard is to make amendments to:
  - (a) AASB 7 *Financial Instruments: Disclosures*;
  - (b) AASB 101 *Presentation of Financial Statements*;
  - (c) AASB 132 *Financial Instruments: Presentation*;
  - (d) AASB 139 *Financial Instruments: Recognition and Measurement*; and
  - (e) Interpretation 2 *Members' Shares in Co-operative Entities and Similar Instruments*.

#### **Application**

- 2 In respect of AASB 101, this Standard applies to:
  - (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act*;
  - (b) general purpose financial statements of each reporting entity; and

- (c) **financial statements that are, or are held out to be, general purpose financial statements.**
- 3 In respect of AASB 7, AASB 132, AASB 139 and Interpretation 2, this Standard applies to:**
- (a) **each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;**
  - (b) **general purpose financial statements of each other reporting entity; and**
  - (c) **financial statements that are, or are held out to be, general purpose financial statements.**
- 4 This Standard applies to annual reporting periods beginning on or after 1 January 2009.**
- 5 This Standard may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009. When an entity applies this Standard to such an annual reporting period, it shall disclose that fact.**

### **Amendments to AASB 7**

- 6 In paragraph 3, subparagraph (d) is amended to delete the word “and” at the end, subparagraph (e) is amended to replace the full stop at the end with “; and”, and subparagraph (f) is added to read as follows:**
- 3 This Standard shall be applied by all entities to all types of financial instruments, except:**
- ...
- (f) **instruments that are required to be classified as equity instruments in accordance with paragraphs 16A and 16B or paragraphs 16C and 16D of AASB 132.**
- 7 A note concerning paragraph 44C is added as follows:**
- 44C [Deleted by the AASB]**

## Amendments to AASB 101

8 After paragraph 8, paragraph 8A is added as follows:

- 8A The following terms are described in AASB 132 and are used in this Standard with the meaning specified in AASB 132:
- (a) puttable financial instrument classified as an equity instrument (described in paragraphs 16A and 16B of AASB 132); and
  - (b) 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 and is classified as an equity instrument (described in paragraphs 16C and 16D of AASB 132).

9 After paragraph 80, paragraph 80A is added as follows:

**80A If an entity has reclassified:**

- (a) **a puttable financial instrument classified as an equity instrument; or**
- (b) **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 and is classified as an equity instrument;**

**between financial liabilities and equity, it shall disclose the amount reclassified into and out of each category (financial liabilities or equity), and the timing and reason for that reclassification.**

10 After paragraph 136, a heading and paragraph 136A are added as follows:

**Puttable Financial Instruments Classified as Equity**

**136A For puttable financial instruments classified as equity instruments, an entity shall disclose (to the extent not disclosed elsewhere):**

- (a) **summary quantitative data about the amount classified as equity;**

- (b) **its objectives, policies and processes for managing its obligation to repurchase or redeem the instruments when required to do so by the instrument holders, including any changes from the previous period;**
- (c) **the expected cash outflow on redemption or repurchase of that class of financial instruments; and**
- (d) **information about how the expected cash outflow on redemption or repurchase was determined.**

11 In paragraph 138, subparagraph (b) is amended to delete the word “and” at the end, subparagraph (c) is amended to replace the full stop at the end with “; and”, and subparagraph (d) is added to read as follows:

**138 An entity shall disclose the following, if not disclosed elsewhere in information published with the financial statements:**

...

- (d) **if it is a limited life entity, information regarding the length of its life.**

12 A note concerning paragraph 139B is added as follows:

139B [Deleted by the AASB]

## **Amendments to AASB 132**

13 The definition of a financial asset in paragraph 11 is amended to read as follows:

**11 The following terms are used in this Standard with the meanings specified:**

...

**A *financial asset* is any asset that is:**

- (a) ...
- (d) **a contract that will or may be settled in the entity’s own equity instruments and is:**

- (i) ...
- (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 16A and 16B, 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 16C and 16D, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.**

14 The definition of a financial liability in paragraph 11 is amended to read as follows:

**A *financial liability* is any liability that is:**

- (a) ...
- (b) **a contract that will or may be settled in the entity's own equity instruments and is:**
  - (i) ...
  - (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 that are classified as equity instruments in accordance with paragraphs 16A and 16B, 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 16C and 16D, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.**

**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 and 16B or paragraphs 16C and 16D.**

- 15 The definition of a puttable instrument is added after the definition of fair value in paragraph 11:

***A puttable instrument 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.***

- 16 The heading above paragraph 15 is amended to read as follows:

**Liabilities and Equity (see also paragraphs AG13-AG14J and AG25-AG29A)**

- 17 Paragraph 16 is amended to read as follows:

16 When an issuer applies the definitions in paragraph 11 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.

(a) ...

(b) If the instrument will or may be settled in the issuer's own equity instruments, it is:

(i) ...

(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 and 16B or paragraphs 16C and 16D, or instruments that are contracts for the future receipt or delivery of the issuer's own equity instruments.

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 and 16B or paragraphs 16C and 16D.

- 18 After paragraph 16, the following headings and paragraphs 16A-16F are added as follows:

**Puttable Instruments**

16A 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:

- (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:
  - (i) dividing the entity's net assets 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:
  - (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 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.

- (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 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.
- (e) The total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the entity over the life of the instrument (excluding any effects of the instrument).

16B 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:

- (a) total cash flows based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised 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 puttable instrument holders.

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 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.

**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**

16C 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 obligation is classified as an equity instrument if it has all of the following features:

- (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:
  - (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:
  - (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.

16D 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:

- (a) total cash flows based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised 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.

For the purposes of applying this condition, the entity shall not consider non-financial contracts with a holder of an instrument described in paragraph 16C 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.

**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**

- 16E An entity shall classify a financial instrument as an equity instrument in accordance with paragraphs 16A and 16B or paragraphs 16C and 16D from the date when the instrument has all the features and meets the conditions set out in those paragraphs. 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 16A and 16B, the entity shall reclassify the puttable instruments as equity instruments from the date when it redeems the non-puttable instruments.
- 16F An entity shall account as follows for the reclassification of an instrument in accordance with paragraph 16E:
- (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 16A and 16B or paragraphs 16C and 16D. The financial liability shall be measured at the instrument's fair value at the date of reclassification. The entity shall recognise in equity any difference between the carrying value of the

equity instrument and the fair value of the financial liability at the date of reclassification.

- (b) It shall reclassify a financial liability as equity from the date when the instrument has all of the features and meets the conditions set out in paragraphs 16A and 16B or paragraphs 16C and 16D. An equity instrument shall be measured at the carrying value of the financial liability at the date of reclassification.

19 Paragraphs 17-19 are amended to read as follows:

17 With the exception of the circumstances described in paragraphs 16A and 16B or paragraphs 16C and 16D, 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 unfavourable to the issuer. ...

18 The substance of a financial instrument, rather than its legal form, governs its classification in 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 equity but are liabilities in substance and others may combine features associated with equity instruments and features associated with financial liabilities. For example:

- (a) ...
- (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 and 16B or paragraphs 16C and 16D. 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 and 16B or paragraphs 16C and 16D. For example, open-ended mutual funds, unit trusts, partnerships and some

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 and 16B or paragraphs 16C and 16D. 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' in 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 equity and puttable instruments that do not (see Illustrative Example 8).

- 19 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 and 16B or paragraphs 16C and 16D. For example:

...

- 20 Paragraph 22 is amended to read as follows:

22 Except as stated in paragraph 22A, 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, ...

- 21 After paragraph 22, paragraph 22A is added as follows:

22A 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 16A and 16B, 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 16C and 16D, 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.

22 Paragraph 23 is amended to read as follows:

23 With the exception of the circumstances described in paragraphs 16A and 16B or paragraphs 16C and 16D, 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 ...

23 In paragraph 25, subparagraph (a) is amended to delete the word “or” at the end, subparagraph (b) is amended to replace the full stop at the end with “; or”, and subparagraph (c) is added to read as follows:

25 A financial instrument may require the entity to deliver cash or another financial asset, ... Therefore, it is a financial liability of the issuer unless:

...

(c) the instrument has all of the features and meets the conditions in paragraphs 16A and 16B.

24 The heading above paragraph 96 is amended to read as follows:

### **Effective Date and Transition**

25 After paragraph 96, a note concerning paragraph 96A is added as follows:

96A [Deleted by the AASB]

26 After paragraph 96A, paragraphs 96B and 96C are added as follows:

96B AASB 2008-2 *Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation* introduced a limited scope exception; therefore, an entity shall not apply the exception by analogy.

96C The classification of instruments under this exception shall be restricted to the accounting for such an instrument under

AASB 7, AASB 101, AASB 132 and AASB 139. The instrument shall not be considered an equity instrument under other guidance, for example AASB 2 *Share-based Payment*.

27 Paragraph 97C is added as follows:

97C When applying the amendments made in AASB 2008-2, 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 separate liability and equity components. If the liability component is no longer outstanding, a retrospective application of those amendments to AASB 132 would involve separating two components of equity. The first component would be in retained earnings and represent the cumulative interest accreted on the liability component. The other component would represent the original equity component. Therefore, an entity need not separate these two components if the liability component is no longer outstanding at the date of application of the amendments.

28 Paragraphs AG13 and AG14 are amended to read as follows:

AG13 Examples of equity instruments include non-puttable ordinary shares, some puttable instruments (see paragraphs 16A and 16B), 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 16C and 16D), some types of preference shares (see paragraphs AG25 and AG26), 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 22A). However, if such a contract contains an obligation for the entity to pay cash or another financial asset (other than a contract classified as equity in accordance with paragraphs 16A and 16B or paragraphs 16C and 16D), it also gives rise to a liability for the present value of the redemption amount (see paragraph AG27(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.

AG14 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 for delivering a fixed amount of cash or another financial asset is not a financial asset of the entity (except as stated in paragraph 22A). Instead, any consideration paid for such a contract is deducted from equity.

29 The following headings and paragraphs AG14A-AG14J are added after paragraph AG14:

**The Class of Instruments that is Subordinate to All Other Classes (paragraphs 16A(b) and 16C(b))**

AG14A One of the features of paragraphs 16A and 16C is that the financial instrument is in the class of instruments that is subordinate to all other classes.

AG14B 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.

AG14C 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.

AG14D If an entity has only one class of financial instruments, that class shall be treated as if it were subordinate to all other classes.

**Total Expected Cash Flows Attributable to the Instrument over the Life of the Instrument (paragraph 16A(e))**

AG14E The total expected cash flows of the instrument over the life of the instrument must be substantially based on the 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. Profit or loss and the change in the recognised net assets shall be measured in accordance with relevant Australian Accounting Standards.

**Transactions Entered into by an Instrument Holder Other than as Owner of the Entity (paragraphs 16A and 16C)**

AG14F 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 equity under paragraph 16A or paragraph 16C.

AG14G 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.

AG14H Another example is a profit or loss sharing arrangement that allocates 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 16A or paragraph 16C. However, profit or loss sharing arrangements that allocate 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 16A or paragraph 16C.

AG14I 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 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 16B and 16D)**

AG14J A condition for classifying as equity a financial instrument that otherwise meets the criteria in paragraph 16A or paragraph 16C is that the entity has no other financial instrument or contract that has (a) total cash flows based substantially on the profit or loss, 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 16A or paragraph 16C from being classified as equity:

- (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.

30 Paragraph AG27 is amended to read as follows:

AG27 The following examples illustrate how to classify different types of contracts on an entity's own equity instruments:

- (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 22A). Accordingly, any consideration received or paid for such a contract is added directly to or deducted directly from equity. 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 recognises 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 16A and 16B or paragraphs 16C and 16D). 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.
- (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 16A and 16B or paragraphs 16C and 16D). 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.
- (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 equity (except as stated in paragraphs 16A and 16B or paragraphs 16C and 16D). One example is a net cash-settled share option.
- (d) ...

31 After paragraph AG29, paragraph AG29A is added as follows:

AG29A Some types of instruments that impose a contractual obligation on the entity are classified as equity instruments in accordance with paragraphs 16A and 16B or paragraphs 16C and 16D. Classification in accordance with those paragraphs is an exception to the principles otherwise applied in this Standard to the classification of an instrument. This exception is not extended to the classification of non-controlling interests in the consolidated financial statements. Therefore, instruments classified as equity instruments in accordance with either paragraphs 16A and 16B or paragraphs 16C and 16D in the separate or individual financial statements that are non-controlling interests are classified as liabilities in the consolidated financial statements of the group.

32 In the Illustrative Examples accompanying AASB 132, paragraph IE1 is amended to read as follows:

IE1 The following examples<sup>1</sup> illustrate the application of paragraphs 15-27 and AASB 139 to the accounting for contracts on an entity's own equity instruments (other than the financial instruments specified in paragraphs 16A and 16B or paragraphs 16C and 16D).

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<sup>1</sup> In these examples, monetary amounts are denominated in 'currency units' (CU).

33 Paragraph IE33 is amended to read as follows:

IE33 The following example illustrates a format of a statement of comprehensive income and statement of financial position that may be used by entities whose share capital is not equity as defined in AASB 132 because the entity has an obligation to repay the share capital on demand but does not have all the features or meet the conditions in paragraphs 16A and 16B or paragraphs 16C and 16D. Other formats are possible.

## **Amendments to AASB 139**

34 Paragraph 2 is amended to read as follows:

**2 This Standard shall be applied by all entities to all types of financial instruments except:**

...

- (d) **financial instruments issued by the entity that meet the definition of an equity instrument in AASB 132 (including options and warrants) or that are required to be classified as an equity instrument in accordance with paragraphs 16A and 16B or paragraphs 16C and 16D of AASB 132. However, the holder of such equity instruments shall apply this Standard to those instruments, unless they meet the exception in (a) above.**

35 A note concerning paragraph 103F is added as follows:

103F [Deleted by the AASB]

## **Amendments to Interpretation 2**

36 Paragraph 6 is amended to read as follows:

- 6 Members' shares that would be classified as equity if the members did not have a right to request redemption are equity if either of the conditions described in paragraphs 7 and 8 is present or the members' shares have all the features and meet the conditions in paragraphs 16A and 16B or paragraphs 16C and 16D of AASB 132. Demand deposits, including current accounts, deposit accounts and similar contracts that arise when members act as customers are financial liabilities of the entity.

37 Paragraph 9 is amended to read as follows:

- 9 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 7 or the members' shares have all the features and meet the conditions in paragraphs 16A and 16B or paragraphs 16C and 16D of AASB 132. 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 equity.

38 After paragraph 14, a note concerning paragraph 14A is added as follows:

14A [Deleted by the AASB]

39 Paragraph A1 is amended to read as follows:

A1 This appendix sets out seven examples of the application of the UIG 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 the all of the features or does not meet the conditions in paragraphs 16A and 16B or paragraphs 16C and 16D of AASB 132.

40 Paragraph A12 is amended to read as follows:

A12 In this case, CU750,000 would be classified as equity and CU150,000 would be classified as financial liabilities. In addition to the paragraphs already cited, paragraph 18(b) of AASB 132 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 16A and 16B or paragraphs 16C and 16D. 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 and 16B or paragraphs 16C and 16D.

## **DELETED IFRS TEXT**

*Deleted IFRS text is not part of AASB 2008-2.*

### **IFRS 7 *Financial Instruments: Disclosures***

*Deleted IFRS 7 text is not part of AASB 7.*

#### **Paragraph 44C**

An entity shall apply the amendment in paragraph 3 for annual periods beginning on or after 1 January 2009. If an entity applies *Puttable Financial Instruments and Obligations Arising on Liquidation* (Amendments to IAS 32 and IAS 1), issued in February 2008, for an earlier period, the amendment in paragraph 3 shall be applied for that earlier period.

### **IAS 1 *Presentation of Financial Statements***

*Deleted IAS 1 text is not part of AASB 101.*

#### **Paragraph 139B**

*Puttable Financial Instruments and Obligations Arising on Liquidation* (Amendments to IAS 32 and IAS 1), issued in February 2008, amended paragraph 138 and inserted paragraphs 8A, 80A and 136A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact and apply the related amendments to IAS 32, IAS 39, IFRS 7 and IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments* at the same time.

### **IAS 32 *Financial Instruments: Presentation***

*Deleted IAS 32 text is not part of AASB 132.*

#### **Paragraph 96A**

*Puttable Financial Instruments and Obligations Arising on Liquidation* (Amendments to IAS 32 and IAS 1), issued in February 2008, required financial instruments that contain all of the features and meet the conditions in paragraphs 16A and 16B or paragraphs 16C and 16D to be classified as an equity instrument, amended paragraphs 11, 16, 17-19, 22, 23, 25, AG13, AG14 and AG27, and inserted paragraphs 16A-16F, 22A, 96B, 96C, 97C, AG14A-AG14J and AG29A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies these changes for an earlier period, it shall

disclose that fact and apply the related amendments to IAS 1, IAS 39, IFRS 7 and IFRIC 2 at the same time.

### ***IAS 39 Financial Instruments: Recognition and Measurement***

*Deleted IAS 39 text is not part of AASB 139.*

#### **Paragraph 103F**

An entity shall apply the amendment in paragraph 2 for annual periods beginning on or after 1 January 2009. If an entity applies *Puttable Financial Instruments and Obligations Arising on Liquidation* (Amendments to IAS 32 and IAS 1) issued in February 2008, for an earlier period, the amendment in paragraph 2 shall be applied for that earlier period.

### ***IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments***

*Deleted IFRIC 2 text is not part of Interpretation 2.*

#### **Paragraph 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 *Puttable Financial Instruments and Obligations Arising on Liquidation* (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.