



Project:	Financial Instruments with Characteristics of Equity	Meeting:	AASB November 2018 (M168)
Topic:	AASB draft comment letter to the IASB	Agenda Item:	6.0
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		Decision-Making:	High
		Project Status:	Discussion paper

Objective of this paper

- 1 The objective of this paper is to **decide** on the Board's submission to the International Accounting Standards Board (IASB) on Discussion Paper DP/2018/1 *Financial Instruments with Characteristics of Equity* (referred to throughout this document as the 'FICE DP').

Why should the Board consider this agenda item at today's meeting?

- 2 Comments on the FICE DP are due to the:
 - (a) AASB on 26 November 2018;
 - (b) IASB on 7 January 2019.

As such, this will be the last AASB meeting before the comments are due to the IASB, which is why the Board's decision is required in this meeting.

Background

- 3 The IASB issued its FICE DP in June 2018. In July 2018, the AASB issued the FICE DP in Australia via Invitation to Comment ITC 40 *Financial Instruments with Characteristics of Equity*¹.
- 4 The FICE DP is seeking comments on whether the challenges associated with classifying financial instruments with characteristics of equity warrant standard-setting activity and if so, whether the Board supports the IASB's preferred approach in the FICE DP. The FICE DP also investigates the presentation and disclosure requirements for financial instruments with characteristics of equity.
- 5 At its September meeting, the Board decided to develop a submission focusing on the overall usefulness of the FICE DP's proposals in addressing key practical issues and the areas of particular interest to Australian stakeholders, being:
 - (a) different classification outcomes arising from applying the IASB's preferred approach in the FICE DP;

¹ Link to [ITC 40 Financial Instruments with Characteristics of Equity](#)

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- (b) retaining the puttable instruments exception;
 - (c) the impact on Co-operative and Mutual Enterprises;
 - (d) the proposal to remove the foreign currency rights issue exception; and
 - (e) the treatment of NCI puts and those with anti-dilutive provisions.
- 6 The AASB is the AOSSG Financial Instrument and Equity working group leader. As such, AASB staff will also be drafting the AOSSG's submission to the IASB on the FICE DP, based on feedback obtained from the AOSSG region national standard setters.
- 7 To gather information for the Board's submission on the FICE DP as well as the AOSSG submission, Staff have:
- (a) conducted several meetings with and asked for written feedback from the AASB's Financial Instruments Project Advisory Panel;
 - (b) discussed the FICE DP at the Asian-Oceanian Standard-Setters Group (AOSSG) interim meeting;
 - (c) conducted several meetings with and asked for written feedback from the AOSSG's Financial Instruments and liabilities Working Group (to which Australia is the leader of);
 - (d) discussed the FICE DP at the IASB's October Accounting Standards Advisory Forum; and
 - (e) facilitated meetings between IASB Vice Chair Sue Lloyd and Australian constituents.

Summary of the AASB's responses

- 8 With respect to specific feedback in relation to the DP, this submission focusses on the overall usefulness of proposals in the DP to address key conceptual challenges and practical issues of particular relevance to Australian stakeholders as directed by the Board in the September meeting. Therefore, AASB staff have focussed AASB's responses to Questions 1, 2, 4 and 8 in the DP.
- 9 Overall, in relation to the IASB's preferred approach in the DP, the AASB fully supports retaining the puttable exception as the IASB's preferred approach does not solve the issues that gave rise to the exception (refer to response to Question 4 for further details).
- 10 However, in relation to the IASB's preferred approach in the DP, the AASB has concerns with:
- (a) Accounting for certain aspects of complex financial instruments that are currently causing issues in practice but remained unaddressed in the DP as listed below (refer to response to Question 1 for further details):
 - Non-controlling interest written put options (NCI puts);
 - Financial instruments with anti-dilutive provisions;
 - Convertible bonds issued in foreign currency; and
 - Contingent Convertible Capital Instruments (CoCo bonds).
 - (b) Classification changes for financial instruments that currently, to AASB's knowledge, do not raise concerns in practice (refer to response to Question 1 for further details) such as the:
 - Classification outcome for cumulative irredeemable preference shares and perpetual bonds;
 - Proposed removal of the foreign currency rights issue exemption; and
 - Classification outcomes for certain instruments with obligations to deliver entity's own shares.
 - (c) Amending the revised *Conceptual Framework* based on the outcome of a research or standard-setting project (refer to response to Question 2 for further details).
 - (d) The cost versus benefit of applying the attribution approaches proposed by the IASB (refer to response to Question 8 for further details).

Submissions received

- 11 We have not received any formal submissions on ITC 40 as at Board paper mail-out date (6 Nov 2018). Staff will provide the Board with a verbal update of any additional feedback received subsequently to mail-out date at the November Board meeting.

Attachments

Agenda paper 6.1 Draft AASB comment letter - Financial Instruments with Characteristics of Equity

Draft submission

- 12 Staff have prepared the draft comment letter in Agenda paper 6.1 to reflect information gathered through outreach and feedback received from the Board at its September meeting.
- 13 Based on the Board's decision at the September meeting (refer paragraph 5 above) to prepare a focussed submission, Staff have drafted responses to questions 1, 2, 4 and 8 in the FICE DP only.

Question 1 for Board members

Do Board members agree with Staff's the comments in the draft submission to the IASB in Agenda paper 6.1? If not, what aspects of the submission would Board members like to be amended, further developed or added? Are there any other areas of the FICE DP that the Board considers that staff should respond to?

- 14 Staff will update the draft comment letter to reflect Board members' comments following the Board meeting. Given that the AASB comment letter would need to be submitted before the AASB's next meeting, Staff recommend that the AASB submission be finalised out of session by the Chair.

Question 2 for Board members

Do Board members agree with Staff's recommendation for the AASB submission to be finalised out of session by the Chair?