



Australian Government

Australian Accounting Standards Board

Financial Instruments with Characteristics of Equity

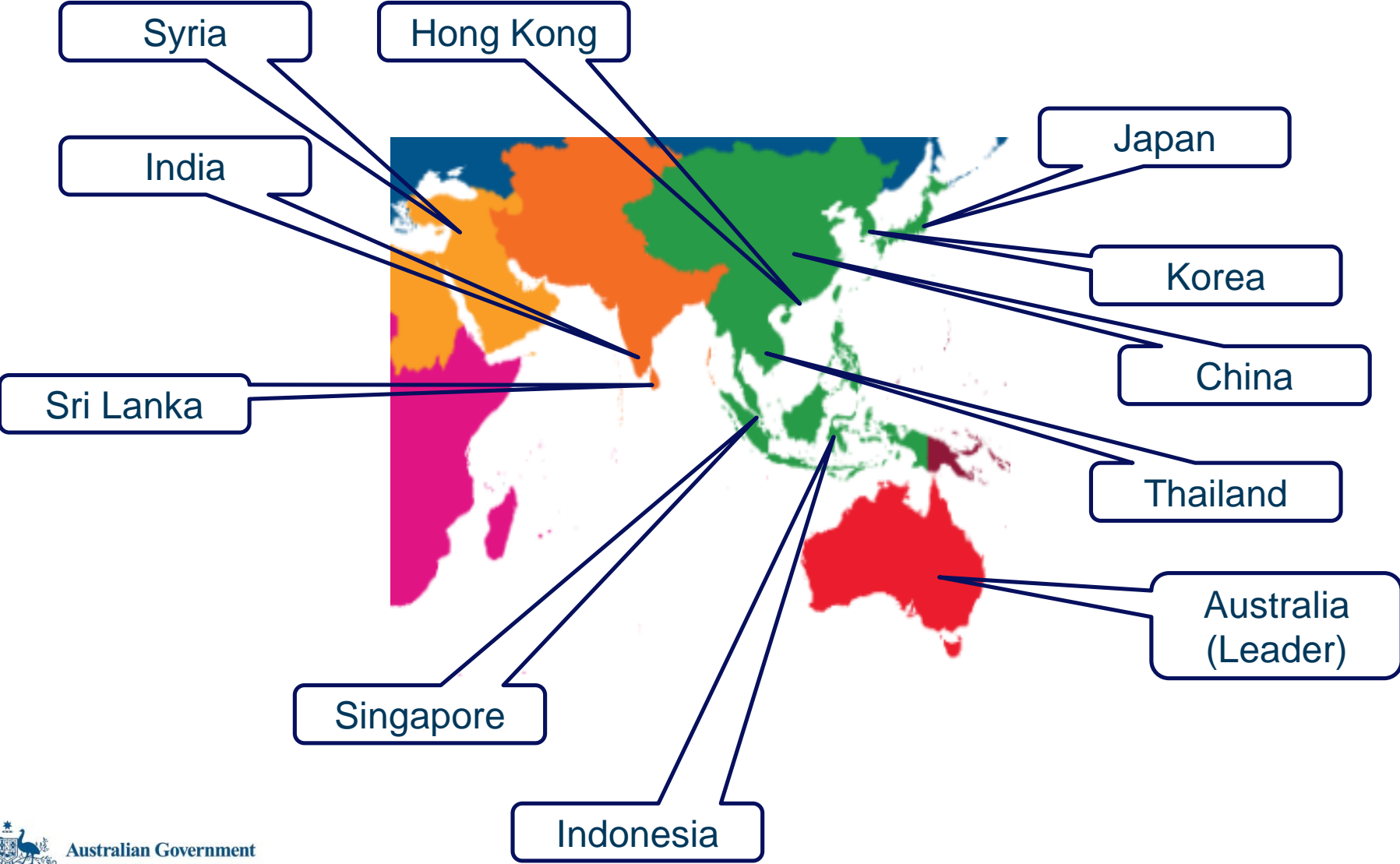
Presented by:

**Kala Kandiah (Australia) on
behalf of the AOSSG**

4 October 2018

- ✓ Share preliminary views of the AOSSG's working group members (staff views only at this stage)
- ✓ Inform nature of outreach activities planned by the AOSSG Financial Instruments and Liabilities working group members
- ✓ Obtain preliminary views and feedback from ASAF members





- Changes to IAS 32 don't appear significant enough to warrant a new Standard
- New classification principles and terminologies may create new problems
- Changes to classification outcomes that are well understood have been made without providing enough explanation as to why different outcomes are better
- Some challenges around Foreign Currency Convertible Bonds issued in India have not been addressed
- More work is required on practical issues such as NCI puts, foreign currency rights issue and instruments that do not qualify for the puttable exception
- Further clarification required on two of the key concepts ('entity's available economic resources' and 'amount independent of the entity's available economic resources')
- Clearly inconsistent with the existing Conceptual Framework (CF). The Link between FICE & Conceptual Framework projects and how the proposals in the DP could be included in the CF are unclear
- Proper disclosures on liquidity and order of claims could resolve practical issues with IAS 32

- Proposals change classification outcomes where there were no issues under IAS 32 (e.g. irredeemable cumulative preference shares)
- Classification principles are mixed with different underlining concepts and include features (i.e timing, solvency and returns) which are not distinct but overlapping
- More clarification and definitions are required on new classification principles and terminologies
- Not enough guidance on new terminologies such as the 'amount feature' and 'amount independent of the entity's available economic resources' and also Unclear how an amount would be independent of economic resources of the entity upon liquidation
- Not convinced why some of the proposed classification outcomes are better (e.g. foreign currency convertible bonds and convertible contingent bonds (Coco bonds) issued in Korea)
- Not convinced that the amount feature is enough – should also look at priority of claims
- Not sure that meeting only one of the timing or amount features should result in a liability
- Unclear how an unavoidable obligation would work upon liquidation

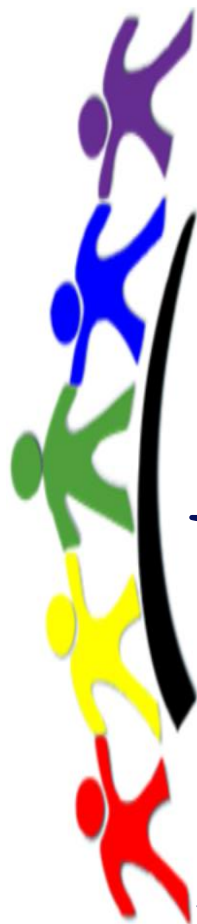
Views on retaining the puttable exception

- Staff **support** retaining the puttable exception
- Staff suggest the IASB evaluate how to classify puttable instruments in the absence of the puttable exception

Views on removing the foreign currency rights issue exception

- Staff are generally **not supportive** of removing the foreign currency rights issue exception because:
 - These instruments are commonly issued to meet regulatory requirements and/or access global markets and involve large transactions
 - Proposed outcomes are inconsistent with the substance of these transactions and could lead to increased volatility in the profit and loss
 - Rights issues are issued only to existing shareholders thus are similar to dividends paid in shares
 - More explanation is required on how the challenges identified in 2009 (refer IAS 32 BC4F - BC4I) have been resolved
- The above concerns are not only limited to foreign currency right issues. Staff suggest that the other financial instruments issued in foreign currency where would otherwise be classified as equity should also be looked at

What outreach activities have we planned?



Australia:

- ✓ An Invitation to Comment (incorporating the IASB's DP) was issued in July
- ✓ Dedicated project advisory panel
- ✓ Targeted outreach with Big 4 accounting firms, banks, insurance companies, large corporates and cooperatives and mutual entities in October 2018 with Sue Lloyd, IASB Vice-Chair

China:

- ✓ Ongoing discussions with practitioners
- ✓ Invitation to comment on the DP translated into Chinese was issued in August

Hong Kong:

- ✓ Outreach with small and medium-sized practitioners in September followed by the Big 4 accounting firms, roundtable sessions with investors and preparers in October
- ✓ The financial reporting committee to evaluate the feedback received in Nov-Dec

India:

- ✓ Dedicated working group reaching out to the accounting firms, preparers and academics and other relevant stakeholders
- ✓ Extensive outreach activities planned in October and November

Korea:

- ✓ public consultation document issued in September.
- ✓ Financial Instruments Committee discussion in October 2018
- ✓ A public forum is planned to be held on 16 October. The forum is part of the regular due process of the KASB and is usually attended by more than one hundred attendees

Singapore:

- ✓ Outreach planned with accounting firms, preparers, financial institutions and cooperatives



your
views

The logo consists of the words 'your' and 'views' in a dark grey, lowercase sans-serif font. The letter 'i' in 'views' is replaced by a red stick figure with a circular head and a triangular body. A large, red-outlined speech bubble is positioned to the right of the 'i' and above the 'e' in 'views', with its tail pointing towards the stick figure.