

STAFF PAPER

July 2015

IASB Meeting

Project	Financial Instruments with Characteristics of Equity research project		
Paper topic	Cover note		
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Introduction

1. At this meeting we will continue the discussion of the IASB's Financial Instruments with Characteristics of Equity research project.
2. The paper that we are discussing at this meeting is **Agenda Paper 5A: Relevance of identified features to particular assessments of financial position and financial performance**.
3. That paper discusses the various assessments that users might make with the statements of financial position and performance, and identifies which features of claims are relevant to those assessments. This is part of our work to identify the underlying rationale of the distinction in IAS 32 *Financial Instruments: Presentation*, with the intention of clarifying and reinforcing it.
4. This cover note also includes:
 - (a) Summary of discussions to date (paragraphs 5–8)
 - (b) Summary of next steps (paragraphs 9–10)

Summary of discussions to date

5. In May 2015, we distinguished between the:
 - (a) **Conceptual** challenges to do with identifying the underlying rationale of, and approach to, the distinction between liabilities and equity in IAS 32 and in the Conceptual Framework;
 - (b) **Application** challenges to do with the consistency, completeness and clarity of the requirements in IAS 32, in particular when those requirements are applied to particular types of transactions in practice.
6. In May 2015 we also set out a roadmap for addressing the above challenges. Importantly we noted that:
 - (a) we need to first **identify, confirm (or correct) and reinforce** the underlying rationale of the distinction between liabilities and equity in IAS 32 before attempting to improve the **consistency, completeness and clarity** of the requirements.
 - (b) we may need to identify other relevant distinctions between claims that need to be communicated by means other than the distinction between liabilities and equity.
7. In June 2015 we discussed:
 - (a) the features of claims against an entity and what makes information about a particular feature relevant to users. In particular, we stated that a feature is relevant if it potentially affects the amount, timing and uncertainty of (the prospects for) future cash flows.
 - (b) how information about relevant features is provided in financial statements. In particular we stated that to depict a feature, it must be measured and noted that there must be at least one claim that will be measured as a residual, because of partial recognition and mixed measurement.
8. **At this meeting** we are discussing the various assessments users might make using information in the statement of financial position and financial performance and which identified features that are relevant to those assessments.

Summary of the next steps

9. To address the conceptual challenges, the IASB will need to discuss the following remaining topics:
 - (a) consider the existing definitions in IAS 32 and other related guidance, including:
 - (i) to what extent IAS 32 captures the features needed to make the identified assessments;
 - (ii) whether changes are required to those definitions and additional guidance to better express the underlying rationale and make them more robust;
 - (iii) whether additional subclasses within liabilities or within equity are required to help make the identified assessments.
 - (b) to the extent required, develop requirements (or borrow existing requirements from IAS 33 *Earnings-per-share*) for definitions, recognition and measurement requirements for other classes and categories of equity.
10. To address the application problems of IAS 32, the IASB will need to discuss the following topics:
 - (a) Discuss the challenges with accounting for derivatives on own equity.
 - (b) Discuss how IAS 32 deals with those challenges, including the ‘fixed-for-fixed’ condition and obligations in derivatives to redeem own equity instruments
 - (c) Discuss the requirements in IAS 32 to do with:
 - (i) Interaction of contractual rights and obligations with regulatory and legal overlays
 - (ii) Substance over form
 - (iii) Contingencies and conditionality
 - (iv) Recognition, derecognition and reclassification of equity instruments (and components), including on settlement, conversion, expiration modification and other events.