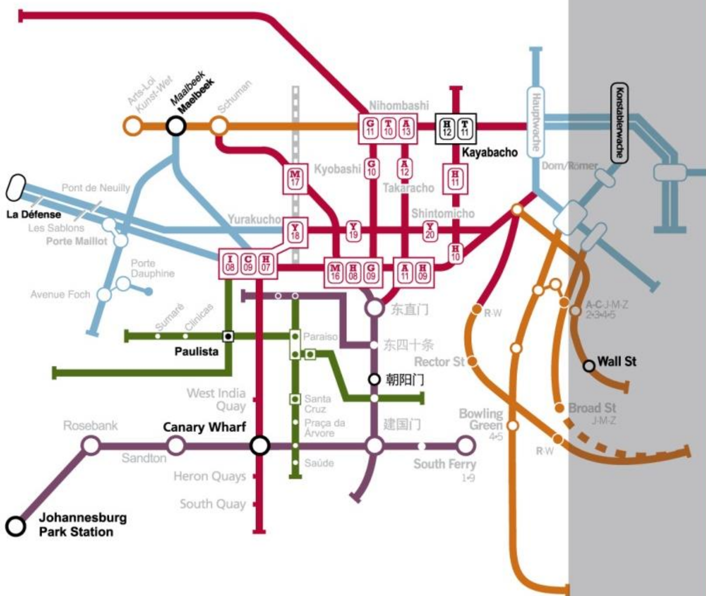
International Financial Reporting Standards



Agenda Paper 7C

Questions for ASAF

With supporting materials in Appendix A

36. Sitzung IFRS-FA am 05.03.2015
36_07c4_IFRS-FA_ASAF_FICE AP7c

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

Questions for ASAF

- We would like to receive ASAF's advice on whether we have identified:
  - the right choices to be made regarding the classification decision;
  - the right consequences of classification; and
  - the right tools to address those consequences

- We have included a set of Case Studies in Appendix A to help illustrate:
  - the consequences and the trade-offs of classifying some instruments as either liabilities or equity; and
  - the potential ways we might address those consequences and trade-offs

Have we identified the right choices?

- To date, the IASB has tentatively decided to:
  - keep the binary distinction between liabilities and equity
  - define liabilities positively
  - require financial statements be prepared from the perspective of the entity and not the proprietors
  - deal with the unit of account in individual IFRSs

IFRS®

Have we identified the right choices?

- The remaining choices are:
  - Should both of the definitions of a liability and of equity be defined positively?
  - Which characteristic(s) (or feature(s)) should form the basis for the definition(s)?
    - Should this be based on objectives (eg liquidity, solvency and returns in OB13) or something else?

Do ASAF members think there are additional choices relevant to classification?

Have we identified the right consequences?

- The potential consequences of classification include:
  - Aggregation for presentation purposes (eg total liabilities and total equity)
  - Measurement:
    - Direct measurement (eg amortised cost, fair value etc); or
    - Indirect measurement (eg through allocation of the accounting residual)
  - Whether changes in a *direct* measurement should be income/expense or something else (eg changes within equity)?

Have we identified the right tools to address those consequences?

- Relying on a single principle to resolve all of the consequences of classification results in trading-off the usefulness of depicting one feature for another
- Instead we might provide more useful information by depicting different consequences in different ways
- Might be achieved through a combination of principles for:
  - distinguishing between liabilities and equity;
  - directly measuring items within equity; and
  - reporting changes in liabilities or equity that are directly measured.
- Does direct measurement within equity imply that we need another element? Or just a sub-class?

Questions for ASAF

- The Case Studies in Appendix A illustrate:
  - the consequences of classification and their trade-offs; and
  - where additional requirements might help provide additional information within liability and within equity classifications

Do ASAF members think that we have identified the right consequences of classification?

Do ASAF members agree that some of those consequences can be addressed through additional requirements within liabilities or within equity?

Case studies

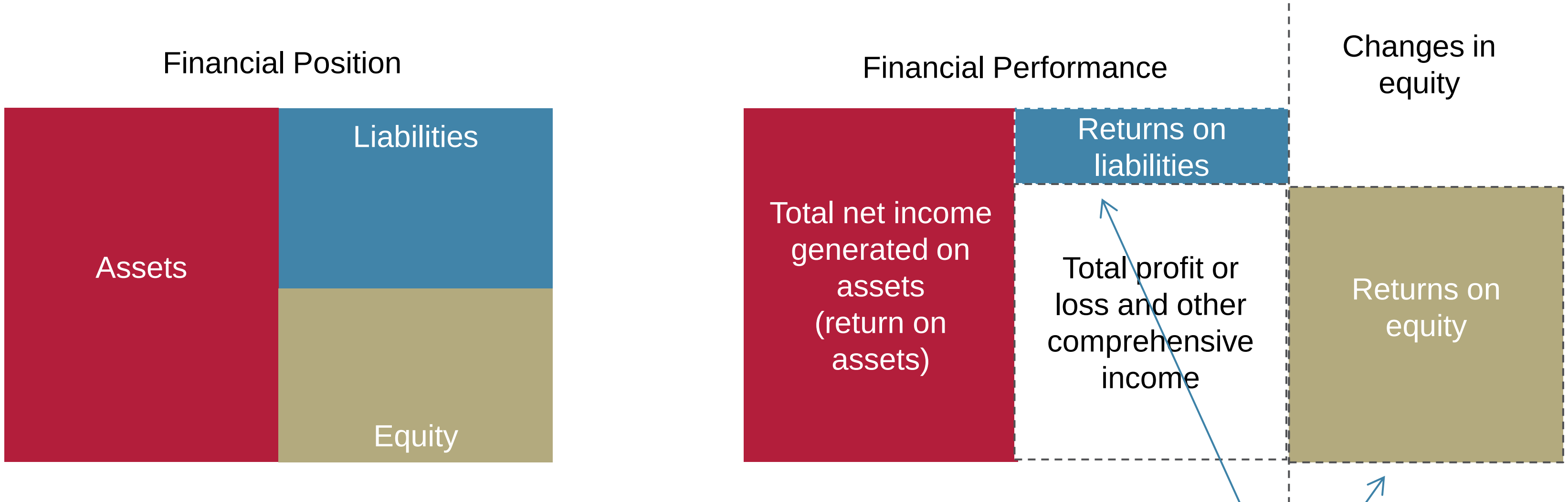
Appendix A

Case studies

- The following slides include a series of case studies illustrating claims with different characteristics
- The first two cases consider claims for which the classification as liabilities or equity (and its effects) is not a problem:
  – Case 1: Ordinary shares (assume equity)
  – Case 2: Cash-settled debt (assume liability)
- The second two cases consider claims that share different characteristics of the claims in the first two cases:
  – Case 3: Puttable shares
  – Case 4: Share-settled debt
- We use these cases to illustrate the classification consequences and the trade-offs.

Case study set-up

- The examples use the following diagrams:



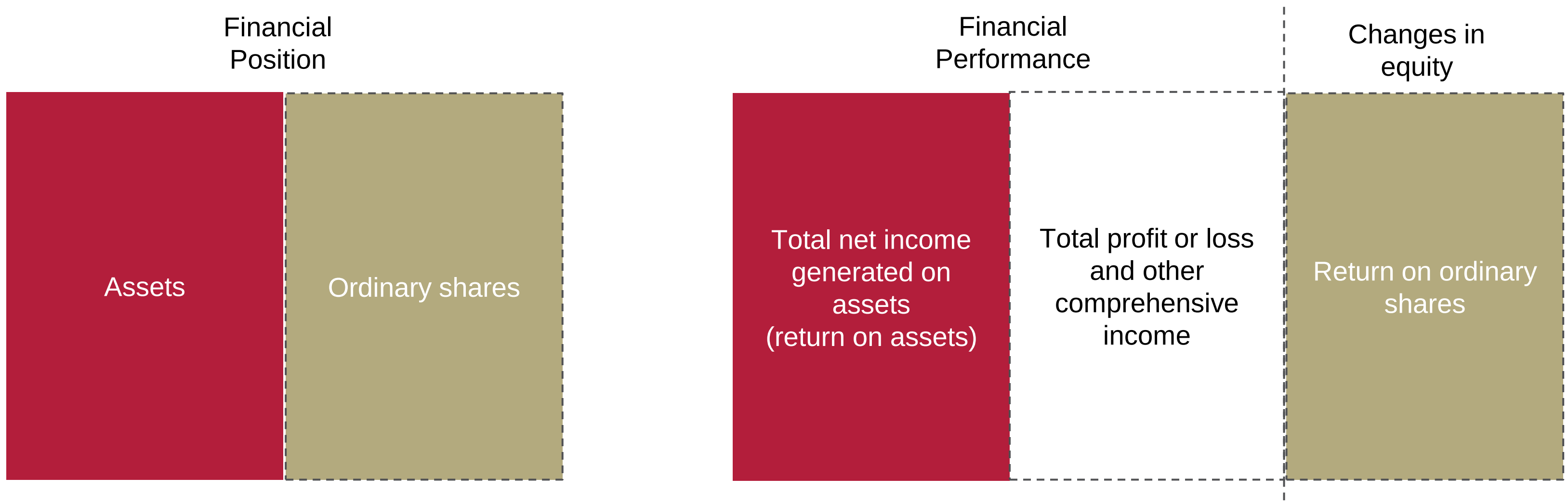
Total assets = total liabilities + total equity

Assume assets include recognised assets only.

Different sizes to reflect differences in returns on each claim

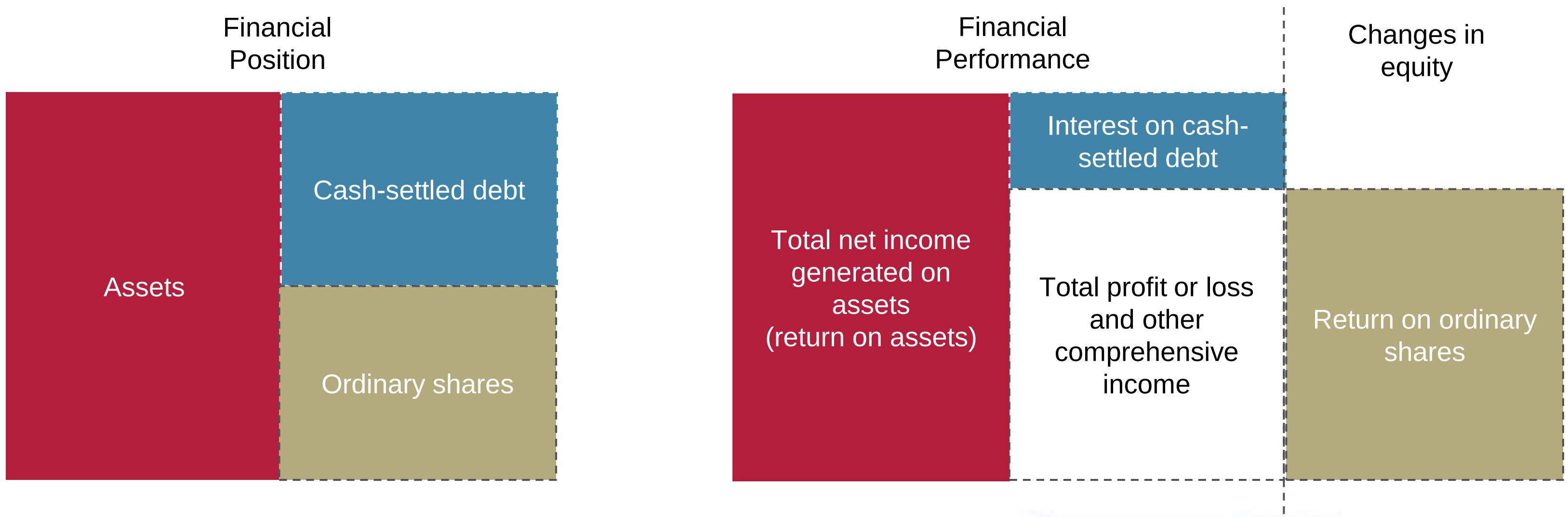
Case 1: Ordinary shares (no liabilities)

- **Ordinary share**: An obligation to deliver any remaining assets at liquidation and to participate in any dividends paid, however the timing, amount or type (eg cash) of payment is not specified.
- Depiction through indirect measurement (ie depending on the recognition and measurement of the assets) is sufficient because the claim depends only on the assets.



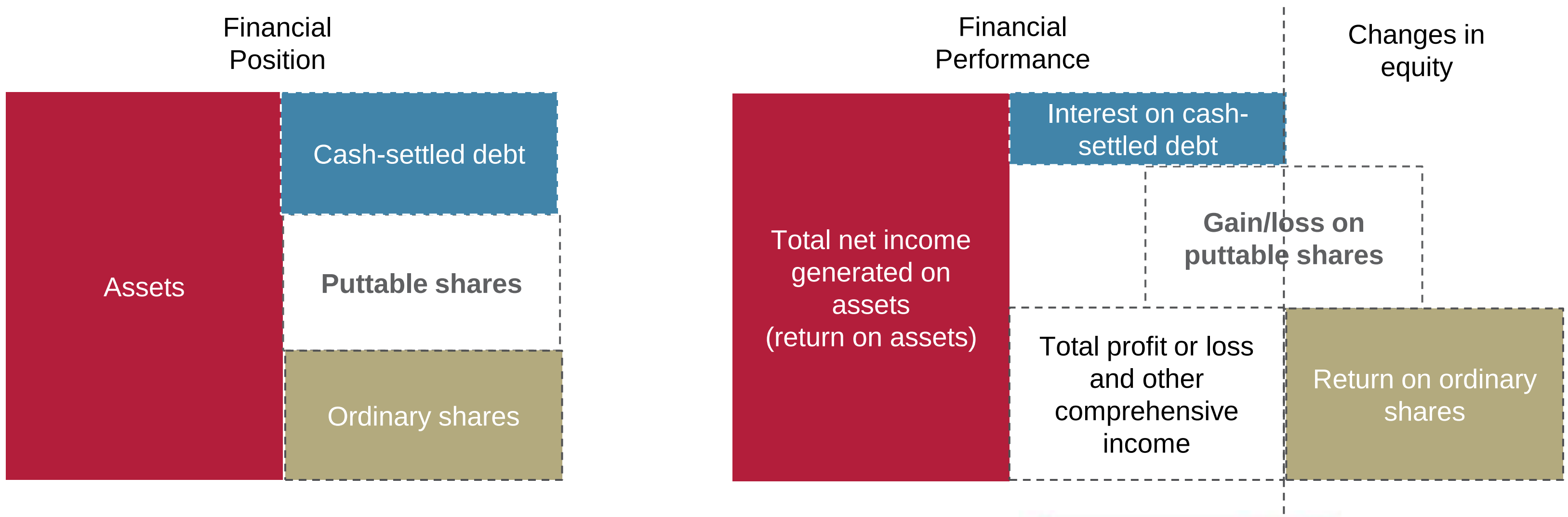
Case 2: Cash-settled debt

- **Cash-settled debt**: An obligation to deliver a specified amount of cash at a specified time prior to liquidation.
- Depiction of cash-settled debt through direct measurement (eg amortised cost or fair value) and presentation separately from ordinary shares provides a user with information about:
  - the cash payment requirement; and
  - returns to the debt holder as determined by the specified amount (eg interest)



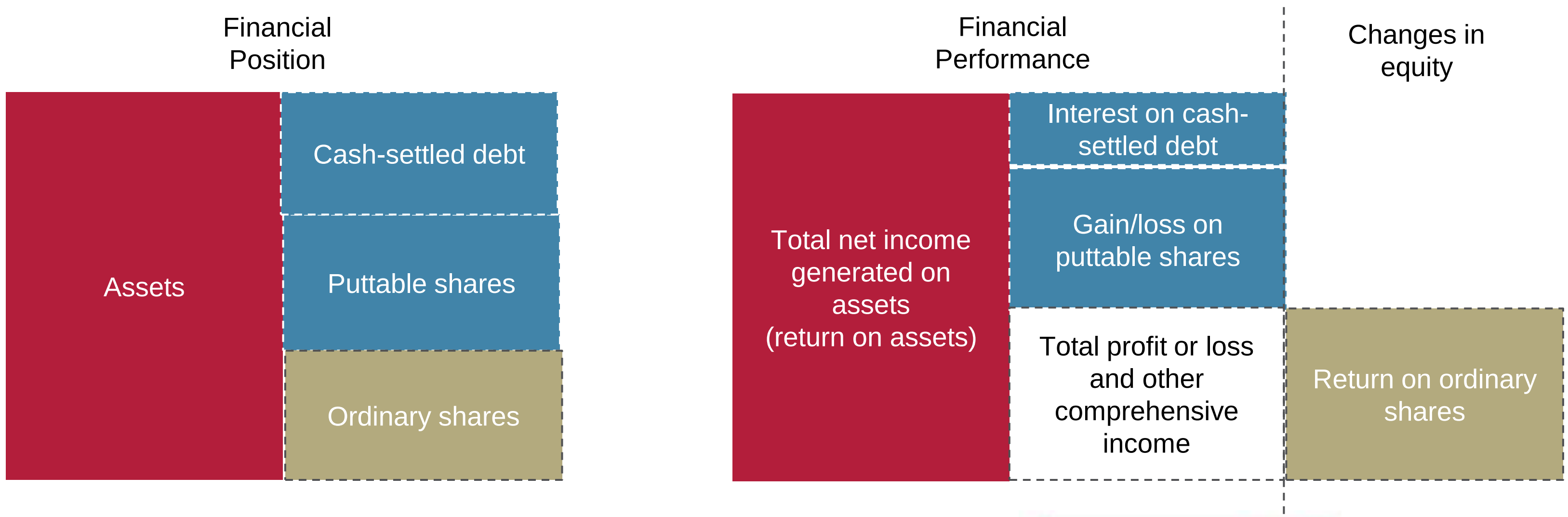
Case 3: Puttable shares

- **Puttable shares**: An obligation to deliver, at the option of the holder, an amount of cash equal to the value of a fixed number of ordinary shares:
  - Cash payment requirement is similar to cash settled debt
  - However value changes (hence returns) are similar to ordinary shares
- Currently meet the definitions of a liability under both IAS 32 and CF (although IAS 32 has an exception if they are the most residual claim)



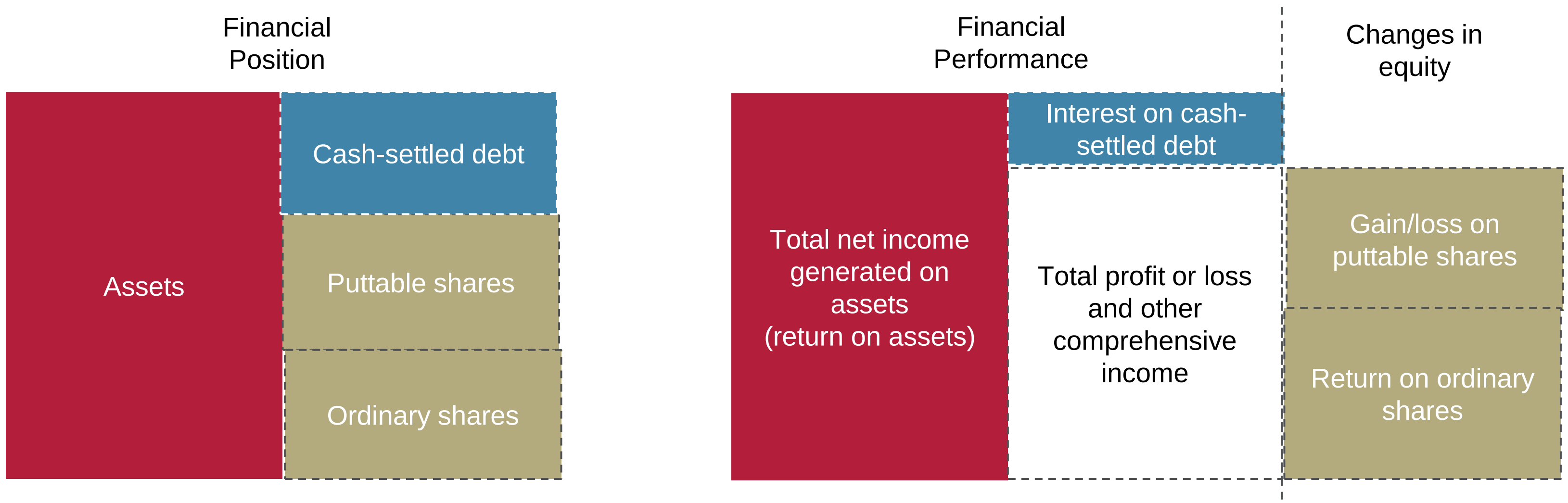
Case 3: Puttable shares (as liability)

- Depiction of puttable shares through direct measurement and presentation separately from ordinary shares provides a user with information about the similarity with cash settled debt (the cash payment requirement)
- But how do we depict the similarity with ordinary shares?
  - Information regarding the similarity of returns to ordinary shares will need to be provided another way (eg through separate presentation in performance)



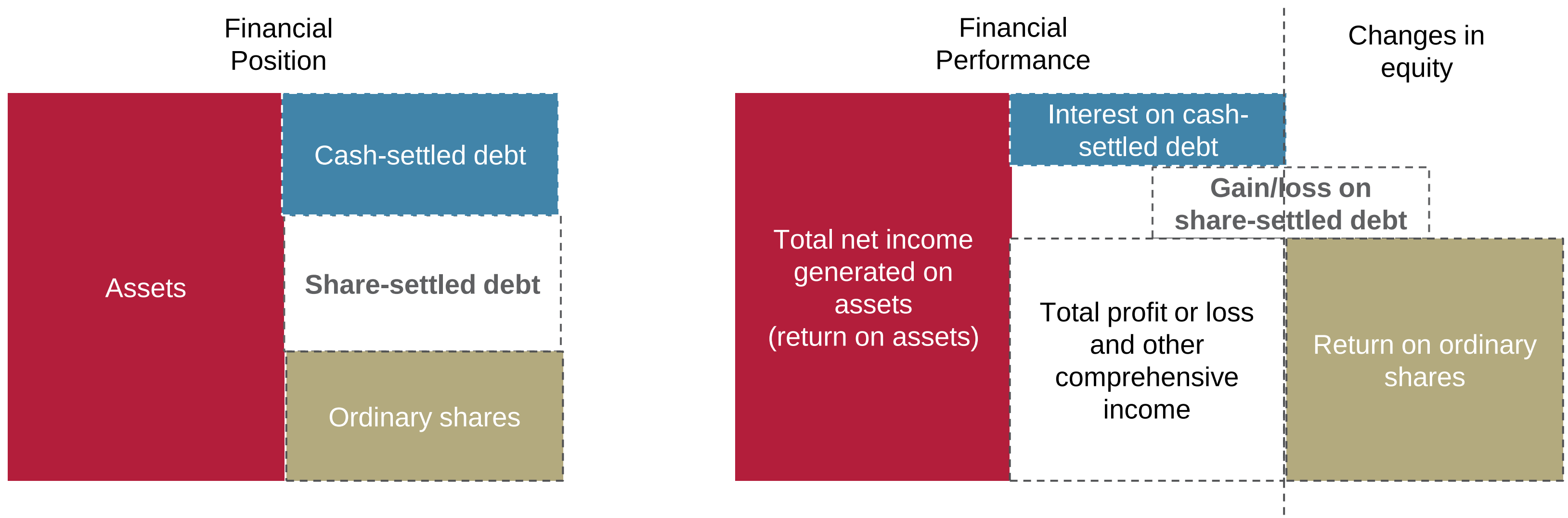
Case 3: Puttable shares (as equity)

- Depiction of puttable shares through indirect measurement and presentation separately from cash-settled debt provides a user with information about the similarity of returns with ordinary shares
- But how do we depict the similarity with cash-settled debt?
  - Information regarding the cash payment requirement will need to be provided another way (eg through direct measurement and either separate presentation within equity or some other prominent disclosure)



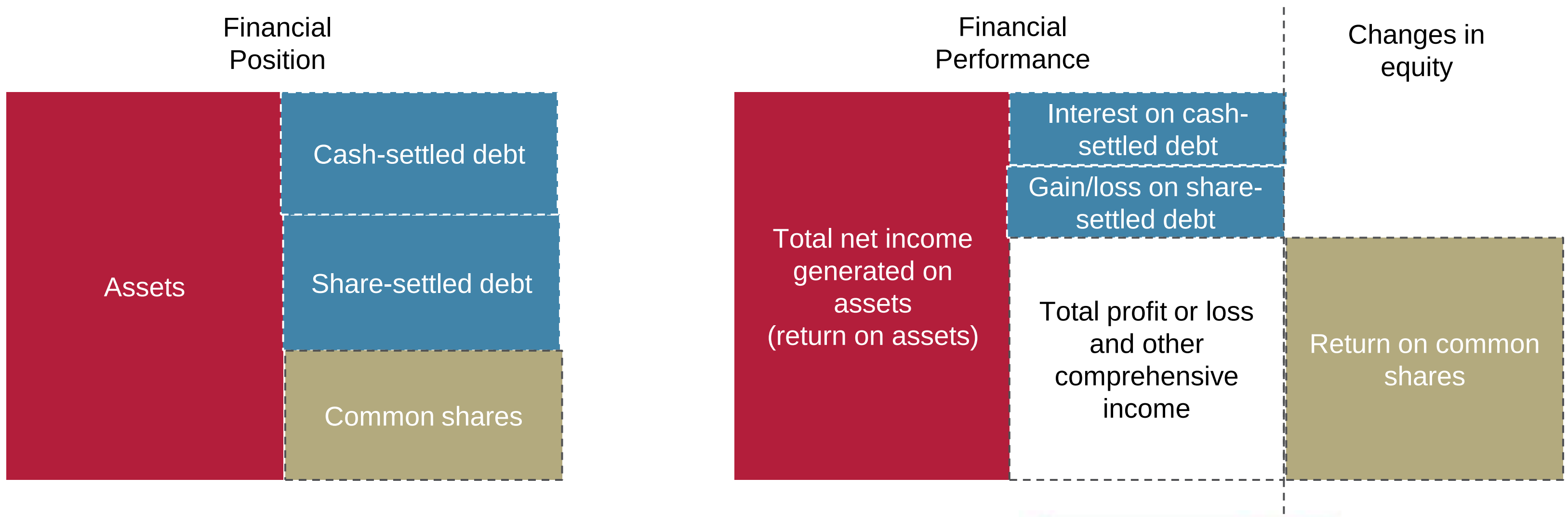
Case 4: Share-settled debt

- **Share-settled debt**: Obligations to deliver a variable number of common shares equal to the value of a fixed monetary amount (eg CU 100).
  - Value changes (hence returns) are similar to cash-settled debt
  - However, lack of any requirement to pay cash (or transfer any economic resources) is similar to ordinary shares
- Currently meet the definition of a liability under IAS 32 but not under the CF



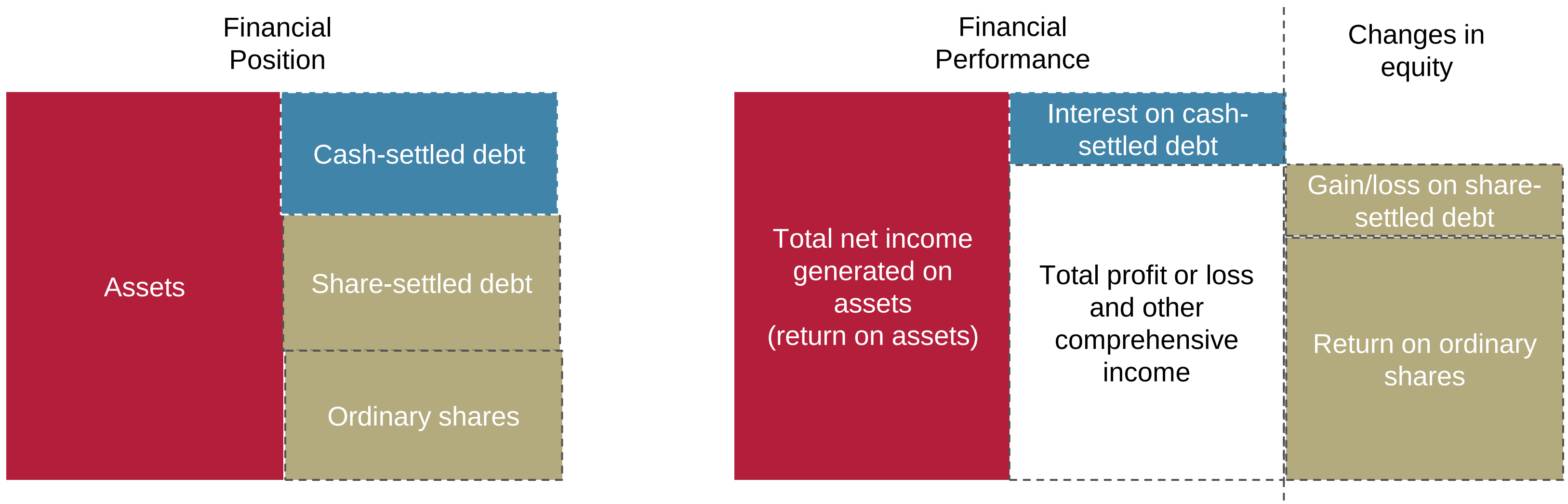
Case 4: Share-settled debt (as liability)

- Depiction of share-settled debt through direct measurement and presentation separately from ordinary shares provides a user with information about its similarity with cash-settled debt (ie returns based on a specified amount)
- But how do we depict the similarities with ordinary shares?
  – Information about the lack of cash payment requirement will need to be provided another way (for example through separate presentation on balance sheet)



Case 4: Share-settled debt (as equity)

- Depiction of share-settled debt through indirect measurement and presentation separately from cash-settled debt provides a user with information about the similarity with ordinary shares (ie the lack of cash requirement)
- But how do we depict the similarities with cash-settled debt?
  - Information about the returns as determined by the specified amount will need to be provided another way (for example through direct measurement and presentation separately from ordinary shares within the statement of changes in equity)



Thank you

Expressions of individual views by members of the IASB and its staff are encouraged.

The views expressed in this presentation are those of the presenter. Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.