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Financial Instruments with Characteristics of Equity

Cover Note

Objective

- 1 The purpose of this session is to approve the feedback statement of the comments received in response to EFRAG's draft comment letter to the IASB DP/2018/1 *Financial Instruments with Characteristics of Equity* ('the DP').

Background

- 2 The IASB published the DP on 28 June 2018. Comments was requested by 7 January 2019.
- 3 The changes proposed in the DP are focused on potential improvements to the classification, presentation and disclosure requirements of financial instruments within the scope of IAS 32 *Financial Instruments: Presentation*.
- 4 EFRAG published its draft comment letter on 28 August 2018, which was open for comments until 3 December 2019.
- 5 In its DCL, EFRAG welcomed the IASB's efforts to respond to the challenges that arise with IAS 32 and the fact that the IASB's had considered a number of EFRAG's past requests. However, EFRAG also expressed reservations over some of the proposals in the DP, particularly on the use of completely new terminology.
- 6 In general, EFRAG highlighted that a careful weighing of the potential benefits of a better articulation of the principles in IAS 32 against the potential risks of unnecessary disruption and unintended consequences was essential.

Comment letters received

- 7 EFRAG received twenty-nine comment letters from national standard setters, regulators, users' representatives, preparers and accounting and professional organisations.
- 8 The majority of the respondents acknowledged the challenges that arise with IAS 32 and appreciated the IASB's efforts to address these challenges and the existing diversity in practice by attempting to better articulate principles underlying the classification of claims between debt and equity.
- 9 These respondents acknowledged that there is room to improve IAS 32, particularly on disclosures about equity instruments and the accounting for complex instruments such as contingent convertible bonds.
- 10 However, there was less support for the IASB's preferred approach as described in the DP to address the challenges that currently arise in practice. Most concerns

were related to the lack of clarity of the new terminology, the use of the ‘amount feature’ that considers payments on liquidation and the cost-benefit trade-off of implementing new principles intended to result in (mostly) the same outcome.

- 11 There was more support for specific improvements to current requirements in IAS 32, particularly additional guidance for the classification of complex instruments and improvements to disclosure requirements on equity instruments. Some respondents highlighted that the DP already identified some solutions to the issues that arise in practice which could be a good basis for further discussions.

EFRAG’s final comment letter

- 12 EFRAG published its final comment letter on 1 February 2018. As respondents to EFRAG’s draft comment letter and participants in the outreach events had either disagreed with or expressed only limited support for the IASB’s preferred approach, EFRAG decided that the final comment letter should reject the IASB’s preferred approach for classification and suggest potential targeted improvements to IAS 32.

Questions for EFRAG TEG

- 13 Does EFRAG TEG approve the feedback statement of the comments received in response to EFRAG’s draft comment letter to ‘the DP’?

Agenda Papers

- 14 In addition to this cover note, agenda paper for this session is: Agenda paper 11-02 – Feedback to constituents – EFRAG Final Comment Letter.