MINISTERIO
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COMPETITIVIDAD

INSTITUTO DE CONTABILIDAD
Y AUDITORÍA DE CUENTAS

Draft Discussion Paper
Classification of claims
Comment Letters
European Financial Reporting Advisory Group
35 Square de Meeûs
Brussels B-1000
Belgium

Dear Sir/Madam,

In the present letter ICAC gives its view on EFRAG's Draft Discussion Paper about Classification of Claims in the same order as the DP.

Overall objectives

Q1 Do you believe EFRAG has appropriately identified the objectives to be used when assessing classification requirements? If not what other objectives do you think should be included or should any of the objectives be removed?

The current Framework indicates solvency, liquidity and entity's financial performance as the information required by the primary users of financial information. To obtain that, information about the resources of and claims against the entity and its changes that occur in both is needed. These changes are distinguished in the Framework as derived from the activity of the entity and arising from the issuance of debt or equity, indicating that the user of financial information must be able to distinguish between the various changes mentioned above, that is, the financial reporting must clearly distinguish the cause of the changes. (OB15)

The return to be reflected by financial information is related to the whole activity as it is said in OB16, so there is no reference about returns particularized for each instrument. Likewise, the OB4 refers to the activity of the entity as a source regarding the management's administrators required for users of financial information with voting rights.

Moreover, the OB 21 refers to the objective of showing the changes that result in resources of and claims against the entity resulting from actions other than financial performance, such as the issuing additional equity instruments.

Therefore, perhaps the objective of showing returns of a particular instrument may have to be covered by other standards such as earnings per share.

Classification choices

Q2 Do you believe EFRAG has appropriately identified the relevant choices that need to be made in determining classification

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requirements? If not, what other choices do you think need to be made and how do they fit with those that have been identified?

ICAC is on the view that all issues raised in EFRAG's paper are relevant and it should be possible to reach a reasonable solution with an appropriate analysis of them.

Elements

Q3 If you support classifying all claims as a single element (the claims approach)how do you think the accounting residual and unclaimed equity should be accounted for? How should financial performance be depicted?

ICAC does not support the "no split" or "claims" approach. We understand that the purpose of the document has been prepared by EFRAG is not to provide a solution, but the issues the debate should focus on. However, ICAC thinks that put on the table all types of approaches could prevent to focus on the most important aspects. Today, evaluating something different to the theory of the two elements is not very realistic.

Q4 Do you think it is possible to positively define equity such that more of the identified objectives are met? If so, how should it be defined?

The current criteria may be improved but we think that IAS 32 generally is right. In spite of equity can be defined as the "contributions of partners or owners and other elements" there is no doubt that what worries the users of financial reporting is to be able to identify undoubtedly liabilities that the company has taken.

Regarding to equity, maybe control approach and the nature of the claim should be explored further to link to settlement, liquidation of the company and allocation of losses.

Q5 Do you think it is possible to positively define liabilities such that more of the identified objectives are met? If so, how should it be defined?

We mostly agree with the definition of IAS 32, but we also think that some aspects should be analyzed in more detail. For example, it does not seem very realistic that instruments held by others than owners may be accounting for equity and at the same time its returns could be presenting in the statement of comprehensive income, as may be happening today. It should be analyzed in more detail the concept of "economic compulsion".

Q6 Do you think the inclusion of an additional element could assist in meeting some of the identified objectives? If so, what should that element be and how should it interact with the existing elements?

The approach presented by EFRAG is extremely complex. Accounting for hybrid instruments, as liability and equity, requires management's judgment. But it would not seem appropriate to give greater complexity to the standard. The

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principles that should support the recognition and measurement of these elements should be as follows:
i) In any case accounting for the liability component individually, and,
ii) Include in the notes all relevant information to enable users to understand the main characteristics of the instrument.

Dilution
Q7 How do you think dilution should be depicted? If more than one class of instruments were to be classified as equity how should the returns to the various classes be depicted?

We are of the view that this question should be further analyzed and it should be explained why the returns of a particular class of instruments need to be an objective of the classification of the elements.

Glossary
Q8 Do you agree with the proposed descriptions/definitions contained within the glossary? If not what changes would you suggest? Can you identify any additional descriptions/ definitions you believe would assist in developing a common understanding of the issues?

We generally agree with the proposal, but perhaps the distinction between claimed and unclaimed equity have little relevance in enterprises (corporations) and more in institutions as cooperatives or non-profit entities.

Any other issues
Q9 Do you have any other comments in relation to classification of claims?

A concern that has been identified in the several papers on this issue is the asymmetry in accounting for some transactions depending on whether they are under the scope of IAS 32 or IFRS 2.

In order to avoid this, it is proposed that acquisitions of goods or services (including personnel) in exchange for equity instruments must be accounted for liabilities. According to this view, any acquisition of an asset or service in exchange for the promise of future delivery of equity instruments (usually shares or stock options) should lead to the recognition of a liability, and only when it is settled by issuing and delivering of the relevant financial instruments (equity), liability turns into equity.

Please don't hesitate to contact us if you would like to clarify any point of this letter,

Yours sincerely,

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Chairman of ICAC

Madrid 31st october 2014

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