



# IAS 32 FINANCIAL INSTRUMENTS: PRESENTATION

## FACT SHEET

This fact sheet is based on existing requirements as at 31 December 2015 and it does not take into account recent standards and interpretations that have been issued but are not yet effective.

### **IMPORTANT NOTE**

**This fact sheet is based on the requirements of the International Financial Reporting Standards (IFRSs). In some jurisdictions, the IFRSs are adopted in their entirety; in other jurisdictions the individual IFRSs are amended. In some jurisdictions the requirements of a particular IFRS may not have been adopted. Consequently, users of the fact sheet in various jurisdictions should ascertain for themselves the relevance of the fact sheet to their particular jurisdiction. The application date included below is the effective date of the initial version of the standard.**

## IASB APPLICATION DATE (NON-JURISDICTION SPECIFIC)

IAS 32 is applicable for annual reporting periods commencing on or after 1 January 2005.

## OBJECTIVE

IAS 32 *Financial instruments: Presentation* establishes the principles for presenting financial instruments, from the perspective of the issuer, as liabilities or equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains; and the circumstances in which financial assets and financial liabilities can be offset.

The principles in this standard complement the principles for recognising and measuring financial assets and financial liabilities in IAS 39 *Financial Instruments: Recognition and Measurement* (or if applicable, IFRS 9 *Financial Instruments*), and for disclosing information about them in IFRS 7 *Financial Instruments: Disclosure*.

## SCOPE

IAS 32 applies to all financial instruments, both recognised and unrecognised except for:

- interests in subsidiaries, associates, and joint ventures accounted for under IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements*, IAS 28 *Investments in Associates and Joint Ventures* unless these standards require IAS 39 to be applied.
- employers' rights and obligations under employee benefit plans subject to IAS 19 *Employee Benefits*.
- insurance contracts as defined in IFRS 4 *Insurance Contracts*.
- financial instruments that are within the scope of IFRS 4 because they contain a discretionary participation feature.
- the acquirers' contracts for contingent consideration in a business combination.
- financial instruments, contracts and obligations under share-based payment transactions to which IFRS 2 *Share-based Payment* applies.

Furthermore, the standard applies to contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, except for contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements.

## PRESENTATION

The issuer of a financial instrument classifies the instrument or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument.

The instrument is classified as an equity instrument if, and only if, both conditions (a) and (b) below are met.

- a. The instrument includes no contractual obligation:
  - i. to deliver cash or another financial asset to another entity; or
  - ii. to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.
- b. If the instrument will or may be settled in the issuer's own equity instruments, it is:
  - i. a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or
  - ii. a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

### Puttable instruments

As an exception to the definition of a financial liability, an instrument that includes a contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset on exercise of the put, is classified as an equity instrument if it has **all** the following features:

- a. entitles the holder to a pro rata share of the entity's net assets in the event of the entity's liquidation;
- b. the instrument is in the class of instruments that is subordinate to all other classes of instruments;
- c. all financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features;
- d. apart from the contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity, and it is not a contract that will or may be settled in the entity's own equity instrument as set out in paragraph (b) of the definition of a financial liability;

- e. the total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the entity over the life of the instrument (excluding any effects of the instrument).

#### **Classification of Compound Financial Instruments**

The issuer of a non-derivative financial instrument shall evaluate the terms of the financial instruments to determine whether it contains both a liability and an equity component. Such components shall be classified separately as financial liabilities, financial assets or equity instruments.

An entity recognises separately the components of a financial instrument that:

- a. creates a financial liability of the entity; and
- b. grants an option to the holder of the instrument to convert it into an equity instrument of the entity.

#### **Treasury shares**

If an entity reacquires its own equity instruments, those instruments (treasury shares) shall be deducted from equity.

No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of an entity's own equity instruments. Consideration paid or received shall be recognised directly in equity.

#### **Interest, dividends, losses and gains**

Interest, dividends, losses and gains related to a financial instrument that is a financial liability are recognised as income or expense in the profit or loss.

Distributions to holders of an equity instrument shall be recognised by the entity directly in equity.

Transaction costs relating to an equity transaction shall be accounted for as a deduction from equity, net of any related income tax benefit.

The classification of a financial instrument as a financial liability or an equity instrument determines whether interest, dividends, losses and gains relating to that instrument are recognised as income or expense in profit or loss. For example, dividend payments on shares wholly recognised as liabilities are recognised as expenses in the same way as interest on a bond.

#### **Offsetting a Financial Asset and a Financial Liability**

A financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when the entity:

- has a current legally enforceable right to set off the recognised amounts, and
- intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity shall not offset the transferred asset and the associated liability (see IAS 39, paragraph 36).

## DISCLOSURES

The disclosures requirements of financial instruments are covered under IFRS 7.

## DEFINITIONS

<b>Equity instruments</b>	Any contracts that evidence a residual interest in the assets of an entity after deducting all of its liabilities.
<b>Financial assets</b>	Any assets that are: <ul style="list-style-type: none"> <li>• cash;</li> <li>• equity instruments of another entity;</li> <li>• contractual rights to receive cash or another financial asset from another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or</li> <li>• contracts that will or may be settled in the entity's own equity instruments and are: <ul style="list-style-type: none"> <li>– non-derivatives for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or</li> <li>– derivatives that will or may be settled other than by the exchange of a fixed amount of cash or other financial assets for a fixed number of the entity's own equity instruments.</li> </ul> </li> </ul>
<b>Financial instruments</b>	Any contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
<b>Financial liabilities</b>	<ul style="list-style-type: none"> <li>• Contractual obligations to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or</li> <li>• Contracts that will or may be settled in the entity's own equity instruments and are: <ul style="list-style-type: none"> <li>– non-derivatives for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or</li> <li>– derivatives that will or may be settled other than by the exchange of a fixed amount of cash or other financial assets for a fixed number of the entity's own equity instruments.</li> </ul> </li> </ul>
<b>Puttable instrument</b>	A financial instrument that gives the holder the right to put the instrument back to the issuer for cash or another financial asset or is automatically put back to the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder.

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## RELATED INTERPRETATION

- IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments*
- IFRIC 12 *Service Concession Arrangements*

IFRIC 12 is relatively more significant than IFRIC 2.

IFRIC 12 provides guidance on the accounting by operators for public-to-private service concession arrangements.

A service concession arrangement is an arrangement whereby a government or other public sector body contracts with a private operator to develop (or upgrade), operate and maintain the grantor's infrastructure assets (such as roads, bridges, tunnels, airports, energy distribution networks, prisons or hospitals). The grantor controls or regulates what services the operator must provide using the assets, to whom, and at what price, and also controls any significant residual interest in the assets at the end of the term of the arrangement.

The issues addressed in IFRIC 12 are:

- treatment of the operator's rights over the infrastructure;
- recognition and measurement of arrangement consideration;
- construction or upgrade services;
- operation services;
- borrowing costs;
- subsequent accounting treatment of a financial asset and an intangible asset; and
- items provided to the operator by the grantor.

Given that the infrastructure is controlled by the grantor, the operator does not recognise the infrastructure as its property, plant and equipment; nor does the operator recognise a finance lease receivable for leasing the infrastructure to the grantor, regardless of the extent to which the operator bears the risk and rewards incidental to ownership of the assets. The operator recognises a financial asset to the extent that it has an unconditional contractual right to receive cash irrespective of the usage of the infrastructure. The operator recognises an intangible asset to the extent that it receives a right to charge users.

# AUSTRALIAN SPECIFIC REQUIREMENTS

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The Australian equivalent standard is AASB 132 *Financial Instruments: Presentation*.

## OTHER MATTERS

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