pwc

IFRS news

In This Issue

1. Article 50 triggers uncertainty in income taxes
3. Demystifying IFRS 9—ECL model 2
4. Leases lab—IFRS 16
5. Demystifying IFRS 9 for Corporates
7. The IFRS 15 Mole
8. Cannon Street Press
   - Primary Financial Statement
   - Conceptual Framework for Financial Reporting
   - FICE
9. Bit at the Back
10. IFRIC Rejections Supplement- IAS 32

For more information or to subscribe, contact us at corporatereporting@uk.pwc.com or register online.

Article 50 triggers uncertainty in income tax accounting

John Chan, IAS 12 specialist, explains the deferred tax implications of article 50.

The UK Government gave on 30 March formal notice of its intention to leave the EU. This notice has triggered the process of negotiating the UK's exit, which is likely to last at least two years.

There are various tax reliefs and exemptions applicable to transactions between UK entities and entities in other EU member states that under existing tax laws might cease to apply when the UK's exit finally occurs. The tax legislation, if any, which will replace those reliefs and exemptions is unknown at this stage.

How will it impact accounting for income tax?

IAS 12 does not explicitly address income tax uncertainties. It requires entities to measure income tax, including uncertainties, at the amount expected to be paid using the tax laws that have been enacted or substantively enacted by the end of the reporting period.

The standard appears to envisage a process in which national parliaments consider and enact tax laws. However, Brexit is different because the UK's withdrawal notice occurred before it is known which revised arrangements might be enacted in the future. The notice of withdrawal is the commencement and not the culmination of a legal process. There is substantial uncertainty about what will happen to UK and European tax laws over the next two years.

Entities might therefore conclude that the UK giving notice of its intention to withdraw substantively enacts the UK's withdrawal from the EU. However, the effects of the withdrawal on tax legislation will depend on the 'withdrawal agreement' (if any) that might contain tax reliefs similar to or different from those currently available. This is in itself a tax uncertainty.

Entities should assess the potential tax consequences of the withdrawal agreement. It is likely that during the negotiation process, entities might become aware of potential exposures, but the outcome will be insufficiently clear to determine whether additional tax liabilities

are expected to arise or to make a meaningful estimate of the amounts involved. Good quality disclosure of the uncertainty and the potential exposures should be given in these circumstances.

Management should re-assess at each reporting date the potential tax impact of the withdrawal agreement and the amount, if any, expected to be paid. If management expects there will be an additional tax liability as a result of the development of the negotiations, that liability should be estimated on the basis of the amount expected to be paid.

Alternatively, entities might conclude that any reliefs available while the UK is a member of the EU would fall away in two years and reflect the consequences of this conclusion in their income tax accounting, even though those reliefs might be replaced by legislation yet to be enacted. This approach is likely to cause increased volatility in income tax accounting that could make the financial statements more difficult to understand.

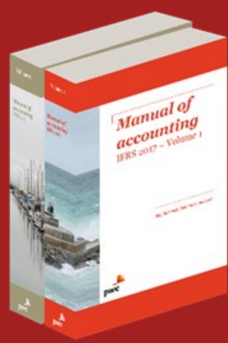
Some have argued that the UK's notice of intention to leave the EU could be revoked, but this has not been tested in court. Entities should therefore assume that withdrawal will happen. The UK's withdrawal from the EU is likely to have tax consequences for businesses in the UK and in the EU, and for other entities that have operations or corporate structures in the UK and in other EU member states. These consequences are uncertain. Management should consider the potential tax uncertainties and make the disclosures necessary to explain the uncertainty and the potential exposures.

Entities with period ends before the date of notice of withdrawal should disclose the potential implications for income tax accounting in accordance with IAS 10.

Management should also consider any potential changes to tax laws as a result of the withdrawal and the negotiation between the UK and other EU members when they consider the tax implications of any future transactions.

See In depth, 'Brexit: Accounting implications of UK's Brexit decision', for more accounting consequences of Brexit.

Manual of Accounting - IFRS 2017 (two-set volume)



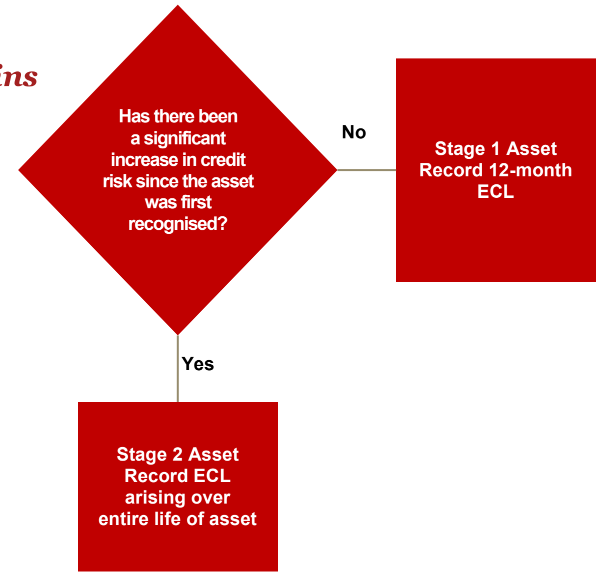
The new edition of the Manual of Accounting - IFRS is available to buy now. It includes our collected practical insights on the application of International Financial Reporting Standards, the financial reporting language of the global capital markets.

Available to buy on pwc.com/IFRS

Demystifying IFRS 9
IFRS 9 expected credit loss model 2

Emma Edelshain, Financial Instruments Director, explains more on expected credit losses in IFRS 9

Expected credit loss (ECL) is an accounting buzz word. Do you understand what it means and how to calculate it? IFRS 9 requires a minimum of 12 months ECL to be recorded and if there is a significant increase in credit risk, entities must recognise lifetime ECL. This article explains 12 month ECLs, the length of a lifetime and how credit enhancements are considered in the calculation of ECL.



What is a 12 month ECL?

A 12-month ECL is the ECL that results from possible defaults within 12 months after the reporting date. The ECL takes into account the entire credit loss on an asset, weighted by the probability that the loss will occur in the next 12 months.

A financial instrument that has defaulted may recover and then re-default. If the subsequent default is related to the initial default, then it is considered the same event and should be considered for the ECL calculation.

What is the 'life' over which to measure a lifetime ECL?

IFRS 9 defines lifetime ECL as the maximum contractual period over which the lender is exposed to credit risk. The lifetime is therefore the contractual term or less. The following factors influence a lender's exposure to credit risk:

- ***Whether the lender has any termination rights***:
  For example, a mortgage has a maximum life of 20 years but the bank has the right to terminate the mortgage every 6 months. The period used to measure the ECL is 6 months if the bank's right is substantive. However, if local regulations exist which mean that in practice the bank cannot terminate the loan as the bank is prevented from evicting the borrower, the bank's right is not substantive and the ECL is measured over the maximum life of 20 years.

- ***Whether the borrower has a prepayment option:***
  For example, mortgages often have a contractual life of 20 to 30 years but it is expected that in practice, most borrowers will prepay before then. The life will need to factor in the prepayment option and the expectations of when it will be exercised. This is commonly done by splitting a group of mortgages into cohorts with expected prepayment dates at different times.

How do you take credit enhancements into consideration?

Cash inflows must be taken into account when calculating the cash shortfall for the ECL calculation. Cash inflows would include collateral, financial guarantees and other credit enhancements, as long as they are an integral part of the contract and are not already accounted for.

The term 'an integral part of the contract' should be interpreted widely, that is, it does not just relate to items that are explicitly referenced in a contract but also items that are foreseen in local regulations and/or legislation. It does not include credit enhancements that are acquired after the origination of the contract. These should be regarded as a separate contract and be accounted for separately.

This is mostly a presentation issue in practice. If the credit enhancement is not considered part of the ECL calculation, it would be considered as a separate financial asset. From an income statement perspective, the impact will be neutral but it would be presented gross on the balance sheet.

What's next?

This is our last column on demystifying IFRS 9 for banks. In the next issue we will shine a light on how IFRS 9 impacts corporates.

The Leases Lab

IFRS 16 contains new guidance on separating lease components from other lease components to be considered by both lessees and lessors. Can Professor Lee Singh and his assistant Derek Carmichael help you separate the truth from the fiction? Let's experiment!

Hypothesis

All elements contained within a lease agreement relate to the lease and so are within the scope of IFRS 16. There is no need to worry about applying other standards.

Testing and analysis

Contracts often combine different types of obligations for suppliers. These might be a combination of lease components, or of lease and non-lease components.

IFRS 16 requires each separate lease component to be identified and accounted for separately.

Interaction with IFRS 15

> The right to use an asset is a separate lease component from other lease components if two criteria are met:
>
> 1. The lessee can **benefit from the use of the asset** either on its own or together with other readily-available resources.
> 2. The underlying asset **must not be highly dependent on** or **highly interrelated with** other underlying assets in the contract.

The criteria are similar to those in IFRS 15 Revenue from contracts with customers for analysing whether goods or services provided to customers are distinct.

For multiple-element arrangements that contain a lease, lessors must perform an assessment to identify whether there are multiple lease components using the IFRS 16 guidance.

Any non-lease components are assessed under IFRS 15 for separate performance obligations.

Allocation of consideration

When the identification of components has been completed, the consideration within the contract must then be allocated.

IFRS 16 provides guidance for both lessees and lessors.

> Lessees allocate consideration based on:
>
> - the relative stand-alone price of each lease component; and
> - the aggregate stand-alone price of the non-lease components.
>
> The prices are determined based on the price a lessor or similar supplier would charge for that component separately. If observable prices are not readily available, a lessee should estimate the price maximising the use of observable information.
>
> ———————————————————————
>
> Lessors allocate consideration in accordance with IFRS 15, on the basis of stand-alone selling prices.

Subsequent measurement

Lease components are accounted for in accordance with IFRS 16.

Non-lease components are accounted for by applying other relevant standards. For example, a lessor would account for non-lease service components using IFRS 15.

Practical expedient

Lessees are allowed not to separate lease and non-lease components and instead account for both as a single lease component. This policy choice needs to be made by class of underlying asset.

IFRS 16 does not provide a practical expedient for lessors.

Practical application

If components are not separated, a lessee will recognise a higher lease liability and so it's likely this expedient will be used only where service components are not significant.

In practice, this means that lessees will need to consider the application of other standards.

Conclusion

IFRS 16 requires a lessee to account for each lease component in a contract separately from non-lease components, unless the lessee applies the practical expedient to account for lease and non-lease components as one lease.

For more on separation of components, see our In depth, IFRS 16 – A new era of lease accounting. You might also find our video series helpful.

Nitassha Somai, Financial instruments expert takes us through the first in the series of demystifying IFRS 9 for corporates

Scene 1, Take 1: Demystifying IFRS 9 for Corporates

LIGHTS, CAMERA, ACTION

Dear Corporate,

If you think that IFRS 9, the new financial instruments standard, will have no significant impact on your business, you may well be wrong. IFRS 9's effective date is 1 January 2018 so the timeline to get ready is reducing quickly.

Welcome to our new series: Demystifying IFRS 9 for Corporates. This series will provide a snapshot of the areas that are most likely to impact your business. Our first episode will starting with an overview of the biggest impacts.

Hedge accounting

IFRS 9 aligns hedge accounting requirements with how an entity manages risk changing existing requirements.

Top 3 welcome changes:

01 *Removal of 80%-125% effectiveness test.*

An effectiveness test is still required under IFRS 9, but it is more aligned with risk management.

02 *You can hedge components of non-financial assets.*

For example an airline hedging future jet fuel purchases with a derivative on crude oil may likely be able to qualify for hedge accounting, subject to meeting specific criteria.

03 *Options and forwards*

Hedging with options and forwards might be more attractive because the new standard generally results in less volatility in profit or loss.

Things to watch out for:

- Some of the new rules are complex to apply such as measuring ineffectiveness when hedging with options.
- All hedge documentation needs to be updated, even for existing qualifying hedge relationships.
- System changes are likely.

Classification and measurement

There are new rules for how financial instruments are measured. here are three possible outcomes: amortised cost, fair value with changes in profit and loss or fair value with changes in OCI. Different rules apply to financial asset debt investments (for example, trade receivables, holdings of debt securities and intercompany loans), financial asset equity investments (strategic investment in shares) and financial liabilities (bank borrowings and issued debt securities).

Practically the impact is expected to be limited. The top three look-outs are:

- **Factoring of receivables** - Could result in some receivables being measured at fair value.
- **Holding shares in other companies** –measured at fair value, even if the shares are unquoted and difficult to value.
- **Renegotiated borrowings** – gains or loss must be recognised in P/L at the time of renegotiation.

Impairment

Impairment is one of the biggest changes brought in by IFRS 9. It introduces a forward-looking expected loss model which is expected to result in larger and more volatile provisions.

This is a complex area. Impairment must be based on forward-looking information as well as past experience and current expectations. We expect this will require most companies to collect information they do not currently have.

Impairment is a big issue for corporates because:

- **Provisions will be bigger and more volatile** - Particularly on long term trade receivables and intercompany loans.
- **'Double hit' to P/L** – The combined effect of IFRS 9 and the new revenue standard (IFRS 15) will result in a 'double hit' to P/L from both discounting long term receivables under IFRS 15 then booking the day 1 impairment loss under IFRS 9.
- **Simpler may not be best** – A simplified approach is permitted on certain trade and lease receivables. This may, however, result in more volatility in P/L in comparison to the more complex model. The benefit of a simpler calculation, with more volatility in P/L should be weighed against a complex model but with less volatility.

Conclusion

Actions from Scene 1, take 1:

IFRS 9 affects corporates.

The impact can be big and is not broader than accounting. Systems might need to be updated.

Implementation is fast approaching so it's time to act now.

CUT!!!

Our full range of IFRS 9 content and videos can be found on PwC Inform here

The IFRS 15 Mole

PwC revenue specialists and the IFRS 15 Mole investigate how to identify a principal or an agent in a revenue transaction

Suspects

Accounting as principal or as agent.

Incident description

There are many arrangements in which two or more unrelated parties are involved in providing a specified good or service to a customer. IFRS 15 requires an entity to determine whether;

- it has promised to provide a specified good or service itself and is therefore the principal; or
- to arrange for those specified goods or services to be provided by another party, and is therefore the agent.

This determination affects how much revenue is recognised. The principal recognises the transaction price of the item and the agent recognises only its commission.

An entity is the principal in a transaction if it obtains control of the specified goods or services before they are transferred to the customer. When it is not immediately obvious that an entity has obtained control, there is a framework and a list of indicators in the standard to help with the assessment. As with all IFRS 15 analysis, first identify the nature of the promise to the customer and which party;

- has the primary responsibility in delivering goods or services;
- bears the inventory risk; and
- chooses the pricing;

Facts

Case 1 - Travel agent with non-refundable discounted flight tickets

A travel agent purchases non-refundable discounted flight tickets from an airline. The travel agent determines the price at which it sells the tickets and might also provide assistance to travellers to resolve any complaints (for example timing of flights, problems with the booking).

First, the travel agent needs to identify the promises to its customer. The travel agent has purchased the tickets in advance and therefore controls the right to fly before transferring that right to its customer. The promised good or service is therefore the right to fly.

The travel agent might then also consider the three indicators:

- The airline is responsible for delivering the flight itself as the agent will not fly the plane, however, the travel agent has primary responsibility for transferring the 'right' to fly to the customer.
- The travel agent purchases the flight tickets in advance, without any commitment from its customers, and the tickets are non-refundable. Therefore, the travel agent is taking inventory risk in the tickets.
- The travel agent sets the price at which the tickets are transferred to its customers.

In this case, the travel agent is the principal and revenue would be the price of the ticket.

Case 2 - Travel agent is instructed to book a specified flight

The customer has a travel plan and instructs the agent to book a flight for a specified price. The travel agent's promise is therefore to facilitate the purchase of a ticket and it does not at any time have the ability to direct the use of the ticket or obtain substantially all of the remaining benefits from the ticket before transferring to customer. Looking at the indicators;

The travel agent does not deliver a right to fly or any other good or service beyond managing the process of getting the ticket to the customer;

- The travel agent does not take the risk of holding tickets;
- The travel agent does not determine the price of the ticket.
- In this case, the travel agent is an agent, the airline is the principal and revenue would be the commission earned by the travel agent.

Recommendations

When looking to see if an entity is acting as agent or principal, first identify the specified goods or services to be provided to the customer and then consider whether the entity obtains control of that good or service before it is delivered to the customer. Consider the three indicators when it is not clear whether the entity obtains control. It is possible that an entity could be principal for some specified goods or services and an agent for others in a contract. Also, remember that IFRS 15 does not include the form of consideration and credit risk indicators which were included in IAS 18.

Further investigations

Further investigation is required to determine the timing of revenue recognition. For example, an agent might satisfy its performance obligation (facilitating the transfer of specified goods or services) before the end customer receives the specified good or service from the principal.

Cannon Street Press

Editors choice

With regulators excited about alternative performance measures, the editor's choice for this month is the Board's Primary Financial Statement Project.

The Board agreed that the staff should continue to explore the presentation of an earnings before interest and tax (EBIT) subtotal and a management operating performance measure in the statement of financial performance.

The Board tentatively decided to:

- develop principles for aggregation and disaggregation in the financial statements;
- define and develop guidance for applying the notions of 'classification', 'aggregation' and 'disaggregation; and
- explore providing more guidance on aggregation characteristics.

Other Highlights

Research Projects

The *Conceptual Framework for Financial Reporting*

The Board considered circumstances when amending IAS 8 and other standards to refer to the Conceptual Framework.

The Board tentatively decided that the amendment should not apply when entities develop accounting policies for regulatory account balances or rate regulated activities. Instead, entities in such cases should continue to refer to the *Framework for the Preparation of the Financial Statements.*

The Board instructed the staff to begin drafting and balloting of the *Conceptual Framework for Financial Reporting* and *References to the Conceptual Framework*.

Financial Instruments with Characteristics of Equity

The Board discussed the application of the Gamma approach to the classification of derivatives on non-controlling interests with an exercise price denominated in a foreign currency and agreed that:

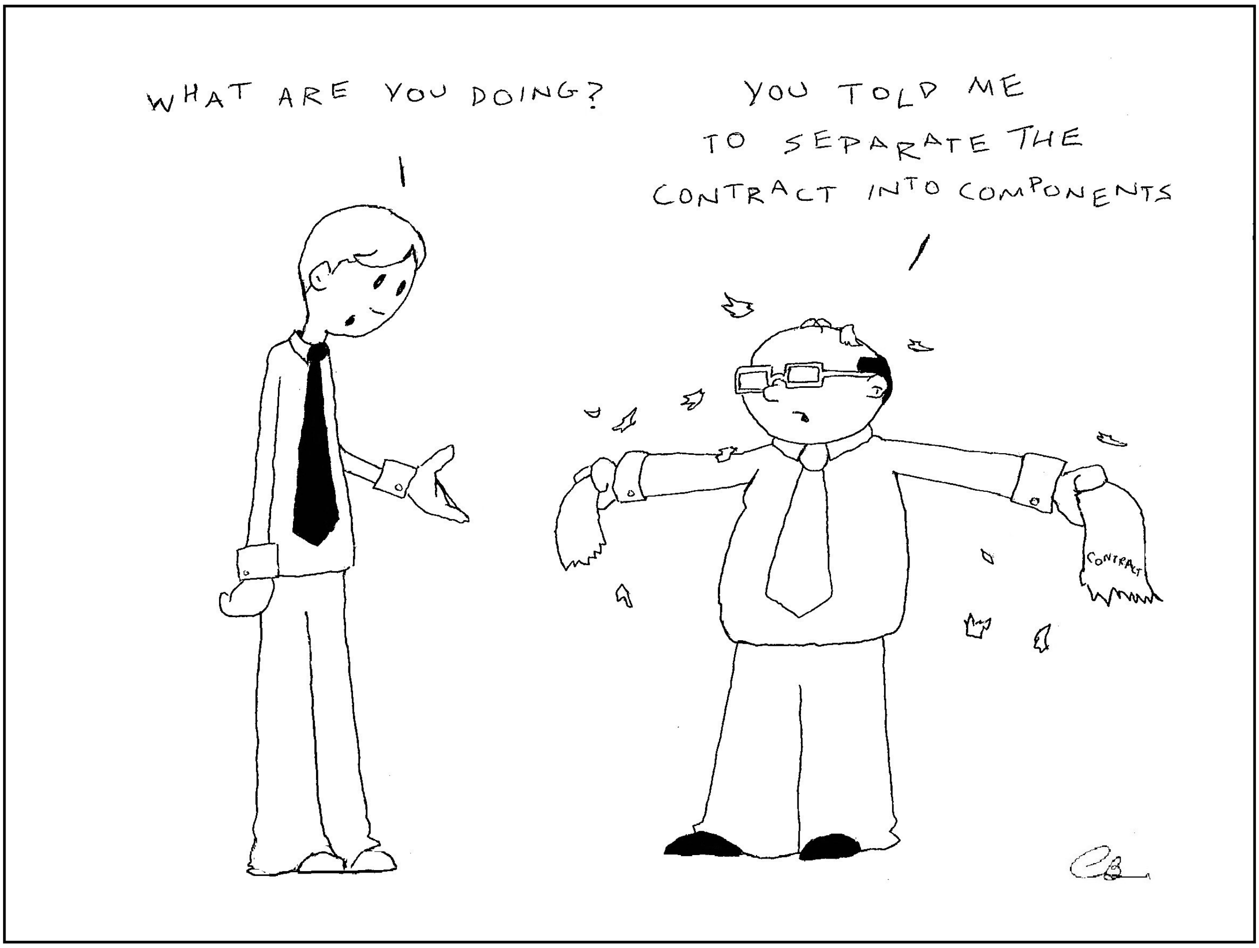
(a) the classification as equity or debt would not change on consolidation where an entity issues a derivative on its own equity and in its own functional currency, even if the consolidated financial statements of its parent are presented using another currency, which might be the same as the parent's functional currency; and;

(b) the functional currency of the entity whose equity instruments form the underlying of the derivative should be the reference point in determining whether the derivative is denominated in a foreign currency, when an entity issues a derivative on the equity instruments of another entity.

The Board instructed the staff to begin drafting and balloting the Discussion Paper, which is expected to be published towards the end of 2017.

These are the editor's top picks from the February Board meeting. For a comprehensive list of all discussions visit the IASB website: www.IFRS.org

The bit at the back ...



For further help on IFRS technical issues, contact:

Andri Stavrou: Tel: +30 210 687 4703
andri.stavrou@gr.pwc.com

Financial instruments
Kyriaki Plastira: Tel: +30 210 687 4425
kyriaki.plastira@gr.pwc.com

Liabilities, revenue recognition and other areas
Vart Kassapis: Tel: +30 210 687 4757
vart.kassapis@gr.pwc.com

Business combinations

Iliana Kostoula: Tel: +30 210 687 4044
iliana.kostoula@gr.pwc.com

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers LLP, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2017 PricewaterhouseCoopers LLP. All rights reserved. In this document, "PwC" refers to the UK member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

161110-205338-RP-OS

IFRIC Rejections Supplement- IAS 32

Helen Wise of Accounting Consulting Services examines the practical implications of IC rejections related to IAS 32.

Looking for an answer? Maybe it was already addressed by the experts

The Interpretations Committee (IC) regularly considers anywhere up to 20 issues at its periodic meetings. A very small percentage of the issues discussed result in an interpretation. Many issues are rejected; some go on to become an improvement or a narrow scope amendment. The issues that are not taken on to the agenda end up as 'IFRIC rejections', known in the accounting trade as 'not an IFRIC' or NIFRICs. The NIFRICs are codified (since 2002) and included in the 'green book' of standards published by the IASB although they technically have no standing in the authoritative literature. This series covers what you need to know about issues that have been 'rejected' by the IC. We go standard by standard and continue with IAS 32 as per below.

IAS 32 – Financial Instruments: Presentation (IAS 32) is one of the most complex standards and has been the subject of much debate at the Interpretations Committee (IC). This month we have devoted an entire supplement to IAS 32 NFRICS.

The standard sets out how to classify a financial instrument issued by an entity as an equity instrument or a financial liability. If the instrument is classified as an equity instrument on initial recognition, no subsequent re-measurement is required. If the financial instrument is classified as a financial liability, IAS 39 -Financial Instrument: Recognition and Measurement (IAS 39) would need to be applied.

The International Accounting Standards Board (IASB) has acknowledged the complexity of IAS 32 and undertaken the Financial Instruments with Characteristics of Equity (FICE) project, with a discussion paper expected in 2017.

IAS 32 covers a number of areas other than classification of financial instruments issued as liabilities or equity. However, this article only considers NIFRICs related to this classification question. Some of the key areas covered by the IC rejections are:

Contractual versus economic compulsion

IAS 32 requires an entity to consider the 'substance of the contractual terms'. The IC discussions in November 2006, September 2013 and January 2014 clarified this principle. A liability is established through contractual obligations, not merely by past practice or an expectation that a payment will be made. For example, there may be a high probability that a discretionary dividend will be paid. However, if there is no enforceable contractual obligation to pay dividends, this 'economic compulsion' should be ignored for classification.

The contractual terms and conditions, in some cases, establish an indirect obligation. The instrument is a financial liability if the entity can only avoid settling in cash by settling a non-financial obligation. For example, if it is to avoid paying cash, the entity would have to deliver a building as settlement. Obligations established from local law or statute are not financial liabilities: careful consideration is needed when such requirements are included in the contract.

An IC rejection in January 2014 clarified that settlement features that are not substantive are not considered when classifying a financial instrument.

Fixed for fixed

IAS 32 has guidance for contracts that are settled in the entity's own shares. A contract that will be settled by the entity issuing a fixed number of shares to settle an obligation for a fixed amount of cash or another financial asset is generally classified as equity ('fixed for fixed'.)

The IC has received a number of requests to develop more guidance on the fixed for fixed requirement.

The first request was for financial instruments where the number of shares is fixed but the liability is denominated in a foreign currency (June/September 2005).

The IC noted such instruments fail the fixed for fixed requirement due to variability from the foreign exchange exposure.

A subsequent question was raised when a subsidiary issues a convertible bond, which is settled in a fixed amount of the parent's shares. The parent's functional currency differs from that of the subsidiary. The question raised was whose functional currency should be looked to when determining if the fixed for fixed requirement is met. The IC did not provide guidance on this issue.

The IASB subsequently issued an amendment that allows equity classification under very specific conditions if there is variability from foreign exchange. This results in many rights issues in a foreign currency being classified as equity transactions.

In January 2010, the IC was asked to clarify what fixed for fixed means in convertible instruments. Often convertible bonds provide for the conversion price to be adjusted on the occurrence of certain events, such as stock splits, dividend payments or where shares are issued below market. Such features cause variability and therefore the fixed for fixed requirement may no longer be met. Again, the IC acknowledged that there is diversity in practice but did not provide guidance on the grounds that the FICE project would deal with these types of issues.

Practice has developed because of this decision. Not all forms or variability would result in the failure of the fixed for fixed requirement, in particular where the adjustment maintains relative rights of shareholders and convertible bondholders.

There were also other requests (September 2013, January 2014 and May 2014) made to the IC for additional guidance when liabilities are settled in shares. The IC did not provide additional guidance and deferred these issues to the FICE project.

Determining what constitutes 'fixed for fixed' continues to be the most challenging area in IAS 32.

Written puts on non-controlling interest (NCI)

IAS 32 has onerous requirements when an entity has an obligation to purchase its own shares. A financial liability is recognised for the present value of the redemption amount (that is, the full purchase price of the shares). In November 2006, the IC was asked whether such guidance applies on consolidation, in which a NCI may require the parent to purchase their interest in the subsidiary by way of either a written option or forward contract. The IC discussed this issue several times and concluded such contracts should be accounted for as financial liabilities, even if the payment is conditional on an option being exercised by the NCI. The financial liability should be measured at the present value of the redemption amount (being the strike price of the written option or forward contract).

This IC decision and the draft interpretation that followed in May 2012 proved to be controversial. The draft interpretation has not been finalised: instead, the Board will address NCI puts as part of the FICE project.

In May 2016, another question was raised where the NCI put will, or may (at the parent's option) be settled by the delivery of a variable number of the parent's own shares. The IC did not provide any guidance and instead referred the issue to the FICE project.

Summary

IAS 32 is a complex standard to apply. This is evident in the number of requests to the IC. The IC has referred many recent issues to the FICE project, which is currently under discussion by the IASB. A discussion paper is expected later this year, however, the development of an exposure draft and final standard are still a long way off. Until then, the areas of divergence and complexity in IAS 32 will remain.

Summary of IAS 32 rejections on classification

Topic	Summary conclusion
Classification of non-redeemable preference shares (May 2004)	This issue was whether a "vanilla" non-redeemable share should be classified as equity or liability. The IC decided that there was sufficient guidance.
Classification of contracts settled in own equity denominated in a foreign currency (June/September 2005)	The IC discussed whether contracts that will be settled by an entity delivering a fixed number of its own equity in exchange for a fixed amount of a foreign currency is a financial liability or equity instrument. The IC concluded such contracts are financial liabilities.
Foreign currency instruments exchangeable into equity instruments of the parent entity of the issuer (November 2006)	Subsequent to the above decision, guidance was requested for situations where a subsidiary issues an instrument, which is settled by the exchange of a fixed number of parent's equity instruments for a fixed amount of the functional currency of the parent. The question was whether equity classification is possible in the consolidated financial statements. The IC considered if the assessment performed should be that of i) the functional currency of the subsidiary or 2) the functional currency of the parent on. The IC noted that a group does not have a functional currency. The IC believed that the question was sufficiently narrow and not expected to have widespread relevance in practice, so the matter was not taken onto the agenda.
Changes in the contractual terms of an existing equity instrument resulting in it being reclassified to financial liability (November 2006)	The IC considered a situation in which an amendment to the contractual terms of an equity instrument resulted in the instrument being classified as a financial liability. The IC noted that at the time when the contractual terms were changed, a financial liability should be recognised. The financial liability is measured on its initial recognition at its fair value in accordance with paragraph 43 of IAS 39.
Classification of a financial instrument as liability or equity (November 2006)	The IC confirmed that a contractual obligation could be established explicitly or indirectly, but it must be established only through the terms and conditions of the instrument. By itself, economic compulsion would not result in a financial instrument being classified as a liability under IAS 32.
Puts and forwards held by non-controlling interests (November 2006)	The IC received a request to clarify the accounting when a parent entity has entered to forward/put option to acquire the shares held by the non-controlling interest in a subsidiary. The IC concluded a parent must recognise a financial liability when it has an obligation to pay cash in the future to purchase the non-controlling's shares, even if the payment of that cash is conditional on the option being exercised by the holder. This particular topic has been discussed several times by the IC and a draft interpretation was issued in May 2012. This has not been finalised and the issue will be addressed as part of the FICE project.
Classification of puttable and perpetual instruments (March 2009)	The IC considered a request for guidance on the application of the requirements in IAS 32 paragraph 16A that, for equity classification, the instruments must be subordinate to all other classes and have identical features. The IC did not expect significant diversity in practice to develop. This issue was not added to the agenda.
Application of the 'fixed for fixed' condition (January 2010)	A contract that is settled by receiving or delivering a fixed number of an entity's own equity instruments in exchange for fixed amount of cash or another financial asset is considered an equity instrument ("fixed for fixed condition"). The IC was asked to provide additional guidance on the application fixed for fixed. The IC deferred this topic to FICE.

Topic	Summary conclusion
Shareholder discretion (March 2010)	The IC received a request for guidance on whether a financial instrument, in the form of a preference share that includes a contractual obligation to deliver cash, is a financial liability or equity, if the payment is at the ultimate discretion of the issuer's shareholders. The IC recommended that the Board address this issue as part of its project on FICE.
Classification of financial instruments that give the issuer the contractual right to choose the form of settlement (September 2013)	The IC received a request to clarify how an issuer would classify three financial instruments in accordance with IAS 32. None of the financial instruments had a maturity date but each gave the holder the contractual right to redeem at any time. The holder's redemption right was different for each of the three; however, in each case the issuer had the contractual right to choose to settle the instrument in cash or a fixed number of its own equity instruments if the holder exercised its redemption right. The issuer was not required to pay dividends on the three instruments but could choose to do so at its discretion. The IC considered that in the light of its analysis of the existing IFRS requirements, an interpretation was not necessary and consequently decided not to add the issue to its agenda.
Classification of a financial instrument that is mandatorily convertible into a variable number of shares upon a contingent 'non-viability' event (January 2014)	The IC discussed how an issuer would classify a particular mandatorily convertible financial instrument in accordance with IAS 32. The financial instrument did not have a stated maturity date but was mandatorily convertible into a variable number of the issuer's own equity instruments if the issuer breached the Tier 1 Capital ratio (i.e. described as a 'contingent non-viability event'). Interest is discretionary. The IC decided not to add this issue to its agenda and noted that the scope of the issues raised in the submission is too broad for it to address in an efficient manner.
A financial instrument that is mandatorily convertible into a variable number of shares (subject to a cap and a floor) but gives the issuer the option to settle by delivering the maximum (fixed) number of shares (January 2014)	A question was raised to the IC as to how to assess the substance of a particular early settlement option included in a financial instrument. The IC noted that the issuer cannot assume that a financial instrument (or its components) meets the definition of an equity instrument simply because the issuer has the contractual right to settle the financial instrument by delivering a fixed number of its own equity instruments. The IC noted that judgement will be required to determine whether the issuer's early settlement option is substantive and thus should be considered in determining how to classify the instrument. If the early settlement option is not substantive, that term would not be considered in determining the classification of the financial instrument. The IC noted that to determine whether the early settlement option is substantive, the issuer will need to understand whether there are actual economic or other business reasons that the issuer would exercise the option.
Accounting for a financial instrument that is mandatorily convertible into a variable number of shares subject to a cap and a floor (May 2014)	The IC discussed how an issuer would account for a particular mandatorily convertible financial instrument in accordance with IAS 32 and IAS 39 or IFRS 9, which was subject to a cap and floor. The IC noted that the cap and the floor are embedded derivative features whose values change in response to the price of the issuer's equity share. The IC decided an interpretation was not necessary.
Accounting for a written put option over non-controlling interests to be settled by a variable number of the parent's shares (May 2016)	The IC received a request regarding how an entity accounts for a written put option over NCI in its consolidated financial statements. The NCI put has a strike price that will, or may, be settled by the exchange of a variable number of the parent's own equity instruments. The IC observed that in the past it had discussed issues relating to NCI puts that are settled in cash. Those issues were referred to the Board and are being considered as part of the FICE project.