IAS 32 Financial Instruments: Presentation

SCOPE

Applies to contracts:

- To buy or sell a non-financial item that can be settled net in cash or another **FINANCIAL INSTRUMENT (FI)** or by exchanging FIs, as if the contracts were FIs, and
- That an entity designates as measured at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments*.

Does not apply to contracts:

That were entered into and are held for the purpose of the receipt or delivery of a non-financial item in accordance with an entity's expected purchase, sale, or usage requirements.

Applies to all FIs except:

- Interests in subsidiaries, associates or joint ventures accounted for in accordance with IFRS 10, IAS 27/28, except in cases where they are required or permitted to be accounted for in accordance with IFRS 9.
- Employers' rights and obligations under employee benefit plans (see IAS 19).
- Insurance contracts, except where they contain discretionary participation features (see IFRS 9).
- Contracts, FIs or obligations under share -based payment transactions **except for**:
  (a) Treasury share transactions in connection with employee share option or purchase plans and all other share-based payment arrangements, and
  (b) Contracts which are within the scope of applicable contracts described above.

DEFINITIONS

A **FINANCIAL ASSET (FA)** is any asset that is:

(a) Cash
(b) An equity instrument of another entity
(c) A contractual right to receive cash or another FA from another entity, or to exchange FAs or FLs with another entity under conditions that are potentially **favorable** to the entity, or
(d) A contract that will or may be settled in the entity's own equity instruments and is:
  (i) A non-derivative for which the entity is or may be obliged to receive variable number of its own equity instruments, or
  (ii) A derivative (IFRS 9) that will or may be settled other than by exchange of a fixed amount of cash or another FA for a fixed number of its own equity instruments. For this purpose, the entity's own EI do not include
    - Puttable FIs classified as EI
    - Instruments that impose an obligation to deliver a pro rata share of the net assets of the entity only on liquidation and are classified as EI, or
    - Instruments that are contracts for the future receipt or delivery of the entity's own EI.

A **FINANCIAL LIABILITY (FL)** is any liability that is:

(a) A contractual obligation
  (i) To deliver cash or another FA to another entity, or
  (ii) To exchange FAs or FLs with another entity under conditions that are potentially unfavourable to the entity.
(b) A contract that will or may be settled in the entity's own equity instruments and is:
  (i) A non-derivative for which the entity is or may be obliged to deliver a variable number of its own equity instruments, or
  (ii) A derivative (IFRS 9) that will or may be settled other than by exchange of a fixed amount of cash or another FA 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 EI for a fixed amount of any currency are EI if the entity offers them pro rata to all of its existing owners of the same class of its own non-derivative EI, and
    - Entity's own EI do not include:
      - Puttable FIs classified as EI
      - Instruments that impose an obligation to deliver a pro rata share of the net assets of the entity only on liquidation and are classified as EI, or
      - Instruments that are contracts for the future receipt or delivery of the entity's own EI.

A **PUTTABLE FI** is a FI that: gives the holder the right to put it back to the issuer for cash or another FA or is automatically put back on the occurrence of uncertain future events.

It is classified as an equity if:

- It has all of the following features:
  - Entitles the holder to a pro rata share of the entity's net assets in event of liquidation.
  - Is in a class of instruments subordinate to all other classes of instruments.
  - All instruments in that class have identical features.
  - No contractual obligation to deliver cash or another FA or to exchange FA or FL under potentially unfavourable conditions.
  - Total expected cash flows attributable to the instrument over its life are based substantially on profit or loss, the change in recognized net assets or change in FV of net assets of the entity over the instrument's life.

And

- The issuer must have no other FI or contract that has:
  - Total cash flows based on P&L, change in net asset or FV of net assets, and
  - The effect of substantially restricting or fixing residual return to the holders.

An **EQUITY INSTRUMENT (EI)** is any contract that evidences a residual interest in the assets of entity after deducting all of its liabilities.

FAIR VALUE (FV) is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (IFRS 13).

LIABILITIES and Equity

The issuer of an FI shall classify the instrument, or its component parts, on initial recognition as an FL, FA, or an EI in accordance with the **substance** of the contractual arrangement and the definitions of a FL, FA, and an EI.

The substance of a FI, rather than its legal form, governs its classification in the entity's statement of financial position.

CONTINGENT SETTLEMENT OPTIONS

A FI which requires the entity to deliver cash or another FA, or otherwise settle it in such a way that it would be a financial liability, in the event of the occurrence or non-occurrence of uncertain future events is a FL unless:

(a) The part of the contingent settlement provision that could require settlement in such a way that it would be an FL is not genuine
(b) The issuer can be required to settle the obligation in cash or another FA only in the event of liquidation of the issuer, or
(c) The instrument has all the features of a puttable instrument that is classified as an EI.

SETTLEMENT OPTIONS

When a derivative FI gives one party a choice over how it is settled (e.g. the issuer or the holder can choose settlement net in cash or by exchanging shares for cash), it is an FA or FL unless all of the settlement alternatives would result in being an EI.

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COMPOUND FI	TREASURY SHARES	INTEREST/DIVIDENDS/LOSSES/GAINS	OFFSETTING
• The issuer of a non-derivative FI shall evaluate the terms of the FI to determine whether it contains both a liability and equity component. • Such components shall be classified separately as FL, FA or EI.	• If an entity reacquires its own EI, those instruments (treasury shares) shall be deducted from equity. • No gain or loss shall be recognized in the P&L on the purchase, sale, issue, or cancellation of the entity's own EI. • Consideration paid or received is recognized directly in equity.	• Interest, dividends, losses, and gains relating to a FI or a component that is a FL shall be recognized as income or expense in the P&L. • Distributions to holders of EI are recognized by the entity directly in equity. • Transaction costs of an equity transaction are accounted for as a deduction from equity.	Offset a FA and a FL and present the net amount in the statement of financial position **only when** an entity: • Currently has a legally enforceable right to set off the recognized 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 FA that does not qualify for derecognition, the entity shall not offset the transferred asset and the associated liability.