



IFRS AT A GLANCE
IAS 32 *Financial Instruments: Presentation*



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SCOPE

IAS 32 applies to all types of financial instruments except:

- ▶ Those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements or IAS 28 Investments in Associates and Joint Ventures. employers' rights and
- ▶ Obligations under employee benefit plans, to which IAS 19 Employee Benefits applies.
- ▶ contracts within the scope of IFRS 17 Insurance Contracts except derivatives that are embedded in contracts within the scope of IFRS 17, if IFRS 9 requires the entity to account for them separately; and investment components that are separated from contracts within the scope of IFRS 17, if IFRS 17 requires such separation
- ▶ financial instruments, contracts and obligations under share-based payment transactions to which IFRS 2 Share-based Payment applies, except for contracts within the scope of IAS 32.8-10

FAIR VALUE

Fair value 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.

TREASURY SHARES

The cost of an entity's own equity instruments that it has reacquired (treasury shares) is deducted from equity:

- ▶ Gain or loss is not recognised on the purchase, sale, issue, or cancellation of treasury shares
- ▶ Treasury shares may be acquired and held by the entity or by other members of the consolidated group (i.e. an entity and its subsidiaries)
- ▶ Consideration paid or received is recognised directly in equity.

OWNER TRANSACTIONS

- ▶ Distributions to holders of equity instruments are debited directly in equity
- ▶ Transaction costs of equity transactions are accounted for as deductions from equity.

OFFSETTING

A financial asset and a financial liability are offset only when there is a legally enforceable right to offset and an intention to settle net or to settle both amounts simultaneously. The right of set-off:

- (a) Must not be contingent on a future event
- (b) Must be legally enforceable in all of the following circumstances:
 - ▶ The normal course of business
 - ▶ The event of default
 - ▶ The event of insolvency or bankruptcy of the entity and all of the counterparties.



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WHAT TYPE OF INSTRUMENT IS IT?

FINANCIAL INSTRUMENT

A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

FINANCIAL ASSET

A financial asset is:

- ▶ Cash
- ▶ An equity instrument of another entity
- ▶ A contractual right 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
- ▶ A contract that will or may be settled in the entity's own equity instruments and is: a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

COMPOUND FINANCIAL INSTRUMENTS

Compound instruments that have both liability and equity characteristics are split into these components. The split is made on initial recognition of the instruments and is not subsequently revised.

The equity component of the compound instrument is the residual amount after deducting the fair value of the liability component from the fair value of the instrument as a whole. No gain/loss arises from initial recognition.

EQUITY INSTRUMENT

- ▶ Any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities
- ▶ Some instruments that meet the definition of a liability, but represent the residual interest in the net assets of the entity may be classified as equity, in certain circumstances, such as puttable instruments that give the holder the right to put the instrument back to the issuer for cash or another financial asset, automatically on the occurrence of either (i) an uncertain future event (ii) death of the instrument holder (common in co-operative structures)
- ▶ Equity instruments issued to acquire a fixed number of the entities own non-derivative equity instruments; (in any currency) are classified as equity instruments, provided they are issued pro-rata to all existing shareholders of the same class of the entities own non-derivative equity.

FINANCIAL LIABILITY

A financial liability is:

- ▶ A 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; or
- ▶ A contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

CLASSIFICATION AS LIABILITY OR EQUITY










- ▶ The entity must on initial recognition of an instrument classify it as a financial liability or equity. The classification may not subsequently be changed
- ▶ An instrument is a liability if the issuer could be obliged to settle in cash or another financial instrument
- ▶ An instrument is a liability if it will or may be settled in a variable number of an entities own equity instruments. Some instruments may have to be classified as liabilities even if they are issued in the form of shares.

Contact

For further information about how BDO can assist you and your organisation, please get in touch with one of our key contacts listed below.

Alternatively, please visit www.bdo.global where you can find full lists of regional and country contacts.


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