

IFRS Briefing Sheet

Exposure Draft ED/2009/9 *Classification of Rights Issues – Proposed amendment to IAS 32 Financial Instruments: Presentation*

August 2009, **Issue 149**

This IFRS Briefing Sheet summarises the International Accounting Standard Board's (IASB, or the Board) Exposure Draft (ED) *Classification of Rights Issues – Proposed amendment to IAS 32 Financial Instruments: Presentation*, which was issued on 6 August 2009. Comments are due by 7 September 2009.

The ED proposes that rights to acquire a fixed number of an entity's own equity instruments for a fixed price, stated in a currency other than the entity's functional currency, would be equity instruments if the entity offers the rights *pro rata* to all of its existing owners of the same class.

other than the entity's functional currency. Therefore, such conversion options are accounted for as derivative liabilities with changes in fair value recognised in profit or loss.

As a result of the global financial crisis, an increasing number of entities have undertaken rights issues to raise additional capital. Some entities fix the exercise price of the rights issued in a foreign currency because the entity is listed in one or more jurisdictions where the local currency is not the entity's functional currency.

In 2009, the IFRIC received requests for guidance on whether a call option, such as a rights issue, that would entitle the holder to receive a fixed number of the entity's own equity instruments when the price is fixed in a currency other than the entity's functional currency should be accounted for as a derivative liability. The IFRIC requested that the Board consider an amendment to IAS 32 as it believes that liability classification for such rights issues is not consistent with their overall substance.

The IASB considered the issue raised by the IFRIC and decided that if the rights are issued *pro rata* to all of an entity's existing shareholders and are exercisable for a fixed amount of any currency, then the acquisition rights should be considered equity

Background and Executive Summary

IAS 32 *Financial Instruments: Presentation* states that a derivative instrument relating to an entity's own equity instruments is classified as equity only if it results in the exchange of a fixed number of equity instruments for a fixed amount of cash or another financial asset (the "fixed for fixed" notion). In 2005, the IFRIC concluded that an entity should not classify as an equity instrument a conversion option embedded in a convertible bond that was denominated in a currency

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instruments. The IASB believes that this represents a transaction with an entity's owners in their capacity as owners. The IASB therefore decided to propose an amendment to the definition of a financial liability.

Proposed Amendment

The proposed amendment in the ED specifies that "rights 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 *pro rata* to all of its existing owners of the same class of its own non-derivative equity instruments."

Effective Date and Transition

The ED states that a final amendment would be mandatorily effective for periods beginning on or after 90 days after its issuance. The IASB expects to issue a final amendment before the end of 2009. The final amendment would require retrospective application with early adoption permitted.

If you would like further information on any of the matters discussed in this issue of *IFRS Briefing Sheet*, please talk to your usual local KPMG contact or call any of KPMG firms' offices.

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