

MEETING SUMMARY OF HKICPA DISCUSSION WITH PREPARERS OF FINANCIAL REPORTS

IASB Discussion Paper on Financial Instruments with Characteristics of Equity

Date: 30 October 2018

Time: 4:00 pm – 6:00 pm

Venue: HKICPA Boardroom, 37/F Wu Chung House, Wanchai

Summary of observations

Classification of non-derivative financial instruments

- Participants only had experience of relatively straightforward financial instruments, e.g. a typical convertible bond. Therefore, they considered that the two pronged approach of a timing and an amount features is clearer and easier to understand than the current IAS 32 for simple and straightforward claims.
- They were unperturbed by the change in classification of irredeemable fixed rate cumulative preference shares from equity to financial liabilities and thought the new classification is fairer. It is an acceptable cost for achieving clarity and consistency. It was noted that their own companies did not have these financial instruments on their balance sheets and therefore would not suffer the effect on their debt/equity ratios.
- No concerns were raised about the new terminology.
- One participant asked whether “liquidation” included other forms of insolvency e.g. receivership and administration. It was considered appropriate to ask the IASB to clarify the term “liquidation” to preclude looser interpretations if the IASB's preferred classification approach is adopted.

Puttables and foreign currency rights issues exceptions

- Participants had little, if any, experience of puttables and foreign currency rights issues and had no comments on whether the exceptions should be retained or removed.

Presentation and Disclosure

- A participant considered that the proposed disclosures are clearer and more useful to investors but will mean more work for preparers. This participant could see a challenge in preparing the list of claims by priority ranking, which would mean involving lawyers to resolve questions of priority.
- It was suggested that companies would need to spend more time on stakeholder management, as stakeholders would have an improved understanding of the relative position of their claims in the ranking.