Comments on IASB Exposure Draft - Financial Instruments with Characteristics of Equity (Proposed Amendments to IAS 32, IFRS 7 and IAS 1)

Q1. The effects of relevant laws or regulations: only contractual rights and obligations that **enforceable** by law are considered in the classification of a financial instrument. The company can disregard any rights or obligation created by **applicable** laws or regulations.

- Agree. clearer on the classification.

Q2. Settlement in an entity's own equity instruments: IASB proposed to clarify in IAS32 that for fixed-for-fixed condition to be met, the amount of consideration exchanged for each of company's own equity instrument is required to be in the company's functional currency and either fixed or variable.

- Agree.

Q3. Obligation to purchase an entity's own equity instruments:
The IASB proposed to clarify the requirements in IAS32 that apply if a contract that includes an obligation for a company to purchase its own equity instruments expires without delivery:

1. Removes the carrying amount of the financial liability from Balance sheet.
2. Includes the amount removed from financial liabilities in the same component of equity from which it was removed on initial recognition of the financial liabilities
3. Does not reverse in profit or loss any gain or losses previously recognised from remeasuring the financial liability.
4. May transfer the cumulative amount of these gains or loss from retained earing to another component of equity.

- Agree, especially to clarify the handling if the company is obligated to purchase its own equity instruments expires without delivery

Q4. Contingent settlement provisions

1. Financial instrument with contingent settlement provision are compound financial instruments with liability and equity components
2. The initial and subsequent measurement of the financial liability arising from a contingent settlement provision would not take into account the probability and estimated timing of occurrence or non-occurrence of the contingent event.
3. Payments at the issuers' discretion are recognised in equity even if the equity component of a compound financial instrument has an initial carrying amount of zero
4. Liquidation refer to the process that begins after an entity has permanently ceased its operations
5. "not genuine" requires judgement based on the specific facts and circumstances and is not based solely on the probability or likelihood of the contingent event.

- No comment

Q5. Shareholder discretion: IASB proposed t clarify in IAS32 that a company is required to use its judgement to assess whether shareholder decisions are treated as company decisions that result in the company have unconditional right to avoid delivering cash or another financial assets.

Factors to consider:

1. The ordinary course of the entity's business activities
2. Decision related to an action proposed/transactions initiated by management for shareholder approval.
3. Different classes of shareholders benefit differently from a shareholder decision.
4. Shareholder decision-making right enable a shareholder to require the company to redeem or pay a return on it shares in such a way that the instrument would be a financial liability.

- No comment

Q6. Reclassification of financial liabilities and equity instruments

Existing Standard does not contain any general requirements as to whether or when company reclassifies an instrument after initial recognition. IASB proposed that company not reclassify a financial liability or equity instrument after initial recognition unless the substance of the contractual arrangement changes because of a change in circumstances external to the contractual arrangement (i.e. change in company's functional currency or change of company's group structure. The reclassification as below:

- Agree with the proposals. It provide a clear requirements to companies for instrument reclassification.

Q7. Disclosure

IASB require the entities to disclose:

1. gains or losses on financial liabilities containing contractual obligations to pay amount based on performance or change in net asset.
2. Compound financial instrument in IFRS7
3. Nature and priority of claims against the entities on liquidation arising from financial liabilities and equity instruments
4. Terms and conditions of financial instruments with both financial liability and equity characteristics
5. Terms and conditions that become or stop being, effective with the passage of time
6. Potential dilution of ordinary shares
7. Instruments that include obligation to purchase the entity's own equity instruments.

- Agree to include minimal disclosure e.g. (c) cover reclassifications for the change but disagree to include all proposed by IASB.

Q8. Presentation of amount attributable to ordinary shareholders

IASB proposed presentation requirements:

1. Presentation in the statement of financial position of issued share capital and reserves attributable to ordinary shareholders of the parent company separately form other owners of the parent company
2. Allocation of profit or loss and other comprehensive income between ordinary shareholders of parent company and other owners of the parent company in the statement of comprehensive income.
3. Reconciliation for each class of ordinary share capital and each class of other contributed equity in the statement of changes in equity
4. Separate presentation of dividend relating to ordinary shareholders and those relating to other owner of the company.

- ➢ Agree as it may be more relevant for the investors instead of increasing more disclosure.

Q9. Transition.

No require the restatement of information for more than 1 comparative period.

- ➢ Agree to minimize the effort to the business

Q10. Disclosure requirements for eligible subsidiaries

- ➢ Agree to minimize the effort to the business

<u>Other Comments</u>

We have no comments on the consultation. We have not involved in contracts that will or may be settled by the exchange of a fixed number of one class of an entity's own non-derivative equity instruments for a fixed number of another class of its own non-derivative equity instruments, which is the subject of discussion for the consultation.

However, we would like to have more information/real life examples with actual numbers as illustration on the classification under IAS 32 with regards to the financial instruments with characteristics of equity for future preparation of reporting and disclosure. For example, we would like to have more illustration on how to split absolute amount between liabilities and equities in terms of the amounts for the following financial instruments:-

- *Issuing preference shares or equity-like characteristics in financial liabilities, i.e. based on terms and conditions such as debt-like characteristics in equity instruments (e.g. dividends on preference shares that are based on a fixed rate);*
- *Signing agreement with counter party on the priority of all financial liabilities and equity instruments on liquidation of a company;*
- *Issuing convertible bonds such that having potential dilution of ordinary shares (e.g. the maximum number of shares to be delivered if convertible bonds are converted and share options are exercised);*

- *Purchasing compound instruments, i.e. the amounts initially allocated to the liability and equity components of compound instruments;*
- *Issuing specified instrument with quantitative information about financial instruments that contain an obligation to purchase its own equity; and*
- *Issuing instrument with Information about financial liabilities containing contractual obligations to pay amounts based on a company's performance or changes in its net assets.*

Remarks: The above are consolidated comments from two member companies.

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