



3 July 2018

To: **Members of the Hong Kong Institute of CPAs**  
**All other interested parties**

**INVITATION TO COMMENT ON IASB Discussion Paper  
DP/2018/1 *Financial Instruments with Characteristics of Equity***

***Comments to be received by 9 November 2018***

The Financial Reporting Standards Committee (FRSC) of the Hong Kong Institute of Certified Public Accountants (Institute) is seeking comments on IASB DP/2018/1. You may access the DP from the Institute's website:

<http://www.hkicpa.org.hk/en/standards-and-regulations/standards/financial-reporting/exposure-drafts/>

IAS 32 *Financial Instruments: Presentation* currently sets out how a company that issues financial instruments should distinguish financial liabilities from equity instruments. That distinction is important because the classification of the financial instruments affects how a company's financial position and performance are depicted.

IAS 32 works well for most financial instruments. However, continuing financial innovation means that some companies find it challenging to classify complex financial instruments that combine features of both liabilities and equity. Also, the reasons for particular classification outcomes when applying IAS 32 are not always clearly explained. This can result in accounting diversity in practice, which in turn makes it difficult for investors to assess and compare companies' financial position and performance. In addition, investors have been calling for more and better information about equity instruments.

To respond to the challenges identified and the feedback from investors, the IASB has developed an approach that aims to:

- provide a rationale for why a financial instrument would be classified as either a liability or equity without fundamentally changing the existing classification outcomes of IAS 32;
- improve the consistency, completeness and clarity of the classification requirements; and
- improve presentation and disclosure about features of financial liabilities and equity instruments not captured by classification alone.

The FRSC invites your comments on the proposed approach by **9 November 2018** to allow your comments to be considered in developing its response to the IASB. Comments should be supported by specific reasoning and should be submitted in written form.

Comments may be sent by mail, fax or e-mail to:

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Comments will be acknowledged and may be made available for public review unless otherwise requested by the respondent.