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# IASB consults on the accounting for financial instruments with characteristics of equity

The International Accounting Standards Board (Board) today has published for public comment a Discussion Paper on how companies issuing financial instruments should classify them in their financial statements.

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 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 some complex financial instruments that combine some features of both debt—liabilities—and ordinary shares—equity instruments.

Challenges in classifying these instruments can result in diverse accounting 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 better information, particularly about equity instruments.

The Board has responded to feedback from investors and others and has considered previous work on the topic to propose an approach that would:

- provide a clear 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; and
- enhance the information provided through presentation and disclosure.

This approach would provide investors with richer and more comparable information about financial instruments issued by companies. Clearer principles will help companies accounting for financial instruments they issue both now and as financial instruments continue to evolve.

Hans Hoogervorst, Chair of the International Accounting Standards Board, said:

'Our approach aims to meet the needs of both investors and companies by providing investors with better information and companies that issue financial instruments with clearer guidance on how to account for those instruments.'

The Board is now calling for feedback on this proposed approach to help it further develop a solution.

The Discussion Paper *Financial Instruments with Characteristics of Equity* is open for comments until 7 January 2019. A Snapshot, providing a top line summary of the document, is also available.

In this video, Board Vice-Chair Sue Lloyd explains the background to the paper and provides a brief summary of the Board's approach.