



Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*

HKICPA Standard Setting Department Staff Summary (November 2009)

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The HKICPA Standard Setting Department welcomes your comments and feedback, which should be sent to commentletters@hkicpa.org.hk.

Introduction

1. Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer.
2. Entities shall apply the amendment for annual periods beginning on or after 1 February 2010. Earlier application is permitted with disclosure of that fact.

Reasons for issuing Amendment to HKAS 32

3. The objective of the Hong Kong Institute of Certified Public Accountants (HKICPA) in issuing amendment to HKAS 32 is to maintain international convergence arising from the issuance of amendment to IAS 32 by the International Accounting Standards Board (IASB).
4. HKAS 32 states that a derivative instrument relating to the purchase or issue of 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 other assets (that is, the "fixed for fixed" notion).
5. The global financial crisis has led to an increase in the number of rights issues being used as a mechanism to raise addition capital that many issuing entities fixed the exercise price of the rights in currencies other than their functional currency because the entities were listed in more than one jurisdiction and might be required to do so by law or regulation. Therefore, the accounting conclusions affected a significant number of entities in many jurisdictions.
6. Thus, the IASB was asked by the International Financial Reporting Interpretations Committee (IFRIC) in 2009 whether a right entitling the holder to receive a fixed number of the issuing entity's own equity instruments for a fixed amount of a currency other than the issuing entity's functional currency (foreign currency) should be accounted for as a derivative liability.



7. Previously such rights issues are accounted for as derivative liabilities. Consequently, the instrument was a derivative liability that should be measured at its fair value with changes in fair value included in profit or loss.
8. However, the amendment requires that, provide certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated.

Main features of the Amendment

9. A financial instrument that gives the holder the right to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency is an equity instrument if, and only if, the entity offers the financial instrument pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.
10. However, the amendment does not address foreign currency convertible bonds, as they are not included within the amendment's limited scope.

Other references on Amendment to IAS 32

1. Deloitte IAS Plus Update on Classification of Rights Issues
<http://www.iasplus.com/iasplus/0910rightsissues.pdf>
2. Ernst & Young Supplement to IFRS outlook on Classification of rights issues denominated in a foreign currency
[http://www.ey.com/Publication/vwLUAssets/Supplement_58/\\$File/Supplement_58_GL_IFRS.pdf](http://www.ey.com/Publication/vwLUAssets/Supplement_58/$File/Supplement_58_GL_IFRS.pdf)
3. KPMG IFRS Briefing Sheet on Amendments to IAS 32
http://www.kpmg.com.hk/en/virtual_library/Audit/IFRS_briefingsheet/IFRSBS09157.pdf

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