



## **Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation***

### **HKICPA Standard Setting Department Staff Summary (June 2008)**

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The HKICPA Standard Setting Department welcomes your comments and feedback, which should be sent to [commentletters@hkicpa.org.hk](mailto:commentletters@hkicpa.org.hk).

### **Introduction**

1. Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* are effective for annual periods beginning on or after 1 January 2009, the same effective date as amendments to IAS 32 and IAS 1 – *Puttable Financial Instruments and Obligations Arising on Liquidation*. Earlier application is permitted provided that the related amendments to HKAS 39 *Financial Instruments: Recognition and Measurement*, HKFRS 7 *Financial Instruments: Disclosures* and HK(IFRIC) – Int 2 *Members' Shares in Co-operative Entities and Similar Instruments* are applied at the same time. The amendments shall be applied retrospectively.

### **Reasons for amendments to HKAS 32 and HKAS 1**

2. The objective of the Hong Kong Institute of Certified Public Accountants (HKICPA) in issuing amendments to HKAS 32 and HKAS 1 is to maintain international convergence arising from the revision of IAS 32 and IAS 1 by the International Accounting Standards Board (IASB).

The issues addressed in the amendment were first published in an exposure draft of proposed amendments to IAS 32 and IAS 1 – *Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation* in June 2006. In response to requests from entities around the world, the IASB issued a short-term, limited scope amendment to improve the accounting for particular types of financial instruments that have characteristics similar to ordinary shares but are at present classified as financial liabilities, rather than equity.



3. The amendment addresses the classification of some:
  - (a) puttable financial instruments, and
  - (b) instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation.

### **Changes from previous requirements**

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4. In accordance with the amendments, even if the above-mentioned financial instruments impose on the entity an obligation to deliver cash or another financial asset, these instruments should be classified as equity instruments if the specified conditions set out below are met.

#### **Puttable financial instruments**

5. Puttable financial instruments is classified as an equity instrument only if all of the following criteria are met:
  - (a) the holder of the instrument is entitled to a pro rata share of the entity's net assets in the event of the entity's liquidation;
  - (b) the instrument is in the class of instruments that is subordinate to all other classes of instruments and all financial instruments in that class of instruments have identical features;
  - (c) the instrument does not include any contractual obligation that would meet the definition of a financial liability; and
  - (d) the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the entity over the life of the instrument (excluding any effects of the instrument). Profit or loss and the change in recognised net assets need to be measured in accordance with relevant HKFRSs.

In addition to the criteria set out above, the issuer must have no other financial instrument or contract that has terms equivalent to (d) above and has the effect of substantially restricting or fixing the residual return to the puttable instrument holders.

#### **Instruments that impose an obligation to deliver a pro rata share of net assets only on liquidation**

6. The criteria for equity classification for instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation are the same as above except the criteria (c) and (d) set out in paragraph 5 do not apply.
7. The distinction between these two types of instruments lies in the difference in the timing of settlement of the obligation under both instruments.



## **Disclosure**

8. HKAS 1 *Presentation of Financial Statements* (as revised in 2007) has been amended to include additional disclosure requirements, including:
  - (a) general disclosure for puttable financial instruments classified as equity (e.g. amount, objectives, policies and processes for managing its obligation to repurchase or redeem the instruments, the expected cash outflows on redemption or repurchase and how it was determined);
  - (b) disclosure about the amount, timing and reason for reclassification of a puttable instrument or an instrument puttable only on liquidation between financial liabilities and equity; and
  - (c) for a limited life entity, information regarding the length of its life.

## **Other references on Amendments to IAS 32 and IAS 1**

1. Deloitte IAS Plus on Puttable financial instruments and obligations arising on liquidation  
<http://www.iasplus.com/iasplus/0802puttable.pdf>
2. Ernst & Young IFRS Alert on Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements* – Puttable Financial Instruments and Obligations Arising on Liquidation  
[http://www.ey.com/Global/assets.nsf/International/IFRSAlert\\_27/\\$file/EY\\_IFRSAlert\\_Issue27.pdf](http://www.ey.com/Global/assets.nsf/International/IFRSAlert_27/$file/EY_IFRSAlert_Issue27.pdf)
3. KPMG IFRS Briefing Sheet on Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements* – Puttable Financial Instruments and Obligations Arising on Liquidation  
[http://www.kpmg.com.hk/en/virtual\\_library/Audit/IFRS\\_briefingsheet/IFRSBS0886.pdf](http://www.kpmg.com.hk/en/virtual_library/Audit/IFRS_briefingsheet/IFRSBS0886.pdf)
4. PricewaterhouseCoopers IFRS News on Amendments to IAS 32 dealing with puttable instruments  
[http://www.pwc.com/gx/eng/about/svcs/corporatereporting/IFRS\\_News\\_Mar08.pdf](http://www.pwc.com/gx/eng/about/svcs/corporatereporting/IFRS_News_Mar08.pdf)

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