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International Accounting Standards Board
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Re: Comment on the IASB's Discussion Paper *Financial Instruments with Characteristics of Equity*

1. The Accounting Standards Board of Japan (the 'ASBJ' or 'we') welcome the opportunity to provide comments on the IASB's Discussion Paper *Financial Instruments with Characteristics of Equity* (hereinafter referred to as 'the DP').

2. We appreciate the IASB's efforts to address challenges related to the distinction between financial liabilities and equity instruments.

3. We acknowledge that the main initiative of the DP, that is to clarify the rationale underlying the classification principles, may be helpful to improve the classification of financial instruments as liabilities or equity, and we do not necessarily think this initiative is irrelevant. However, considering the following points, we are of the view that the costs of developing a revised standard may outweigh the expected benefits:

   (a) Explicit improvements from this initiative would be limited, such as the clarification of the fixed-for-fixed condition and responding to problems arising from economic compulsion.

   (b) The DP proposes to retain the exception for certain puttable instruments in IAS 32, which means that there would be an exception to the proposed classification principles. This may imply that the proposed principles are insufficient to articulate the classification outcomes.

4. We acknowledge that a variety of challenges exist regarding the requirements in IAS 32, as listed in the DP. One of such challenges that is not explicitly identified in the DP is the unit of account to which the classification principles should be applied. IAS 32 merely describes the basic thinking in determining the unit of account and, if the IASB were to limit unnecessary changes to the existing classification outcomes (which is the approach adopted in the DP), we think that it would be more effective

for the IASB to consider how to determine the unit of account to improve IAS 32. In this regard, we acknowledge that Section 5 of the DP addresses the unit of account for certain specific instruments and we think that the IASB should consider developing concepts that can be consistently applied to a wide variety of claims.

5. On the other hand, if the IASB were to commit resources that are sufficient to conduct a comprehensive review of the classification requirements under IAS 32, we think that it would be useful for the IASB to fundamentally reconsider the principles in order to achieve consistent and understandable classification. We think that the basic ownership approach mentioned in paragraph 2.43 of the DP could be one candidate worth consideration because of its simplicity and because of the support from users. Nevertheless, considering that the IASB had considered this approach in the past and decided not to pursue this approach further, we think that some modifications to the original approach may be needed.

6. In addition to the comments above, we would also like to comment on the specific proposal regarding the use of other comprehensive income (‘OCI’) to income and expenses arising from certain financial liabilities. We disagree with the proposal of not recycling OCI for those financial liabilities. We observe that the reason for not recycling OCI in the DP is inconsistent with the examples where the IASB may decide not to recycle, as mentioned in the IASB’s *Conceptual Framework for Financial Reporting* (hereinafter referred to as ‘the *Conceptual Framework*’), and we think that OCI should be recycled to profit or loss in some future period following the principles in the *Conceptual Framework.*

We hope our comments are helpful for the IASB’s deliberations in the future. If you have any questions, please feel free to contact us.

Yours sincerely,

Yukio Ono

Chairman of the Accounting Standards Board of Japan

Appendix

Comments on the Specific Questions in the DP

Question 1

Paragraphs 1.23–1.37 describe the challenges identified and provide an explanation of their causes.

(a) Do you agree with this description of the challenges and their causes? Why or why not? Do you think there are other factors contributing to the challenges?

(b) Do you agree that the challenges identified are important to users of financial statements and are pervasive enough to require standard-setting activity? Why or why not?

1. We agree that the DP has identified the main challenges related to the classification of financial liabilities and equity instruments. To address these challenges, the DP describes three initiatives in paragraphs IN9 and 1.44 of the DP. Of these initiatives, we think that the main initiative is to articulate the principles for the classification of financial instruments as either financial liabilities or equity instruments with a clear rationale and to consider how those principles would be applied to non-derivative instruments and derivative instruments.

2. We acknowledge that this main initiative may be helpful to improve how the classification principles are applied because IAS 32 does not sufficiently explain the rationale underlying the classification principles in its basis for conclusions. However, when compared to other efforts to improve consistency, completeness and clarity of the requirements in IAS 32 and to develop principles for presentation and disclosure, we observe that explicit improvements from this initiative would be limited, such as the clarification of the fixed-for-fixed condition and responding to problems arising from economic compulsion.

3. In addition, as mentioned in our response to Question 4, the DP proposes to retain the exception for certain puttable instruments in IAS 32, which means that there would be an exception to the proposed classification principles. This may imply that the proposed classification principles are insufficient to articulate the classification outcomes.

4. Accordingly, we are of the view that the costs of developing a revised standard may outweigh the expected benefits.

5. We think that one of the important challenges that is not explicitly identified in the DP is the unit of account to which the classification principles should be applied. IAS 32 merely describes the basic thinking in determining the unit of account. We observe that, aside from the measurement issues arising from IFRS 9 *Financial Instruments* alluded to in paragraph 1.24 of the DP, issues arise from IAS 32 mainly because the unit of account is unclear, and not because the rationale of the principles is unclear. For example, we observe that diverse views surrounding put options on non-controlling interests ('NCI puts') and contingent convertible bonds mentioned in paragraph 1.25 of the DP arise mainly from the differences in views regarding how to identify the components of the claim to which the classification principles are applied. In this regard, we acknowledge that there are other conceptual issues and specific implementation issues surrounding IAS 32, as listed in the DP. Nevertheless, considering the potential that financial instruments may become more complex due to financial innovation, we think that it has become increasingly important to identify the components to which the classification principles are applied. If the IASB were to limit unnecessary changes to the existing classification outcomes (which is the approach adopted in the DP), we think that it would be more effective for the IASB to consider how to determine the unit of account to improve IAS 32.

   We acknowledge that Section 5 of the DP addresses the unit of account for certain specific instruments. Although we have several questions on the proposed approach as mentioned in paragraphs 15 and 16, we appreciate the IASB's effort in undertaking this issue and think that the IASB should consider developing concepts that can be consistently applied to a wide variety of claims.

6. On the other hand, if the IASB were to commit resources that are sufficient to conduct a comprehensive review of the classification requirements under IAS 32, we think that it would be useful for the IASB to fundamentally reconsider the principles in order to achieve consistent and understandable classification. We think that the basic ownership approach mentioned in paragraph 2.43 of the DP could be one candidate worth consideration because of its simplicity and because of the support from users. Nevertheless, considering that the IASB had considered this approach in the past and decided not to pursue this approach further, we think that some modifications to the approach may be needed.

(a) Benefits of the basic ownership approach

The basic ownership approach is an approach that would, in principle, classify the most residual claim as equity and all other claims as liabilities. This approach was proposed to simplify the classification of liabilities and equity. We assume that common shares that are traded in the stock market would usually be classified as equity under this approach. We think that the approach has several benefits such that information provided to holders of the most residual claim is generally considered to cover the common information needs of holders of senior claims. In addition, more information would be expected to be provided through the presentation and disclosures in the notes if more claims were to be classified as financial liabilities.

(b) Challenges of the basic ownership approach

We acknowledge that, unlike the proposed classification principles in the DP, the basic ownership approach would not directly provide information that assists users in assessing liquidity and solvency of the entity and, accordingly, users will need to select and adjust financial information to make such assessment by themselves. In addition, when the approach was proposed in 2008, feedback from constituents included the following concerns: (a) perpetual instruments would be classified as liabilities, which was counterintuitive; and (b) more claims may be measured at fair value, which may distort the financial performance of the entity.

(c) Possibility of considering the basic ownership approach

We acknowledge the preparers' concerns on the basic ownership approach that arises from classifying more claims as liabilities (see (b)), which were raised when the approach was proposed in 2008. We also acknowledge the potential inconsistency with the definitions of liabilities and equity in the existing *Conceptual Framework*. On the other hand, under the existing requirements, there are exceptions to the classification principles and those principles lack clarity. Accordingly, constituents are forced to bear significant costs to maintain these requirements from an implementation perspective as well as a standard-setting perspective.

In this regard, constituents' concerns on the basic ownership approach mainly focus on how to classify claims with no obligation to transfer economic resources.

These concerns could partly be addressed without reducing the benefit of simplification, for example, by classifying perpetual instruments as equity as a limited exception.

Question 2

The Board's preferred approach to classification would classify a claim as a liability if it contains:

(a) an unavoidable obligation to transfer economic resources at a specified time other than at liquidation; and/or

(b) an unavoidable obligation for an amount independent of the entity's available economic resources.

This is because, in the Board's view, information about both of these features is relevant to assessments of the entity's financial position and financial performance, as summarised in paragraph 2.50.

The Board's preliminary view is that information about other features of claims should be provided through presentation and disclosure.

Do you agree? Why, or why not?

7. Regarding the timing feature, we understand that the feature is helpful to largely retain the classification outcomes under IAS 32 because this is consistent with the traditional notion of liabilities and that users use this information only as a starting point and consider additional information that is presented separately and disclosed in the notes.

   However, regarding the statement in paragraph 2.17 of the DP, which states that the assessment of whether an entity will have the economic resources required to meet its obligations as and when they fall due will be driven by information provided by the timing feature, the DP does not sufficiently articulate how the information provided by focusing only on the timing of liquidation would assist users in making such assessment, considering that there could be various timings regarding when the claim requires a transfer of economic resources.

8. Regarding the amount feature, our understanding is that the feature would lead to some changes in the existing classification but only for limited financial instruments. We think that clarifications are needed for this feature, which we describe in our responses to Question 3 and Question 5.

Question 3

The Board's preliminary view is that a non-derivative financial instrument should be classified as a financial liability if it contains:

(a) an unavoidable contractual obligation to transfer cash or another financial asset at a specified time other than at liquidation; and/or

(b) an unavoidable contractual obligation for an amount independent of the entity's available economic resources.

This will also be the case if the financial instrument has at least one settlement outcome that has the features of a non-derivative financial liability.

Do you agree? Why, or why not?

9. We do not have any comments on the IASB's preliminary view because the proposed principles for non-derivative financial instruments is a straightforward application of the classification principles described in paragraph 2.49 of the DP.

10. Regarding the amount feature (that is, whether the amount is independent of the entity's available economic resources), we think that the following clarifications are needed:

    (a) A holder of a claim in the legal form of shares usually receives only the allocation of the distributable assets at liquidation following the waterfall structure of the entity's claims. As a result, an entity could avoid payment for an amount that exceeds the amount of distributable assets even if the claim has maximum distributable amount before allocating distributable assets to subordinate claims. In the context of the amount feature, we think that a clarification is needed as to whether the entity has an unavoidable obligation for the amount that exceeds the amount of distributable assets.

    (b) Paragraph 3.24(c) of the DP states that an ordinary share in a subsidiary held by a non-controlling interest as the ordinary share would depend on the available economic resources of the subsidiary. In this regard, we think that analysis should be added from the perspective of consolidated financial statements as to whether the non-controlling interest should be assessed against the amount feature in the context of the consolidated group.

    (c) Paragraph 3.23(d) of the DP states that an amount is independent of the entity's available economic resources with respect to a share with a dividend feature that does not accumulate but is reset periodically when not paid. This example seems inconsistent with the example in paragraph 3.24(b) of the DP, which states that the stream of cash flows of coupons or dividends is not considered to be independent of the available economic resources with respect to an irredeemable non-cumulative preference share with a stated coupon or dividend amount. We think that clarification is needed for this apparent inconsistency.

Question 4

The Board's preliminary view is that the puttable exception would be required under the Board's preferred approach. Do you agree? Why, or why not?

11. We think that the puttable exception in IAS 32 is inconsistent with the classification principles proposed in the DP and that retaining this exception may imply that the proposed classification principles are insufficient to articulate the classification outcomes.

12. Paragraph 3.37 of the DP explains the necessity of retaining the puttable exception, and our observation is that the exception for puttable instruments is based on the concept that "at least one claim should be recognised and measured as a residual because of the incomplete recognition and measurement of assets and liabilities". In our view, this suggests the potential need for another principle, in addition to the timing feature and the amount feature, but the DP does not discuss the possibility of including a third principle.

    Accordingly, we think that the IASB should consider whether such a principle should be added to articulate the classification principles under IAS 32. We think that this addition may reduce the necessity of providing an exception.

Question 5

The Board's preliminary view for classifying derivatives on own equity—other than derivatives that include an obligation to extinguish an entity's own equity instruments—are as follows:

(a) a derivative on own equity would be classified in its entirety as an equity instrument, a financial asset or a financial liability; the individual legs of the exchange would not be separately classified; and

(b) a derivative on own equity is classified as a financial asset or a financial liability if:

   (i) it is net-cash settled—the derivative requires the entity to deliver cash or another financial asset, and/or contains a right to receive cash for the net amount, at a specified time other than at liquidation; and/or

   (ii) the net amount of the derivative is affected by a variable that is independent of the entity's available economic resources.

Do you agree? Why, or why not?

13. We agree with the IASB's preliminary view (a) because other derivatives are basically recognised and measured in its entirety.

14. We agree with the IASB's preliminary view (b)(i) (the timing feature) because we think that this is a straightforward application of the timing feature to derivative instruments.

    On the other hand, we think that some clarification is needed for the IASB's preliminary view (b)(ii) (the amount feature). That is, a derivative whose intrinsic value is always nil (for example, a warrant that issues a variable number of shares whose value is equal to the exercise price) would not be dependent on any variables and, accordingly, it is not clear how the initial premium received or the time value portion of that derivative should be classified under the amount feature.

Question 6

Do you agree with the Board's preliminary views set out in paragraphs 5.48(a)–(b)? Why, or why not? Applying these preliminary views to a derivative that could result in the extinguishment of an entity's own equity instruments, such as a written put option on own shares, would result in the accounting as described in paragraph 5.30 and as illustrated in paragraphs 5.33–5.34.

For financial instruments with alternative settlement outcomes that do not contain an unavoidable contractual obligation that has the feature(s) of a financial liability as described in paragraph 5.48(c), the Board considered possible ways to provide information about the alternative settlement outcomes as described in paragraphs 5.43–5.47.

(a) Do you think the Board should seek to address the issue? Why, or why not?

(b) If so what approach do you think would be most effective in providing the information, and why?

15. Regarding the IASB's preliminary views set out in paragraph 5.48 of the DP, we think that further clarification is needed regarding the following points.

(a) Paragraph 5.48(a) of the DP states that, for a standalone derivative to extinguish an equity instrument, an entity would consider the combination of the derivative and the non-derivative equity instrument that will, or may, be extinguished by that derivative and, for classification purposes, the package of the contractual rights and obligations arising from that combination would be analysed consistently with a compound instrument that includes liability and equity components, unlike other derivatives that would be analysed in their entirety as implied by paragraph 4.38(a) of the DP. It is not necessarily clear why the DP emphasises the consistency with the compound instrument over other derivatives.

(b) Paragraphs 3.10 and 5.12-5.14 of the DP provide the order in which an entity considers classification of a claim with more than one possible settlement outcomes when that claim includes both a liability component and an equity component. That is, an entity firstly identifies an obligation to transfer economic resources that it does not have unconditional right to avoid as a non-derivative financial liability, and then an entity would apply the classification principles to the remaining rights and obligations to determine whether that remaining portion would be classified as an equity instrument if the portion were to exist as a standalone contract. It is not necessarily clear why an entity should follow that order and how such resulting information would be useful.

(c) Classification outcomes of two claims that have the same alternative settlement outcomes (such as a convertible bond and a puttable share) would be the same if an entity is to follow the IASB's preliminary views and the difference in their features (a bond or a share) would not reflect in the financial statements before the settlement occurs. In this regard, it is not necessarily clear why such consistent application from when those claims were initially recognised, as proposed in paragraph 5.48 of the DP, would provide more useful information.

(d) The DP merely explains that the views in paragraph 5.48 of the DP could be applied to claims related to written put options on its own shares and similar instruments such as NCI puts with a strike price at fair value. We think that the IASB should clarify whether the views could be extended to other claims such as contingent convertible bonds described in paragraph 1.25(b) of the DP.

16. Non-controlling interests on which a put option is written would be derecognised if the IASB's preliminary view in paragraph 5.48 of the DP were to be applied to NCI puts (see paragraph 5.39(b) of the DP). Some of our constituents raised concerns about the usefulness of this information, stating that there would be no balance of non-controlling interests on the face of the statement of financial position despite the fact that there still exist claims of non-controlling shareholders to the subsidiary until the put option is exercised. We understand that this outcome results from the emphasis on the consistency with instruments with the same alternative settlement outcomes noted in (c) of previous paragraph. However, we think that the IASB should be aware of such concerns when the IASB develops the IASB's preliminary views further based on the feedback received.

Question 7

Do you agree with the Board's preliminary views stated in paragraphs 6.53–6.54? Why, or why not?

The Board also considered whether or not it should require separation of embedded derivatives from the host contract for the purposes of the presentation requirements as discussed in paragraphs 6.37–6.41. Which alternative in paragraph 6.38 do you think strikes the right balance between the benefits of providing useful information and the costs of application, and why?

17. Regarding the IASB's preliminary view in paragraph 6.53(b) of the DP, we disagree

with the proposal of not recycling OCI for financial liabilities that are presented separately.

The reason for disagreeing with the proposal of non-recycling is as follows:

Paragraph 7.19 of the *Conceptual Framework* states that, in principle, income and expenses included in OCI in one period would be reclassified to the statement of profit or loss in a future period. The paragraph goes on to state that the IASB may decide that OCI would not be recycled to profit or loss, if, for example, there is no clear basis for identifying the relevant period or relevant amount for recycling.

7.19

In principle, income and expenses included in other comprehensive income in one period are reclassified from other comprehensive income into the statement of profit or loss in a future period when doing so results in the statement of profit or loss providing more relevant information, or providing a more faithful representation of the entity's financial performance for that future period. However, if, for example, there is no clear basis for identifying the period in which reclassification would have that result, or the amount that should be reclassified, the Board may, in developing Standards, decide that income and expenses included in other comprehensive income are not to be subsequently reclassified.

The DP states that an entity should not reclassify the amounts presented in OCI to profit or loss because the nature of income and expenses will not be different in the future and will therefore not be relevant to assessments of performance at a future date. We observe that the reason for not recycling OCI in the DP is inconsistent with the examples where the IASB may decide not to recycle, as mentioned in paragraph 7.19 of the *Conceptual Framework*. In this regard, we think that an entity can identify the period in which an entity should reclassify OCI and the amount that should be reclassified for both non-derivative financial liabilities and derivative financial liabilities in the following manner:

(a) For non-derivative financial liabilities:

It is assumed that the entity applies more than one measurement bases (as mentioned in paragraphs 6.83-6.86 of the *Conceptual Framework*) to the instrument in question and that the entity applies amortised cost to the instrument in the statement of profit or loss. Based on this understanding, the period in which an entity would reclassify OCI to profit or loss is when the entity redeems or repurchases the instrument. Likewise, the amount that should be recycled is the amount of the accumulated OCI when the entity redeems the instrument.

(b) For derivative financial liabilities:

If the IASB were to expand the use of OCI to derivatives, we think that more than one measurement bases would be relevant to the derivative financial liabilities similar to the situation as mentioned above for non-derivative financial liabilities. Accordingly, the period in which an entity would reclassify OCI to profit or loss is when the entity exercises the derivative or when the instrument expires. The amount that should be recycled is the amount of the accumulated OCI when the derivative is exercised or the instrument expires. We think, however, that this would be an exception, considering that paragraph 6.51 of the *Conceptual Framework* states that amortised cost is not a relevant measurement basis for derivatives.

Question 8

The Board's preliminary view is that it would be useful to users of financial statements assessing the distribution of returns among equity instruments to expand the attribution of income and expenses to some equity instruments other than ordinary shares. Do you agree? Why, or why not?

The Board's preliminary view is that the attribution for non-derivative equity instruments should be based on the existing requirements of IAS 33. Do you agree? Why, or why not?

The Board did not form a preliminary view in relation to the attribution approach for derivative equity instruments. However, the Board considered various approaches, including:

(a) a full fair value approach (paragraphs 6.74–6.78);

(b) the average-of-period approach (paragraphs 6.79–6.82);

(c) the end-of-period approach (paragraphs 6.83–6.86); and

(d) not requiring attribution, but using disclosure as introduced in paragraphs 6.87–6.90 and developed in paragraphs 7.13–7.25.

Which approach do you think would best balance the costs and benefits of improving information provided to users of financial statements?

18. We think that the attribution of income and expenses for non-derivative equity

instruments may provide useful information to some extent, but we disagree with the proposal for the following reasons:

(a) IAS 33 *Earnings per Share* already requires an entity to disclose similar information.

(b) Considering the problems of attributing income and expenses to derivative equity instruments as mentioned below, the necessity of attributing income and expenses only to non-derivative equity instruments is limited.

19. We disagree with expanding the attribution of income and expenses to derivative equity instruments. We think that each approach has challenges as mentioned below, mainly because the attribution is based on the book value.

(a) Under the full fair value approach, while the book value of the derivative instruments would reflect their economic value, the consequences of incomplete recognition and measurement in the financial statements would all be absorbed in the book value of ordinary shares and, accordingly, the amount attributed to the ordinary shares would be nothing other than a residual. This could result in the amount attributed to the ordinary shares being negative if the changes in fair value of the derivative instruments become larger than total comprehensive income, even when total comprehensive income is positive.

(b) Under the average-of-period approach, total comprehensive income would be attributed to the derivative instruments and the ordinary shares based on their relative fair value. However, their fair values are usually different by the amount equivalent to the principal and, accordingly, such difference may lead to a biased allocation of income and expenses.

(c) The end-of-period approach is based on the relative fair values of the derivative instruments and the ordinary shares in a manner similar to that of the average-of-period approach and, accordingly, the end-of-period approach has disadvantages similar to those under the average-of-period approach.

Considering these challenges, we think that information about the attribution of total comprehensive income may need to be conveyed through disclosures related to the potential dilution of ordinary shares developed in paragraphs 7.13–7.25 of the DP.

20. If the IASB were to develop proposals regarding the attribution on the face of financial statements further as suggested in the DP, we think that the IASB should

clarify how to present line items, such as whether the attributed amount for each equity instrument would be presented as a single line item or would be disaggregated based on the sources of each equity instrument (such as retained earnings).

Question 9

The Board's preliminary view is that providing the following information in the notes to the financial statements would be useful to users of financial instruments:

(a) information about the priority of financial liabilities and equity instruments on liquidation (see paragraphs 7.7–7.8). Entities could choose to present financial liabilities and equity instruments in order of priority, either on the statement of financial position, or in the notes (see paragraphs 6.8–6.9).

(b) information about potential dilution of ordinary shares. These disclosures would include potential dilution for all potential issuance of ordinary shares (see paragraphs 7.21–7.22).

(c) information about terms and conditions should be provided for both financial liabilities and equity instruments in the notes to the financial statements (see paragraphs 7.26–7.29).

Do you agree with the Board's preliminary view? Why, or why not?

How would you improve the Board's suggestions in order to provide useful information to users of financial statements that will overcome the challenges identified in paragraphs 7.10 and 7.29?

Are there other challenges that you think the Board should consider when developing its preliminary views on disclosures?

21. Users in Japan are generally positive about the proposals in the DP in that the proposed disclosures could capture features of the claims that are not presented by the distinction between liabilities and equity. These users think that the IASB should proceed with improving disclosures with high priority, even if the IASB cannot improve the distinction between liabilities and equity in a timely manner. These users specifically think that following disclosures could be useful:

(a) The priority of claims on liquidation

(b) The potential dilution of ordinary shares

(c) Contractual terms and conditions, in particular, conditions that trigger redemption or conversion to common shares and conditions that allow an entity to defer the payment of interest.

22. At the same time, proposals (b) and (c) in the previous paragraph may overlap with existing disclosure requirements, and accordingly, we think that the IASB should be mindful not to increase unnecessary cost for preparers. For example, we think that the IASB could integrate these proposals with existing disclosure requirements.

Question 10

Do you agree with the Board's preliminary view that:

(a) economic incentives that might influence the issuer's decision to exercise its rights should not be considered when classifying a financial instrument as a financial liability or an equity instrument?

(b) the requirements in paragraph 20 of IAS 32 for indirect obligations should be retained?

Why, or why not?

23. We agree with the IASB's preliminary view (a) because this view is consistent with the requirements in IAS 32 in that an entity classifies an instrument based on the contractual terms and because, as mentioned in paragraph 8.10 of the DP, the amount feature under the IASB's preferred approach would address classification concerns about certain claims without the need to consider economic incentives and economic compulsion.

24. On the other hand, we think that the IASB's preliminary view (b) is inconsistent with view (a) despite the statement in paragraph 8.24 of the DP which states that the requirements in paragraph 20 of IAS 32 do not conflict with the general principle of excluding economic incentives when classifying a financial instrument. This is because paragraph 20 of IAS 32 classifies a claim based on whether a certain settlement outcome is always economically favourable, when other settlement alternatives are possible and, accordingly, that paragraph essentially considers economic incentives when classifying a claim.

Question 11

The Board’s preliminary view is that an entity shall apply the Board’s preferred approach to the contractual terms of a financial instrument consistently with the existing scope of IAS 32. Do you agree? Why, or why not?

25. We agree with the proposals.