

Stakeholder Outreach Programme on the Discussion Paper on ‘Financial Instruments with Characteristics of Equity’

In India, as of today, majority of Public Interest Entities (PIEs) present their financial statements under Ind AS Framework. Banks and Insurance Entities will be moving to Ind AS Framework soon i.e. from 1st April, 2019 and 1st April, 2020, respectively. Hence, regular monitoring and alignment with international moves is very crucial to remain converged with IFRS Standards at all times.

IASB periodically performs fundamental review of certain IFRS Standards to ensure that those Standards continue to remain relevant, particularly in Indian context and, faithfully and appropriately reflect the economic substance of the transactions and events. As a part of this exercise, the IASB undertakes extensive consultations with its stakeholders across the globe. Needless to say, India, a fifth largest economy with GDP of US\$ 2.8 trillion and vibrant capital and financial markets, has an obligation and an opportunity to play an active role in the global standard-setting activities.

One of the significant projects taken up by IASB recently is ‘FICE-Financial Instruments with Characteristics of Equity’ to address the concerns about classification and presentation of critical transactions i.e. Financial Instruments as Equity or Debt, which are currently covered by IAS 32, *Financial Instruments- Presentation* (Indian Accounting Standard is Ind AS 32). Distinction between equity and debt assumes high significance in the context of information about the financial position and financial performance of an entity.

This project is likely to bring paradigm shift in the approach to classify a financial instrument as either equity or financial liability. Some of the key impact areas covered in the Discussion Paper are as follows:

- ✓ Debt equity classification: New concepts and New Articulations
- ✓ Puttable Instruments and Foreign Currency Rights Issue Exceptions

(Contributed by Accounting Standards Board of the ICAI. Comments can be sent to asb@icai.in)



- ✓ Foreign Currency Convertible Bonds
- ✓ Presentation and Disclosure:
 - Attribution of profits to potential future shareholders
 - Segregation of liabilities based on priority of claims on liquidation
- ✓ Laws and Economic Compulsion

Following are the significant impact areas in the Discussion Paper where feedback is required from the relevant stakeholders:

- ✓ Puttable Instruments and Foreign Currency Rights Issue Exceptions: Are they required?
- ✓ Foreign Currency Convertible Bonds: Whether Ind AS carve-out needs reconsideration.
- ✓ Laws and Economic Compulsions: Can they be ignored for the purpose of classification?
- ✓ Presentation and Disclosure requirements: Whether they meet the stakeholders’ disclosure needs.

The ICAI had circulated this Discussion Paper among Indian Stakeholders in the month of August, 2018 and has hosted the same on its website for their comments. Further, in order to understand the stakeholders’ concerns and get their inputs on the areas of concerns in the Discussion paper, the ICAI organised a Stakeholder Outreach programme on 27th November, 2018 at ICAI Bhawan, BKC, Mumbai. Another stakeholder outreach programme on this Discussion Paper is being scheduled in Delhi. Inputs received from the stakeholders would help ICAI in raising the Indian concerns with IASB. ■