

IFRS IN BRIEF

IAS 32 *Financial Instruments: Presentation*

OBJECTIVES

- Key definitions for classification of financial instruments
- Presenting financial instruments as equity or liabilities
- Principles of offsetting financial assets and liabilities

FINANCIAL ASSETS

Financial assets are any assets that are:

- Cash
- An equity instrument of another entity
- A contractual right to receive cash or another financial asset
- A contractual right to exchange financial assets or financial liabilities with another entity in potentially favourable conditions
- A contract that may or will be settled in an entity's own equity instruments and is either
 - A non-derivative where the entity may receive a variable number of their own equity instruments; or
 - A derivative which will or may be settled other than by exchanging a fixed amount of a financial asset for a fixed number of the entity's equity instruments.

FINANCIAL LIABILITIES

Financial liabilities are any liability that is:

- A contractual obligation to deliver cash or another financial asset

- A contractual obligation to exchange financial assets or financial liabilities with another entity in potentially unfavourable conditions.
- A contract that may or will be settled in an entity's own equity instrument and is either
 - A non-derivative where the entity may have to deliver a variable number of the entity's own equity instruments; or
 - A derivative which will or may be settled other than by exchanging a fixed amount of a financial asset for a fixed number of the entity's equity instruments.

EQUITY INSTRUMENTS

A residual interest in the assets of an entity after deducting all of its liabilities.

There are no contractual obligations to deliver cash or other financial assets.

Some financial instruments have contractual obligations for the issuer to return cash or other financial assets to the holders in specific circumstances. If these arrangements meet specific conditions, these instruments can still be presented as equity. These instruments are generally puttable back to the entity on the occurrence of an uncertain future event, or on liquidation and have features including:

- Entitlement to a pro-rata share of the net assets on liquidation
- It is subordinate to all other classes of instruments
- No other requirements to pay a return to the holder that would meet the definition of a financial liability

Where instruments contain both financial liability and equity components, the instrument shall be separated into its components and each recognised separately.

- The financial liability component is recognised at its fair value (in accordance with IFRS 9)
- The equity component is measured at the residual value after recognising the liability component.

TREASURY SHARES

When an entity reacquires its own equity instruments, these instruments are presented as a reduction in the entity's total equity.

No gain or loss is recognised in profit or loss from buying or selling an entity's own equity instruments.

EQUITY TRANSACTIONS

Distributions to holders of equity instruments are recognized directly in equity and are not recognised in profit or loss.

Transaction costs of equity transactions are recognised as a reduction in equity and are not recognised in profit or loss.

OFFSETTING

Financial assets and financial liabilities shall only be offset and a net amount presented in the Statement of financial position when

- There is a legal right to offset the two amounts
- The entity intends to settle on a net basis or settle simultaneously

Where financial assets do not qualify for derecognition, the transferred assets and the related liability shall not be offset.

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