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# IAS - 32

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Financial Instruments:  
Presentation

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**International Accounting Standard No 32 (IAS 32)**

**Financial Instruments: Presentation**

## Objective

1. [Delete]
2. The objective of this Standard is to establish principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities. Apply in the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments in the classification of interest, dividends and gains and losses associated with them, and the circumstances under which financial assets and financial liabilities can be offset.
3. The principles of this Standard complement those on the recognition and measurement of financial assets and financial liabilities in IAS 39 Financial Instruments: Recognition and Measurement, as well as for information to reveal about the same as IFRS 7 Financial Instruments: Information to be disclosed.

## Scope

4. **This Standard shall be applied by all entities to all types of financial instruments, except:**
  - (a) those interests in subsidiaries, associates and joint ventures that are accounted for in accordance with IAS 27 Consolidated and Separate Financial Statements IAS 28 Investments in associates and IAS 31 Interests in joint ventures. However, in some cases, IAS 27, IAS 28 or IAS 31 allows an entity reckoned the shares in a subsidiary, associate or joint venture to apply IAS 39 in these cases, entities shall apply the requirements of this Standard. The entities also apply this Standard to all derivatives linked to shares in subsidiaries, associates or joint ventures.**
  - (b) The rights and obligations of employers from benefit plans, which apply IAS 19 Employee Benefits.**
  - (c) The contracts establish a contingent counterparts in a business combination (see IFRS 3 Business Combinations). This exemption only applies to the acquirer.**
  - (d) insurance contracts as defined in IFRS 4 Insurance contracts. However, this Standard applies to derivatives embedded in insurance contracts if IAS 39 requires that the entity that counted separately. In addition, an issuer shall apply this Standard to financial guarantee contracts if IAS 39 applies in the recognition and valuation of these contracts, but apply IFRS 4 if elected, in accordance with paragraph (d) of paragraph 4 of IFRS 4 apply IFRS 4 for the recognition and**

valuation.

**(e) Financial instruments that fall within the scope of IFRS 4 because they contain a discretionary participation component. The issuer of these instruments is exempt from those provisions apply to paragraphs 15 to 32 of this Standard, and GA25 to GA35 paragraphs of the Guide to Application, which refer to the distinction between financial liabilities and equity instruments. However, these will be 1 February 2009 subject to other requirements of this Standard. Furthermore, this Standard applies to derivatives embedded in these instruments (see IAS 39).**

**(f) Financial instruments, contracts and obligations arising from transactions with share-based payments covered by IFRS 2 Share-based Payment, except:**

**(i) contracts within the scope of paragraphs 8 to 10 of this Standard, which applies the same**

**(ii) paragraphs 33 and 34 of this rule, which applies to shares bought, sold, issued or paid in connection with stock option plans to employees, plans to purchase shares for employees and all other agreements share-based payment.**

5. 5-7 [Deleted]

**8. This rule applies to contracts for the purchase or sale of non-financial items that are settled by net cash or another financial instrument or by exchanging financial instruments, as if these contracts are financial instruments, except contracts that are held and maintained in order to receive or deliver a non-financial item in accordance with the purchase, sale or usage requirements expected by the entity.**

9. There are ways in which a purchase or sale of non-financial factors may be settled by the net, either in cash or another financial instrument or by exchanging financial instruments. Among them include:

(a) When contract terms permit any party to settle the net amount, in cash or another financial instrument or by exchanging financial instruments;

(b) Where the ability to settle the net amount in cash or another financial instrument or by exchanging financial instruments is not explicitly given in terms of the contract, but the entity normally settled by similar contracts net in cash or another financial instrument or by exchanging financial instruments (whether with the counterparty, or by compensation agreements by selling the contract before its exercise or expiration of the term);

(c) If, for similar contracts, the agency usually requires the delivery of the underlying band and in a short period of time, with the objective of generating profits by the price fluctuations in the short term or brokerage commissions and

(d) When the non-financial element to which the contract is readily convertible into cash.

A contract to which they apply paragraphs (b) or (c) will not have been held with the purpose of receiving or delivering a non-financial item in accordance with the requirements of purchase, sale or use expected by the entity and, Therefore, be within the scope of the Standard. Other contracts to which it applies, paragraph 8, shall be assessed to determine whether they have been or are kept for the purpose of receiving or delivering a non-financial item in accordance with the purchase, sale or usage requirements expected by the entity, and therefore if they are within the scope of this Standard.

- 10.** An option issued to purchase or sell non-financial elements that can be liquidated by the net, either in cash or another financial instrument or by exchanging financial instruments, in accordance with paragraphs (a) or ( d) of paragraph 9, shall be within the scope of the Standard. That contract cannot be held for the purpose of receiving or delivering a non-financial item in accordance with the purchase, sale or usage requirements expected by the entity.

**Definitions (see also paragraphs GA3 to GA23)**

- 11. The following terms are used in this Standard with the meanings specified:**

**A financial instrument is any contract that gives rise simultaneously to a financial asset in one entity and a financial liability or equity instrument in another entity.**

**A financial asset is any asset that is:**

**(a) Cash;**

**(b) an equity instrument of another entity;**

**(c) a contractual right:**

**(i) to receive cash or another financial asset from another entity, or**

**(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity or**

**(d) a contract which is or may be settled using equity instruments of the entity itself and is:**

**(i) a non-derivative, where the entity would or could be required to receive a variable amount of own equity instruments, or**

**(ii) a derivative that is or could be settled otherwise than by means of an exchange of a fixed amount of cash or another financial asset for a fixed amount of the equity instruments of the entity itself. For this purpose the equity instruments of the entity itself does not include financial instruments with option classified as equity instruments in accordance with paragraphs 16A and 16B, the instruments that impose an obligation on the entity to deliver to a third proportional of the net assets of the entity only at the time of settlement and are classified as equity instruments in accordance with paragraphs 16C and 16D, or instruments that are contracts for future delivery or receipt of own equity instruments of the entity .**

**A financial liability is any liability that is:**

**(a) a contractual obligation:**

**(i) deliver cash or another financial asset to another entity, or**

**(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity or**

**(b) a contract which is or may be settled using equity instruments of the entity itself, and is:**

**(i) a non-derivative, where the entity would or could be required to deliver a variable number of own equity instruments, or**

**(ii) a derivative that will or may be settled otherwise than by means of an exchange of a fixed amount of cash or another financial asset for a fixed amount of the equity instruments of the entity itself. For this purpose the equity instruments of the entity itself does not include financial instruments with option classified as equity instruments in accordance with paragraphs 16A and 16B, instruments that impose an obligation on the entity to deliver to others a proportionate share of net assets of the entity only at the time of settlement and that are classified as equity instruments in accordance with paragraphs 16C and 16D, or instruments that are contracts for future delivery or receipt of own equity instruments of the entity.**

**As an exception, an instrument that meets the definition of a financial liability is classified as an equity instrument, if you have all the features and meets the**

**conditions in paragraphs 16A and 16B or paragraphs 16C and 16D.**

**An equity instrument is any contract that shows a residual interest in the assets of an entity after deducting all its liabilities.**

**Fair value is the amount for which an asset could be exchanged or a liability settled, between the parties involved and informed, conducting a transaction at arm's length.**

**An instrument with option (putt able instrument) is a financial instrument that gives the holder the right to return the instrument to the issuer for cash or another financial asset or is automatically returned to the issuer at the time an event takes place uncertain or the death or retirement, the holder of that instrument.**

12. The following terms are defined in paragraph 9 of IAS 39 and are used in this Standard with the meanings specified herein.

- amortized cost of a financial asset or a financial liability
- financial assets held for sale
- Low on accounts
- derivative
- method of effective interest rate
- financial asset or financial liability at fair value through profit or loss
- Financial guarantee contract
- firm commitment
- transaction
- effectiveness of the hedge
- hedged item
- hedging instrument
- held to maturity investments
- loans and receivables items
- buying or selling conventional
- transaction costs

13. In this Standard, the terms "contract" and "contractual" refer to an agreement between two or more parties that occur, the parties involved are clear economic consequences that have little or no ability to avoid, since the implementation of the agreement is legally enforceable. Contracts and financial instruments for both partners, can adopt a variety of forms and need not be fixed in writing.

14. In this Standard, the term "entity" includes both individuals and businesses to form partnerships between employers, as well as legally established companies, a coalition of organizations and public entities.

## **Presentation**

### **Liabilities and net worth (see also paragraphs 13 to GA 14J and GA25 to GA29)**

- 15. The issuer of a financial instrument is classified in whole or in each of its component parts, at the time of its initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of financial liabilities, financial assets and equity instrument.**
16. When an issuer applies the definitions in paragraph 11, to determine whether a financial instrument is an equity instrument rather than a financial liability, the instrument is equity if and only if two conditions are met (a) and ( b) described below.
- (a) The instrument does not have a contractual obligation:
- (i) deliver cash or another financial asset to another entity, or
  - (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the issuing entity.
- (b) If the instrument is or could be settled with equity instruments of the issuer itself, is:
- (i) A non-derivative instrument that does not include any contractual obligation for the issuer to deliver a variable number of own equity instruments, or
  - (ii) a derivative that will be settled exclusively by the issuer through the exchange of a fixed amount of cash or another financial asset for a fixed amount of its own equity instruments. For this purpose the equity instruments of the issuer itself will not include instruments that meet all the characteristics and meet the conditions described in paragraphs 16A and 16B or paragraphs 16C and 16D, or instruments that are contracts for future delivery or receipt of instruments issuer's own equity.

A contractual obligation, including those arising from a derivative financial instrument that will or may result in future delivery or receipt of the equity instruments of the issuer itself, will not be considered an equity instrument does not meet the conditions ( a) and (b) above. As an exception, an instrument that meets the definition of a financial liability is classified as an equity instrument, if you have all the features and meets the conditions in paragraphs 16A and 16B or paragraphs 16C and 16D.

## **Instruments with option**

**16A.** A financial instrument option includes a contractual obligation for the issuer to repurchase or redeem the instrument by cash or another financial asset at the time of exercising the option. As an exception to the definition of financial liability, an instrument that includes such an obligation is classified as an equity instrument if it meets all of the following:

(a) give the holder the right to a proportionate share of net assets of the entity in liquidation of the entity. The net assets of the entity are to be retained after deducting all other claims on their assets. A proportionate share is determined by:

(i) dividing the net assets of the entity at the time of the settlement amount in units and

(ii) multiplying that amount by the number of units held by the holder of financial instruments.

(b) The instrument belongs to the class of instruments that is subordinate to all other classes of instruments. Being in that class on the instrument:

(i) does not have priority over other rights to the assets of the entity at the time of liquidation, and

(ii) need not become another instrument before it is in the class of instruments that is subordinate to all other classes of instruments.

(c) All financial instruments of the kind of instruments that is subordinate to all other kinds of instruments have identical characteristics. For example, should include all option, and the formula or other methods used to calculate the repayment or repurchase price is the same for all instruments of that class.

(d) In addition to the contractual obligation for the issuer to repurchase or redeem the instrument by means of cash or another financial asset, the instrument includes no contractual obligation to deliver cash to another entity or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity and not a contract which is or may be settled using equity instruments of the entity itself as provided in subparagraph (b) of the definition of a financial liability.

(e) The total expected cash flows attributable to the instrument throughout its life is substantially based on results, the change recognized in net assets or the change in fair value of net assets recognized and unrecognized by entity throughout the life of the instrument (excluding any effects of the instrument).

**16B.** To that instrument is classified as an equity instrument and that the instrument has all the features mentioned above, the issuer must not have any other financial instrument or contract that has:

(a) Total cash flows based substantially on the outcome, the change recognized in net assets or the change in fair value of net assets recognized or not recognized by the entity (excluding any effects of the instrument or contract) and

(b) the effect of substantially restricting or fixing the residual return for the holder of the instrument with a put option.

In order to implement this condition, the entity will not consider non-financial contracts with a holder of an instrument described in paragraph 16A that have contractual clauses and conditions that are similar to those of an equivalent contract that might take place between a holder does not have the instrument and the entity that it emits. If the entity cannot determine that this condition is met, the instrument is not classified with option as an instrument of wealth.

**Instruments, or components of instruments, that impose on the entity an obligation to deliver to others a proportionate share of net assets of the entity only at the time of settlement**

**16C.** Certain financial instruments include a contractual obligation to the issuing entity to another entity to deliver a proportionate share of its net assets only at the time of settlement. The obligation arises either because the settlement will occur with certainty and outside the control of the entity (e.g. a limited life entity) or because it occurs is uncertain but it is an option of the holder of the instrument. As an exception to the definition of a financial liability, an instrument that include such an obligation is classified as an equity instrument if it meets all of the following:

(a) give the holder the right to a proportionate share of the net assets of the institution's payment of the same. The net assets of the entity are to be retained after deducting all other claims on their assets. A proportionate share is determined by:

(i) dividing the net assets of the entity at the time of the settlement amount of units and

(ii) multiplying that amount by the number of units held by the holder of financial instruments.

(b) The instrument is in the class of instruments that is subordinate to all other classes of instruments. Being in that class on the instrument:

(i) does not have priority over other rights to the assets of the entity at the time of liquidation, and

(ii) need not become another instrument before it is in the class of instruments that is subordinate to all other classes of instruments.

(c) All financial instruments of the kind of instruments that is subordinate to all other kinds of instruments should have a contractual obligation for the same issuing entity to deliver a proportionate share of its net assets at the time of settlement.

16D For an instrument is classified as an equity instrument and that the instrument has all the features mentioned above, the issuer must not have other financial instrument or contract that has:

(a) cash flows based substantially on the outcome, the change recognized in net assets or the change in fair value of net assets recognized and not recognized by the entity (excluding any effects of the instrument or contract) and

(b) the effect of substantially restricting or fixing the residual return for the holder of the instrument.

In order to implement this condition, the entity will not consider non-financial contracts with a holder of an instrument described in paragraph 16C having contractual terms and conditions that are similar to those of an equivalent contract that might take place between a holder does not have the instrument and the entity that it emits. If the entity cannot determine that this condition is met, the instrument is not classified as an equity instrument.

**Reclassification of put option instruments and instruments that impose on the entity an obligation to deliver to others a proportionate share of net assets of the entity only at the time of settlement**

**16E.** An entity shall classify a financial instrument as an equity instrument in accordance with paragraphs 16A and 16B or paragraphs 16C and 16D from the date on which the instrument has all the features and meets the conditions in those paragraphs. An entity to reclassify a financial instrument from the date on which the instrument ceases to have all the features or meet all the conditions of those paragraphs. For example, if an entity reimburses all instruments without option that has issued and all their instruments with option to remain outstanding with all the features and meets the conditions in paragraphs 16A and 16B, the entity shall reclassify the instruments with option sale of equity instruments such as from the date on which the instruments without reimburse option.

**16F.** An entity shall account for the reclassification of an instrument as follows in

accordance with paragraph 16E:

(a) to reclassify an equity instrument as a financial liability from the date on which the instrument ceases to have all the features or meet the conditions in paragraphs 16A and 16B or paragraphs 16C and 16D. The financial liabilities must be valued at fair value of the instrument at the date of reclassification. The entity shall recognize any difference in wealth between the book value of the equity instrument and the fair value of financial liabilities at the date of reclassification.

(b) to reclassify property as a financial liability from the date on which the instrument has all the features and meets the conditions in paragraphs 16A and 16B or paragraphs 16C and 16D. An equity instrument must be valued at book value of financial liabilities at the date of reclassification.

**No contractual obligation to deliver cash or another financial asset [paragraph 16 (a)]**

17. With the exception of the circumstances described in paragraphs 16A and 16B or paragraphs 16C and 16D, a key element in differentiating a financial liability from an equity instrument, is the existence of a contractual obligation of a party to the instrument finance (the issuer) to deliver cash or another financial asset to another party (the holder) or to exchange financial assets or financial liabilities with the holder under conditions that are potentially unfavorable to the issuer.

18. It will be the substance of a financial instrument, rather than their legal form, which should guide the classification of the same in the statement of financial position of the entity. The legal background and how often consistent, but not always are. Certain financial instruments have the legal form of equity but, in essence, are passive and others may combine features associated with equity instruments and other associated with financial liabilities. For example:

(a) A preference share is a financial liability if the issuer is obliged to repay a fixed or determinable amount at a certain or determinable future date, or gives the holder the right to require the issuer to redeem the instrument, a specific date or the same, and for a fixed or determinable.

(b) A financial instrument giving the holder the right to return to the issuer for cash or another financial asset (a "tool option") is a financial liability, except in the case of instruments classified as equity instruments in accordance with paragraphs 16A and 16B or paragraphs 16C and 16D. The financial instrument is a financial liability even when the amount of cash or another financial asset is determined on the basis of an index or other item that has the ability to increase or decrease. The existence of an option that provides the holder the right to return the instrument to the issuer for cash or another financial asset means that the instrument option meets the definition of a financial

liability, except in the case of instruments classified as equity instruments in accordance with paragraphs 16A and 16B or paragraphs 16C and 16D. For example, a variable premium mutual funds, investment funds, investment partnerships for some entities and cooperatives, can give its members or members entitled to receive reimbursement at any time in its cash holdings leading to them are classified as financial liabilities, except for those instruments classified as equity instruments in accordance with paragraphs 16A and 16B or paragraphs 16C and 16D. However, classification as a financial liability does not preclude the use in the financial statements of an entity that has no assets made (such as some mutual funds and investment funds, see example 7), such as "value of net assets attributable to members "and" changes in the value of net assets attributable to shareholders ", or the use of additional information to disclose to show that the total membership includes items such as reserves that meet the definition of equity and option instruments Sales, which does not meet (see illustration 8).

19. If an entity does not have an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the obligation meets the definition of a financial liability, except in the case of instruments classified as equity instruments in accordance with paragraphs 16A and 16B or paragraphs 16C and 16D. For example:

(a) A restriction on the ability of the entity to meet a contractual obligation, such as the unavailability of foreign currency or the need to obtain approval for payment from a regulatory authority does not override the obligation contract of the entity or the right of the holder of the contractual instrument.

(b) A contractual obligation that is conditional on the counterparty exercises its right to reimbursement, will be a financial liability because the entity does not have the unconditional right to avoid delivering cash or another financial asset.

20. A financial instrument that does not, explicitly, a contractual obligation to deliver cash or another financial asset may establish such an obligation indirectly through its terms and conditions. For example:

(a) A financial instrument may not contain an obligation, which will be settled if and only if, the entity ceases to distribute components of their net worth or violates the commitment to repay the instrument. If the entity can avoid the transfer of cash or another financial asset only by settling the non-financial obligation, the instrument will be a financial liability.

(b) A financial instrument is a financial liability if it establishes that the settlement, the entity can be delivered:

(i) cash or another financial asset or

(ii) its own shares, whose value is substantially higher than the cash or another financial asset.

Although the entity does not have an express contractual obligation to deliver cash or another financial asset, the value of the liquidation option is in the form of shares of such amount that the entity will settle in cash. In any case, the holder is substantially assured of receiving an amount that is at least equal to that obtained through the cash settlement option (see paragraph 21).

**Clearance by the equity instruments of the entity itself (paragraph (b) of paragraph 16)**

21. A contract is not an equity instrument because it can only lead to the receipt or delivery of the equity instruments of the entity itself. An entity may have a right or a contractual obligation, which is to receive or deliver a quantity of its own shares or other equity instruments that vary, such that the fair value of own equity instruments to deliver or receive is equal to the amount of duty or contractual obligation. This contractual right or obligation may be for a fixed amount or its value may fluctuate, in whole or in part in response to changes in a variable other than the market price of the equity instruments of the entity itself (e.g., a type of interest, the price of a commodity or quote the price of a financial instrument). Two examples are (a) a contract to deliver equity instruments of the entity itself amount to a value of 100 \* um, and (b) a contract to deliver its own equity instruments of the entity equal to the price of 100 ounces of gold. This contract is a financial liability of the entity, even if it could or should be settled by the delivery of its own equity instruments. It will not be an equity instrument because the entity uses a variable amount of its own equity instruments to settle the contract. According to the above, the contract does not reveal a residual interest in the assets of the entity after deducting all its liabilities.

**Clearance by the equity instruments of the entity itself [paragraph 16 (b)]**

22. Except as noted in paragraph 22A, a contract to be settled by the entity (receiving or delivering a fixed amount of its own equity instruments in exchange for a fixed amount of cash or another financial asset is a equity instrument. For example, a given stock option giving the counterparty the right to purchase a specified number of shares of the entity for a fixed price or a fixed amount of pre-established principal of a bond is an equity instrument. Changes in the fair value of a contract that may arise at the time of settlement due to changes in market interest rates do not affect its classification as equity, provided they do not affect the amount payable or receive cash or other financial instruments, or the amount of equity to receive or deliver, respectively. Any consideration received (such as the premium is received in a given option or an option on the certificate of the entity's own shares (warrant)) is added directly to equity. Any consideration paid (the premium paid for a purchased option) is deducted directly from equity. Financial statements not recognize changes in fair value of the equity

instruments.

**22A.** If the equity instruments of the entity itself to receive or deliver the same at the time of settlement of a contract are financial instruments with option features and with all the conditions described in paragraphs 16A and 16B or instruments that impose on the entity an obligation to deliver to others a proportionate share of net assets of the entity only at the time of settlement with all the features and the conditions described in paragraphs 16C and 16D, the contract is a financial asset or financial liability. This includes a contract to be settled by the entity receiving or delivering a fixed amount of these instruments in exchange for a fixed amount of cash or another financial asset.

23. With the exception of the circumstances described in paragraphs 16A and 16B or paragraphs 16C and 16D, a contract containing an obligation for an entity to purchase its own equity instruments in exchange for cash or another financial instrument, will rise to a financial liability for the current value of the amount to be reimbursed (for example, the current value of the forward repurchase price, the exercise price of the option or otherwise related to the repayment amount). This is true even if the contract itself is an equity instrument. An example of this situation will be when the entity has a contract term, which compels him to buy their own equity instruments for cash. To initial recognition financial liabilities, according to IAS 39, fair value (i.e. the present value of the amount to be refunded) will be reclassified from equity. Subsequently, the financial liabilities will be valued in accordance with IAS 39. If the contract does not expire and there was no surrender, the amount of the financial liability will be reclassified as equity. The contractual obligation of an entity to purchase its own equity instruments, will lead to a financial liability to be accounted for by the present value of the amount to be repaid even if the obligation to purchase was conditional on the exercise of an option for repayment the other party (for example, a put option issued by the entity that would give the other the right to sell it for a fixed price, its own equity instruments).
24. A contract may be settled by the entity by delivering or receiving a fixed amount of its own equity instruments in exchange for a variable amount of cash or another financial asset, is a financial asset or financial liability. One example is a contract by which the entity has to deliver 100 of its own equity instruments in exchange for a cash amount equivalent to 100 ounces of gold.

### **Contingent payment clauses**

25. A financial instrument may require an entity to deliver cash or another financial asset, or it settles as a financial liability in the event that occurs or not some uncertain future event (or depending on the outcome of uncertain circumstances) that is outside the control of both the issuer and the holder of the instrument, such as a change in an index of shares in an index of consumer prices in an interest rate or fiscal requirements or in the future revenues of the issuer on the results or net debt to assets ratio of the issuer. The issuer of this instrument will not have the unconditional right to avoid delivering cash or another

financial asset (or otherwise settle the instrument as a financial liability). Therefore, there will be a financial liability to the issuer, unless:

(a) that part of the contingent settlement provision that could require settlement in cash or another financial asset (or, alternatively, in a manner similar to as if it were a financial liability) is not really contingent;

(b) the issuer would be required to settle the obligation in cash or another financial asset (or, alternatively, in a manner similar to as if it were a financial liability) only in the event of liquidation of the issuer, or

(c) the instrument has all the characteristics and meets the conditions in paragraphs 16A and 16B.

### **Settlement Options**

**26. Where a derivative financial instrument giving to one party the right to choose the form of payment (e.g. when the issuer or the holder can choose settlement by a net amount in cash or by exchanging shares for cash) will be a financial asset or financial liability, unless all the alternatives of liquidation would lead to consider this as an equity instrument.**

27. An example of a derivative financial instrument with a settlement option that is a financial liability, would be an option on shares where the issuer may decide to settle for a net amount in cash or by exchanging their shares for cash. In a similar vein, some contracts to buy or sell a non-financial item in exchange for equity instruments of the entity itself, be within the scope of this Standard because they can be settled by delivery of the item is not financial, or by an amount net cash or other financial instrument (see paragraphs 8 to 10). These contracts are financial assets or financial liabilities, but not equity instruments.

### **Compound financial instruments (see also paragraphs GA30 to GA35 and Illustrative Examples 9 to 12)**

**28. The issuer of a derivative financial instrument does not assess conditions to determine if it contains components of liabilities and assets. These components are classified separately as financial liabilities, financial assets or equity instruments, as set out in paragraph 15.**

29. An entity shall recognize the separate components of an instrument (a) creates a financial liability for the entity and (b) an option granted to the holder thereof into an equity instrument of the entity. An example of a compound instrument is a bond or similar instrument that is convertible by the holder of a fixed amount of shares of the entity. From the perspective of the entity, this instrument will have two components: a

financial liability (a contractual arrangement to deliver cash or another financial asset) and an equity instrument (a purchase option that gives the holder, for a given period of time, the right to turn it into a predetermined number of shares of the entity). The economic impact of an issue as it is essentially the same as one would have to issue a debt instrument with an early termination clause, and warrants (warrants) to purchase ordinary shares, or the same as would have to issue a debt instrument with warrants (warrants) to purchase shares that were severed from the main instrument. Accordingly, in all cases, the entity shall submit the components of assets and liabilities separately within its statement of financial position.

30. The classification of components of liabilities and assets, in a convertible, will not be reviewed as a result of a change in the probability of the conversion option is exercised, even when it may appear that the exercise of it has become in economically advantageous to some holders. The holders of the options do not always act the way you might expect, which may be due, for example, that the tax consequences of conversion are different from one holder to another. Furthermore, the probability of conversion will change over time in line. The contractual obligation of the entity to make future payments, will remain valid until their conversion, maturity of the instrument or any other transaction.
31. IAS 39 deals with the valuation of financial assets and financial liabilities. Equity instruments reveal a residual interest in the assets of the entity after deducting all its liabilities. Therefore, when we distribute the initial amount of books in a compound financial instrument, including its liabilities and assets are allocated to the equity instrument to obtain residual amount after deducting the fair value of the whole instrument. The amount has been determined separately for the passive component. The value of any derivative (e.g. a possible option to purchase), which is implicit in the compound financial instrument but is different than the equity component (that may be, for example, a conversion option into equity), will include within the passive component. The sum of the amounts allocated in books, on initial recognition, the components of liabilities and assets, the value will always be reasonable to give the whole instrument. No gains or losses may arise from initial recognition of the components of the instrument separately.
32. According to the procedure described in paragraph 31, the issuer of a bond convertible into ordinary shares determined in the first place, the amount of the liability component, assessed on the fair value of a similar liability that does not lead to an associate property (but including, where appropriate, any items that are not embedded derivatives heritage). The amount of the equity instrument represented by the option of converting the instrument into ordinary shares is determined by deducting the fair value of financial liabilities the fair value of the compound financial instrument as a whole.

**Stock (see also paragraph GA36)**

- 33. If an entity repurchase its own equity instruments, the amount of "shares" will be deducted from the assets. Not recognize any gain or loss in income for the year arising from the purchase, sale, issuance or redemption of own equity instruments of the entity. These shares may be acquired and held by the entity or by other members of the consolidated group. The consideration paid or received is recognized directly in equity.**
34. The amount of the shares will be held separate disclosure, either in stock or notes in accordance with IAS 1 Presentation of Financial Statements. The entity will provide, in the event of repurchase of its own equity instruments to related parties to disclose the information provided in IAS 24 to disclose information on related party.

**Interest, dividends, gains or losses (see also paragraph GA37)**

- 35. Interest, dividends and gains and losses relating to a financial instrument or a component thereof, that is a financial liability, are recognized as income or expense in the income for the year. Distributions to holders of an equity instrument are debited by the entity directly to equity, for a net amount of any tax-related. Transaction costs that relate to any part of the assets are still counted as a deduction from assets, for a net amount of any tax-related.**
36. The classification of a financial instrument as a financial liability or an equity instrument will determine whether interest, dividends, gains or losses related to it are recognized as income or expense in the income for the year. Therefore, dividend payments on shares that have been recognized in full as liabilities, are recognized as expenses in the same way that the interests of an obligation. In a similar way, the profits and losses associated with the redemption or refinancing of the financial liabilities are recognized in income for the year, while the purchase or refinancing of the equity instruments are recognized as changes in equity. Financial statements not recognize changes in fair value of the equity instruments.
37. An entity shall, in general, different types of costs in issuing or acquiring its own equity instruments. Such costs may include, inter alia, registration and other fees charged by regulators or supervisors, the amounts paid to legal counsel, accountants and other professional advisers, printing costs and related rings. Transaction costs of equity is counted as a deduction from the amount thereof (net of any related tax incentive) to the extent they are incremental costs directly attributable to the equity transaction which would have been avoided by not having been put it out. The costs of an equity transaction, which has been abandoned or has been abandoned, are recognized as expenses.
38. The transaction costs related to issuance of a compound financial instrument is allocated between the liability and equity instrument, in proportion to the distribution made of the amount between these components. The transaction costs associated with more than

one transaction (for example, total costs associated with an offer of sale of shares and admission to trading of other actions) will be distributed among them by using a basis of allocation is rational and consistent with that used for similar transactions.

39. It will be reported separately from the amount of transaction costs have been accounted for as a deduction from equity in the exercise, according to IAS 1. On amount equivalent to taxes on income recognized directly in equity is included in the total amount of income taxes, current and deferred, which is required to report under IAS 12 Income Taxes.
40. Dividends classified as an expense may be filed in the state's overall income or separately (if filed), either with interest on other liabilities or in separate parts. In addition to the provisions of this Standard, to disclose information on interest and dividends is subject to the requirements in IAS 1 and IFRS 7. Under certain circumstances, because of differences between interest and dividends with respect to issues such as tax deductibility, it may be desirable to separate disclosure in the state of the overall result or separate income (if present). To disclose information on the tax determined in accordance with IAS 12.
41. Gains and losses related to changes in the amount of a financial liability are recognized as expenses or income, respectively, the result of the exercise, even when connected with an instrument containing a residual right to participate in the assets obtained from an entity in exchange for cash or another financial asset (see paragraph (b) of paragraph 18). According to IAS 1, the entity shall submit any gain or loss arising from the restatement of such an instrument, separately in the income statement, where this is relevant to explain the performance of the entity.

**Offsetting financial assets with financial liabilities (see also paragraphs GA38 and GA39)**

- 42. A financial asset and a financial liability shall be offset, so that this balance in the net amount, if and only if the entity:**

**(a) currently has the right, legally enforceable, to offset the recognized amounts and**

**(b) an intention to settle net or to make assets and liabilities simultaneously cancel.**

**In accounting for a transfer of a financial asset that does not meet the criteria for low-accounts, the entity does not offset the transferred asset with associated liabilities (see paragraph 36 of IAS 39).**

43. This standard requires the presentation of financial assets and financial liabilities of the net amount, if doing so would reflect the expected future cash flows to liquidate the entity

by two or more separate financial instruments. When the entity has the right to receive or pay a single amount, and also has the intention of doing so, effectively has a single financial asset or financial liability, respectively. In other circumstances, assets and financial liabilities are presented separately from each other, within the classifications that are consistent with the characteristics, rights or obligations as such, are for the entity.

44. The compensation for a financial asset and financial liabilities recognized and acknowledged the presentation of the net amount is not equivalent to low-accounts of the financial asset or financial liability. While the compensation does not lead to recognition of gains or losses, the drop in accounts of a financial instrument not only implies the removal of the item previously recognized in the balance sheet, but can also lead to the recognition of a loss or gain .
45. The right to compensation is a legal authority of the debtor, acquired through a separate contract or other means to remove or cancel all or part of the amount owed to a creditor by applying that amount to another amount due by that creditor. In exceptional circumstances, a debtor may have a legal right to offset an amount owed to a third of the amount owed to the creditor, assuming that there is an agreement between the three parties that clearly establishes the debtor's right to such compensation. Since the right to compensate is legal, the conditions under which that right is based may vary from one jurisdiction to another, and thus taken into consideration the laws applicable to relations between the parties involved.
46. The existence of an enforceable right to offset a financial asset and a financial liability, affect the set of rights and obligations associated with financial assets and financial liabilities, and may affect the level of exposure to the counterparty credit risks and liquidity. However, the existence of law itself is not a sufficient cause for compensation. If there is no intention to exercise the right or to settle simultaneously the two positions will not be affected nor the amount or timing of future cash flows of the entity arising from the two instruments. When the entity intends to exercise the right and wind up the two positions simultaneously, the presentation of assets and liabilities on a net basis reflects more appropriately the amount and timing of cash flows expected in the future and the risks that such flows are subject to. The intention, either one or both parties to settle on a net basis, without a corresponding right to do so, is not sufficient to justify offsetting because the rights and obligations associated with financial asset or liability, individually are unaffected.
47. The intentions of the organization, regarding the liquidation of specific assets and liabilities may be influenced by their commercial practice, the demands of financial markets or other circumstances that may limit the ability to settle net or Instruments settle simultaneously. When the entity has the right to offset, but does not intend to settle on a net basis or realize the asset and settle the liability simultaneously, the effect of exposure to the right of the institution to credit risk is presented on as provided in

paragraph 36 of IFRS 7.

48. The simultaneous settlement of two financial instruments may occur, for example, through the activity of a house for an organized financial market, or through an exchange with the presence of both parties. In such circumstances, the cash flows are actually equivalent to a single net amount, and no exposure to credit risk or liquidity. In other circumstances, the institution may pay through two separate payments, resulting in exposure to credit risk for the total amount of the asset or liquidity risk for the total amount of liabilities. Such risk exposures may be significant, even in a relatively short time. According to the above, it follows that the completion of a financial asset is simultaneous with the liquidation of a financial liability only when the two transactions occur at the same time.
49. Do not meet the conditions set out in paragraph 42 and therefore will usually make compensation inadequate if:
- (a) using several different financial instruments to simulate the characteristics of a single financial instrument (giving rise to a "synthetic instrument");
  - (b) assets and liabilities arising from financial instruments having substantially the same exposure, but involve different counterparties (e.g., assets and liabilities within a portfolio of forward contracts or other instruments derivatives);
  - (c) the assets, financial or otherwise, have pledged to serve as collateral for financial liabilities which are bonds with right to claim;
  - (d) financial assets have been assigned by the debtor to a separate fund in a trust, with the intention of selling off an obligation, but which have not been accepted by the creditor as payment of the same ( such a fund to reduce future liabilities or amortize), or
  - (e) they are the debts incurred as a result of events which led to losses, whose amounts are expected to recover from a third party, following a complaint made under an insurance contract.
50. An entity which has concluded a number of transactions in financial instruments with a single counterparty, you can perform a contractual netting agreement "with her. This agreement provides a single payment for compensation for all financial instruments covered by the same, in case of default or termination of any contracts. Such agreements are used regularly by financial institutions to provide protection against loss, whether in the event of bankruptcy or other situations that render the other party to fulfill its obligations. A contractual netting agreement, usually creates a right to compensation which becomes due and, therefore, affects the completion or termination of individual financial assets and liabilities only when they make certain insolvency situations or other circumstances abnormal in the ordinary course of activities of the entity. A contractual

netting agreement will not satisfy the conditions to compensate for fewer instruments to meet both criteria of paragraph 42. When financial assets and financial liabilities subject to a contractual netting agreement will not have been the subject of compensation, reported the effect that the agreement is in the entity's exposure to credit risk, as set out in paragraph 36 of IFRS 7.

## Information Disclosure

51. 51-95 [Deleted]

## Effective date and transition

96. An entity shall apply this Standard in the years beginning on or after January 1, 2005. Early application is permitted. The entity will not apply this standard (including the amendments issued in March 2004) for periods beginning before January 1, 2005 unless it also applies IAS 39 (issued December 2003). If an entity applies this Standard for a financial year beginning before January 1, 2005, disclose that fact.

**96A.** Financial Instruments with option and obligations arising on liquidation (Amendments to IAS 32 and IAS 1) issued in February 2008 requires that financial instruments that meet all the characteristics and meet the conditions in paragraphs 16A and 16B or paragraphs 16C and 16D shall be classified as an equity instrument, amended paragraphs 11, 16, 17 to 19, 22, 23, 25, GA13, GA14 and GA27, and inserted paragraphs 16A to 16F, 22A, 96B, 96c, 97C, GA14A to GA14J and GA29A. An entity shall apply those amendments for annual periods beginning on or after January 1, 2009. Early application is permitted. If an entity applies these changes in a previous year, disclose that fact and shall, at the same time, the corresponding amendments to IAS 1, IAS 39, IFRS 7 and IFRIC 2.

**96B.** Financial Instruments with option and obligations arising on liquidation entered a plea of limited scope, so an exception will not apply by analogy.

**96C.** The classification of instruments under this exception should be restricted to the accounting for that instrument in accordance with IAS 1, IAS 32, IAS 39 and IFRS 7. The instrument should not be considered an equity instrument in accordance with other guidelines, e.g. IFRS 2 Share-based Payment.

97. This rule applies retroactively.

**97A. IAS 1 (revised 2007) amended the terminology used in IFRS. Furthermore amended paragraph 40. An entity shall apply those amendments for annual periods beginning on or after January 1, 2009. If an entity applies IAS 1 (revised 2007) to prior periods, the changes will also apply these exercises.**

**97C.** Applying the changes described in paragraph 96A, an entity is required to separate a compound financial instrument with an obligation to a third proportional share of its net assets only at the time of the settlement in its separate components and liabilities heritage. If the passive component has ceased to exist, a retroactive application of amendments to IAS 32 would involve the separation of two components of equity. The

first component would be retained earnings and represents the sum of total interest accrued on the liability component. The other component represents the original equity component. Therefore, an entity need not separate these two components if the liability component has ceased to exist on the date of implementation of the amendments.

**97D.** Paragraph 4 was amended by the document Improvement Standards and Interpretations issued in May 2008. An entity shall apply those amendments in the years beginning on or after January 1, 2009. Early application is permitted. If an entity applies the amendments in a previous year, disclose that fact and apply in the year preceding the modifications to paragraph 3 of IFRS 7, paragraph 1 of IAS 28 and paragraph 1 of IAS 31 issued in May 2008 . Allowing an entity applies the amendments prospectively.

### **Repeal of other pronouncements**

98. This Standard repeals IAS 32 Financial Instruments: Disclosure and Presentation, revised in 2000.
99. This Standard repeals the following interpretations:
  - (a) SIC-5 Classification of Financial Instruments-Contingent Settlement Provisions;
  - (b) SIC-16 Share Capital-Repurchase of equity instruments issued by the Company (Shares), and
  - (c) SIC-17 Cost of transactions with equity instruments issued by the company
100. The adoption of this standard involves the withdrawal of the Draft Interpretation SIC-D34, Financial Instruments-Instruments or repayable at the option of the rights holder.

## **Implementation Guide**

### **Appendix of IAS 32**

#### **Financial Instruments: Presentation**

This appendix is an integral part of the Standard

- GA1 This implementation guide explains how to implement certain aspects of the Standard.
- GA2 The Standard does not address recognition or valuation of financial instruments. Requirements for the recognition and valuation have been established in IAS 39.

#### **Definitions (paragraphs 11 to 14)**

##### **Financial assets and financial liabilities**

- GA3 cash (or cash) is a financial asset because it represents half of payment and, therefore, is the basis on which to assess and recognize all the transactions in the financial statements. A cash deposit in a bank or similar financial institution is a financial asset because it represents, to the depositor, a contractual right to get cash from the company or to turn a check or similar instrument against the balance of it, for a creditor, to pay a financial liability.
- GA4 Common examples of financial assets representing a contractual right to receive cash in the future, and the corresponding financial liabilities that represent a contractual obligation to deliver cash in the future, are:
  - (a) accounts receivable and payable of commercial origin;
  - (b) notes receivable and payable;
  - (c) loans received and granted, and
  - (d) obligations and released.In each case, the contractual right to receive (or pay) that a party has, in line with the obligation to pay (or the right of recovery) from the other party.
- GA5 Another type of financial instrument is one where the economic benefit is to receive or deliver a financial asset other than cash. For example, a promissory note cancellation of debt securities give the holder the contractual right to receive and the issuer the contractual obligation to deliver, government bonds, but no cash. The bonds are financial assets because they represent to the public entity that has issued an obligation to pay cash. The note is therefore a financial asset for the holder thereof, and a financial liability for those who have delivered.

- GA6 debt instruments "for life" (such as bonds, debentures and notes, "perpetual") usually give the holder the contractual right to receive payments of interest on dates that extend indefinitely into the future, giving it the entitled to the principal, or give you a refund of the principal conditions that make it unlikely or very far away in time. For example, an entity may issue a financial instrument that compels him to make annual payments for life equal to an interest rate set at 8 percent, applied to a nominal or a principal of a 1000 \* Assuming the interest rate market at the time of issuance of the financial instrument, that is 8 percent, the issuer assumes a contractual obligation to perform a series of payments of a future with fair value (present value), for purposes of initial recognition of a 1000 In this way, the holder and the issuer of a financial instrument with a financial asset and financial liability, respectively.
- GA7 a contractual right or a contractual obligation to receive, deliver or exchange financial instruments is in itself a financial instrument. A chain of contractual rights or contractual obligations meet the definition of financial instrument, provided that leads ultimately to the receipt or payment of cash or the purchase or issuance of an equity instrument.
- GA8 The ability to exercise a contractual right, and the requirement to meet a contractual obligation may be absolute or be contingent on the basis of the occurrence of a future event. For example, a financial guarantee is a contractual right to take the lender to receive cash from the guarantor, which corresponds to a contractual obligation by the guarantor to pay the lender if the borrower fails to pay. Contract law and the contractual obligation exist because of a transaction or event that has happened in the past (an assumption of the guarantee), even though the lender's ability to exercise their right and the requirement for the guarantor to fulfill its commitment are contingent, depending on a future act of default by the borrower. A right and obligation meet the definition contingent, respectively, of financial assets and financial liabilities, although the asset or liability in question is not always recognized in the financial statements. Some of these rights and obligations may be contingent insurance contracts and fall within the scope of IFRS 4.
- GA9 According to IAS 17 Leases, a lease is considered primarily a right to receive from the lessor, and an obligation to pay for the tenant, a stream of cash flows that are, in essence, the same combination of payments between principal and interest that exist in a loan agreement. The lessor shall account for this investment by the amount according to the lease, not the asset that has been leased. An operating lease, on the other hand, is considered primarily a contract not completed, that the landlord undertakes to facilitate the use of an asset in future periods, in exchange for a similar commission for the service. The landlord in this case will continue counting the leased asset, rather than the amounts to be received in the future under the contract. According to the above, a financial lease is regarded as a financial instrument, while not an operating lease (except with respect to the specific amounts have been accrued and are payable).

- GA10 physical assets (like stocks and fixed assets), the leased assets and intangible assets (such as patents and trademarks) are not financial assets. Control over tangible and intangible assets creates an opportunity to generate cash tickets or other financial asset, but will not lead to an actual right to receive cash or another financial asset.
- GA11 certain assets (such as expenses paid in advance) for which the future economic benefit is the receipt of goods or services but do not give the right to receive cash or another financial asset, does not constitute either financial assets. In a similar manner, items such as deferred revenue and most warranty obligations for products sold are not financial liabilities because the output of economic benefits associated with them will be the delivery of goods and services, but will not constitute a contractual obligation to pay cash or another financial asset.
- GA12 assets and liabilities that are not contractual (such as income taxes, which is created as a result of a legal requirement imposed by the Government) are not financial assets or financial liabilities, respectively. Accounting for income taxes is dealt with in IAS 12. In a similar way, the implicit obligations as defined in IAS 37 Provisions, contingent liabilities and contingent assets, not from contract and non-financial liabilities.

### **Equity instruments**

- GA13 Examples of financial instruments including stock option without some instruments with option (see paragraphs 16A and 16B), some instruments that impose on the entity an obligation to deliver to others a proportionate share of the net assets of the entity only at the time of liquidation (see paragraphs 16C and 16D), some types of preference shares (see paragraphs GA25 and GA26) and warrants to purchase shares (warrants) to purchase securities issued or options that allow the holder to subscribe or purchase a fixed number of ordinary shares without option of the issuer in exchange for a fixed amount of cash or another financial asset. An entity that has the obligation to issue or purchase a fixed amount of its own equity instruments in exchange for a fixed amount of cash or another financial asset, will also be an equity instrument of the entity (except as noted in paragraph 22A). However, if this contract contains an obligation for the entity to pay cash or another financial asset (other than a contract classified as equity in accordance with paragraphs 16A and 16B or paragraphs 16C and 16D), also give rise to a liability the present value of the amount to be repaid [see GA27 paragraph (a)]. An issuer of a stock option shall assume no liability when a formal procedure to make a distribution and becomes legally obligated to pay to shareholders. This may be a situation that is given after the agreement to distribute a dividend, or when the entity is in liquidation and proceed to distribute to shareholders the assets remaining after all liabilities have been satisfied.
- GA14 An option to purchase or other similar contract acquired by an entity, giving him the right to repurchase an amount of its own equity instruments in exchange for delivering a fixed amount of cash or another financial asset, not a financial asset of the

entity (except as noted in paragraph 22A). By contrast, the services paid for by this contract shall be deducted from the assets.

**The class of instruments that is subordinate to all other classes [paragraph 16A (b) and 16C (b)]**

- GA14A One of the features of paragraphs 16A and 16C is that the financial instrument is the kind of instruments that is subordinate to all other classes.
- GA14B In determining whether an instrument is in the subordinate class, an entity will assess the rights of the instrument at the time of settlement as if it were to liquidate on the date on which the instrument is classified. If a change in relevant circumstances, an entity shall assess the classification again. For example, if an entity issues or reimburses another financial instrument, it can affect whether the instrument in question belongs to the class of instruments that is subordinate to the other.
- GA14C An instrument has a preferential right at the time of liquidation of an entity is not entitled to a proportionate share in net assets of the entity. For example, an instrument has a preferential right in the time of settlement, whether entitled the holder to a fixed dividend at the time of settlement, in addition to a share in the net assets of the entity, while other instruments pertaining to subordinate class with a right to a proportionate share in net assets of the entity do not have that right at the time of settlement.
- GA14D If an entity has only one class of financial instruments, such must be treated as if it were subordinate to the others.

**Total expected cash flows attributable to the instrument throughout his life [paragraph 16A (e)]**

- GA14E The total expected cash flows of the instrument throughout his life must be based substantially on the outcome, change in net assets or fair value of recognized net assets recognized and not recognized by the entity over the life of that instrument. The result and the change recognized in net assets to be valued in accordance with the relevant IFRS.  
Transactions made by the holder of an instrument other than those carried out as owner of the entity (paragraphs 16A and 16C)
- GA14F The holder of a financial instrument with a put option or an instrument that imposes on the entity an obligation to deliver to others a proportionate share of net assets of the entity only at the time of settlement may transact with the institution a different role to that of owner. For example, a holder of an instrument can also be an employee of the entity. In assessing whether the instrument should be classified as equity in accordance with paragraph 16A or paragraph 16C, only be considered cash flows and contractual terms and conditions of the instrument are related to the

instrument holder as the owner of the entity

- GA14G An example is a company with partners and limited liability. Some limited partners cannot provide a guarantee to the institution and may be paid for providing this guarantee. In these situations, the guarantee and the cash flows associated with the related instrument holders in their role as guarantors and not owners of the entity. Therefore, the security and the associated cash flows will not lead to the limited partners are not considered subject to the partners with limited liability, and should not be considered when assessing whether the contractual instruments of limited liability partnerships Finnish business tools and partnerships with limited liability for business purposes are identical.
- GA14H Another example is a distribution agreement that gives the performance result to the holders of instruments on the basis of services rendered or the business generated during the current and previous years. These are transactions with holders of instruments in a different role to that of owners and should not be considered in assessing the characteristics listed in paragraph 16A or paragraph 16C. However, arrangements for distributing the results to assign result holders of instruments based on the nominal amount of their instruments in relation to others of his kind represent transactions with holders of instruments in their role as owners and should be considered when evaluating the characteristics listed in paragraph 16A or paragraph 16C.
- GA14I The cash flows and contractual terms and conditions of a transaction between the holder of instruments (in a role different from owner) and the entity which issues should be similar to an equivalent transaction that may take place between those who possess no tools and the issuing institution.

**No other financial instrument or contract with an aggregate cash flows substantially restricting or fixing the residual return for the holder of the instrument (paragraphs 16B and 16D)**

- GA14J A condition to classify a financial instrument as a heritage that otherwise meets the criteria in paragraph 16A or paragraph 16C is that the entity has no other financial instrument or contract having (a) Total cash flows based substantially on the result, the change recognized in net assets or the change in fair value of net assets recognized and not recognized by the entity and (b) the effect of substantially restricting or fixing the residual return. The following, when conducted under normal commercial transactions with unrelated third parties is unlikely to prevent the instruments that otherwise meet the criteria in paragraph 16A or paragraph 16C are classified as equity:
  - (a) instruments with total cash flows based primarily on specific assets of the entity.
  - (b) instruments with total cash flows based on a percentage of revenue.
  - (c) Contracts designed to reward certain employees for services rendered to the entity.

(d) Contracts requiring the payment of an insignificant percentage of benefits for services rendered or goods supplied.

### **Derivative financial instruments**

- GA15 Financial instruments include both primary instruments (such as accounts receivable, payable or equity instruments) and derivative financial instruments (such as financial options, futures and forward contracts, interest rate swaps and foreign exchange). Derivative financial instruments meet the definition of financial instrument and therefore fall within the scope of this Standard.
- GA16 Derivative financial instruments create rights and obligations that have the effect of transferring between the parties involved in the instrument, one or more types of financial risks inherent in an underlying primary financial instrument. At its inception, derivative financial instruments to give the party a contractual right to exchange financial assets or financial liabilities with another party under conditions that are potentially favorable, or give the contractual obligation to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavorable. \* Generally, however, there is no transfer of the underlying primary financial instrument at the beginning of the contract, nor does it necessarily have to occur at the same maturity. Some instruments embody both a right and an obligation to conduct an exchange. Since the terms of trade are established at the time of the birth of the derivative instrument, such conditions may become favorable or unfavorable to measure change in prices in financial markets.
- GA17 An option to buy or sell to exchange financial assets or financial liabilities (i.e., instruments other than those of its own assets of the entity) give the holder the right to obtain potential future economic benefits associated with changes in fair value of the financial instrument underlying the contract. By contrast, the issuer of an option assumes an obligation to forgo potential future economic benefits or bear potential losses of economic benefits associated with changes in fair value of the underlying financial instrument. The contractual right and obligation of the holder of the issuer complied with, respectively, the definitions of assets and financial liabilities. The financial instrument underlying an option contract can be a financial asset, including the actions of other entities or instruments involving interest. One option may require the issuer to make an outstanding debt instrument, rather than having to transfer a financial asset, but the instrument underlying the option could become part of the financial assets of the holder if the option is exercised. The right of the holder of the option to exchange the financial asset in the existing book, and the obligation of the issuer to exchange the financial asset in potentially adverse conditions, are different asset Financial underlying that is exchanged when the option is exercised. The nature of the holder of the right and the obligation of the issuer are not affected by the probability that the option is exercised.

- GA18 Another example of derivative financial instrument is a forward contract to be settled within six months, in which one party (the buyer) promises to deliver \$ 1,000,000 cash in exchange for \$ 1,000,000 nominal value of government bonds with fixed interest, while the other party (the seller) promises to deliver \$ 1,000,000 of the nominal amount of government bonds in exchange for 1,000,000 cash. During the six months both sides have a right and a contractual obligation to exchange financial instruments. If the market price of the public debt rose above 1,000,000 the conditions are favorable and unfavorable for the buyer to the seller if the market price falls below 1,000,000 is will have the opposite effect. The buyer will have a contractual right (a financial asset) similar to the law that gives you an option to purchase have gained, and a contractual obligation (a financial liability) similar to the obligation it assumed an option. The seller will have a contractual right (a financial asset) similar to the law that gives an option to have acquired, and a contractual obligation (a financial liability) similar to the obligation it assumes a purchase option sold. As in the case of options, rights and obligations are, respectively, financial assets and liabilities that are distinct and are separated from the underlying financial instruments (bonds and cash to exchange). The two sides of a forward contract have an obligation to meet the agreed time, whereas in an option contract actions occur if and only if, and when the option holder decides to exercise it.
- GA19 Many other types of derivatives include a right or obligation to make a future exchange, including the foreign exchange swaps and interest rate, the interest rate agreements minimum, maximum or both; commitments of loans programs for the issuance of promissory notes and credit. A swap contract interest rate can be considered as a variant of a term contract, in which the parties agree to conduct a series of exchanges of cash amounts, one of which is calculated with reference to a variable rate and another with reference to a fixed rate. Futures contracts are another variation of a forward contract, which differ primarily in that the contracts are standardized and are traded on an organized market.

### **Contracts to buy or sell non-financial items (paragraphs 8-10)**

- GA20 contracts to buy or sell non-financial items do not meet the definition of financial instrument because the contractual right to receive a portion of an asset or a financial service, and the correlative obligation of the other do not establish a right or an obligation for any of them to receive, deliver or exchange a financial asset. For example, the contracts provide for settlement only through the receipt or delivery of a non-financial (e.g., an option contract, or term future of silver) are not financial instruments. Many contracts are traded on commodities such. Some are standardized in shape and are traded on organized markets in a manner very similar to financial derivatives. For example, a futures contract traded on commodities can be bought or sold easily for cash because it is traded on an organized market and can change hands many times. However, parties who are buying and selling the contract are in fact negotiating with the underlying material. The ability to buy or sell contracts on commodities traded for cash, the ease with which they can be bought or sold and the possibility of negotiating a cash

settlement of the obligation to receive or deliver the material, do not alter the character fundamental to the contract in regard to the creation or not of a financial instrument. However, some contracts to buy or sell non-financial items, which can be settled on a net or by exchanging financial instruments, or in which non-financial item is readily convertible into cash within the scope of the standard as if they were financial instruments (see paragraph 8).

- GA21 A contract that involves receipt or delivery of physical assets will not result in a financial asset of one party, or a financial liability to the other, unless the appropriate payments have been deferred until after the date on which tangible assets have been transferred. Such is the case with the purchase or sale of goods under conditions of normal trade credit.
- GA22 Some contracts are tied to the price of commodities traded, which means not to be settled by physical delivery or receipt of such goods. They specified that the settlement will take place through cash payments, which are determined according to the formula specified in the contract rather than giving fixed amounts. For example, the principal amount of a bond can be calculated by multiplying the market price of oil, the maturity thereof, by a fixed amount of oil. In this way, the principal is indexed by reference to the price of a commodity traded, but may pay only in cash. This contract constitutes a financial instrument.
- GA23 The definition of financial instruments also include contracts that give rise to a non-financial assets or financial liabilities, in addition to the financial asset or financial liability involved. Such financial instruments granted, often, one party an option to exchange one asset for another non-financial assets. For example, a bond linked to the price of oil may give the holder the right to receive a regular series of fixed payments and a fixed amount of cash at maturity, along with the option to exchange the amount of principal by fixed amount oil. The convenience to exercise this option will vary from time to time, depending on the fair value of oil and its variation, based on the exchange of cash for oil (the exchange price) inherent in the bond. The intention of the holder of the bond on the exercise of the option does not affect the substance of the component in tangible assets to liquidate. The holder of financial assets and financial liabilities of the issuer make the bond a financial instrument, regardless of the other types of assets and liabilities that have been created.
- GA24 [Deleted]

## **Presentation**

### **Liabilities and assets (paragraphs 15 to 27)**

**Absence of contractual obligation to deliver cash or another financial asset  
(paragraphs 17 to -20)**

- GA25 The preferred shares can be issued with rights varied. In determining whether a preference share is a financial liability or an equity instrument, the issuer will assess the rights granted to individuals to determine if you possess the essential feature of a financial liability. For example, a preference share that provides for redemption on a specific date or the option of the holder contains a financial liability because the issuer has an obligation to transfer financial assets to the holder of the action. The potential inability to satisfy the issuer's obligation to redeem a preference share, as required by contract terms to do so, either because of lack of funds, legal restrictions or reservations or have insufficient earnings, does not deny the existence of the obligation. In the case of an option for the issuer to redeem the shares in cash, do not meet the definition of a financial liability because the issuer has no present obligation to transfer financial assets to shareholders. In this case, the redemption of the shares is solely at the discretion of the issuer. It may not appear an obligation. However, when the issuer of the shares exercises its option, which usually is a formal notice to the shareholder intends to redeem the securities.
  
- GA26 When preference shares are not redeemable; the appropriate classification for them is determined by the other rights embodied in them. This classification is based on an assessment of the substance of the contractual arrangements in relation to the definitions of a financial liability and equity instrument. When distributions to holders of preference shares have no rights or cumulative, are at the discretion of the issuer, the shares are equity instruments. The classification of a preference share as a financial liability or equity instrument, is not affected by, for example:
  - (a) a history of actual distributions;
  - (b) intends to make distributions in the future;
  - (c) the possible negative impact of the absence of distributions in the price of the shares of the issuer (because of restrictions on the payment of dividends to common shares if it has not been paid to the first preference);
  - (d) the amount of the reserves of the issuer;
  - (e) expectations about the issuer that has a loss or gain on the exercise or
  - (f) the ability or inability of the issuer to influence the outcome of the exercise.Liquidation own equity instruments (paragraphs 21 to 24)
  
- GA27 The following examples illustrate how to classify different types of contracts on own equity instruments of an entity:
  - (a) be an equity instrument (except as noted in paragraph 22A) a contract to be settled by the entity by receiving or delivering a fixed amount of its shares, without further consideration, or exchanging a fixed amount of its shares by a fixed amount of cash or another financial asset. Therefore, any consideration received or paid by this contract will be added or deducted directly from equity. One example is a stock option issued to

provide the other party a right to buy a fixed amount of shares of the entity in exchange for a fixed amount of cash. However, if the contract requires the entity purchases (redeem) its own shares for cash or another financial asset at a fixed or determinable date or at the request of the holder, the organization also recognized a financial liability for the current value of the amount of reimbursement (except for instruments that meet all of the conditions and comply with paragraphs 16A and 16B or paragraphs 16C and 16D). An example is the obligation of an entity as a forward contract to repurchase a fixed number of its shares by a fixed amount of cash.

(b) The obligation of an entity to purchase its own shares for cash will result in a financial liability for the current value of the amount of the refund, even if the number of shares that the entity is obliged to repurchase is not fixed, or if the obligation is conditional upon the other party exercises a right to reimbursement (except as noted in paragraphs 16A and 16B or paragraphs 16C and 16D). An example of a conditional obligation is an issued option that requires the entity to repurchase its own shares for cash, if the other party exercises the option.

(c) A contract will be settled in cash or another financial asset, is a financial asset or financial liability even if the amount of cash or another financial asset to deliver or receive is based on changes in the market price of its own assets of the entity (except as noted in paragraphs 16A and 16B or paragraphs 16C and 16D). One example is a stock option to be settled in cash for the net amount.

(d) A contract to settle with a variable number of shares of the entity, whose value is equal to a fixed amount or an amount based on changes in an underlying variable (e.g. the price of a commodity listed) is a financial asset or financial liability. An example of this is sold an option to buy gold, if exercised, is settled on a net basis by the entity with its own equity instruments, by delivering a number of instruments equal to the value of the option contract . This contract is a financial asset or financial liability, even if the underlying variable is the price of the shares of the entity, rather than the price of gold. In a similar way, it will be a financial asset or financial liability contracts to be settled with a fixed number of shares of the entity, provided that the rights for such shares be varied so that the liquidation value is equal to a fixed amount or an amount based on changes in an underlying variable.

### **Contingent Settlement Provisions (paragraph 25)**

- GA28 In paragraph 25 provides that if a part of the clause calling for the liquidation quota, which may require settlement by cash or another financial asset (or any other form that would cause the instrument to be a liability financial), it is a contingent clause true, and its existence will not affect the classification of financial instruments. Thus, a contract requiring the payment by cash or a variable number of shares of the entity, but only if an event occurs that is extremely rare, highly abnormal and very unlikely, it would be an equity instrument. In a similar way, the ban can be settled by a fixed number of shares of the entity, when circumstances are beyond the control of it, but if those circumstances have no real chance to happen is enough to classify the instrument as equity.

Treatment in Consolidated Financial Statements

- GA29 in the consolidated financial statements, the entity shall submit minority interests- i.e., third-party assets and the results of their dependents, in accordance with IAS 1 and IAS 27. When classifying a financial instrument (or component thereof) in the consolidated financial statements, the entity shall consider all the terms and conditions agreed between the group members and the holders of the instrument to determine whether the group as a whole has a obligation to deliver cash or another financial asset under the instrument in question, or liquidate it in a way that implies their classification as a liability. When a dependent of a group issues a financial instrument, and the dominant group or other entity has agreed to additional conditions to the holders of the instrument (e.g. a guarantee), the group may not have discretion to decide on distributions or redemption . Although the subsidiary may appropriately classify the instrument in its financial statements, without considering these other conditions, must take into account the agreements between group members and the holders of the instrument, to ensure that the consolidated financial statements reflect the contracts and transactions made by the group as a whole. To the extent that there is an obligation or settlement provision, the instrument (or component thereof that is subject to the obligation) is classified as a financial liability in the consolidated financial statements.
- GA29A Some types of instruments that impose a contractual obligation to the entity are classified as financial instruments in accordance with paragraphs 16A and 16B or paragraphs 16C and 16D). The classification according to these paragraphs is an exception to the principles otherwise applied in this standard for the classification of an instrument. This exception does not extend the classification of non - dominant in the consolidated financial statements. Therefore, instruments classified as equity instruments in accordance paragraphs 16A and 16B or paragraphs 16C and 16D in the individual or separate financial statements that are not dominant shares are classified as liabilities in the consolidated financial statements of the group.

### **Compound financial instruments (paragraphs 28 to 32)**

- GA30 Paragraph 28 should apply only to issuers of non-derivative financial instruments compounds. Paragraph 28 does not deal with the financial instruments compounds from the perspective of holders. In IAS 39 is from the perspective of holders, the separation of embedded derivatives in financial instruments compounds that contain features of debt and equity.
- GA31 One common form of compound financial instrument is a debt instrument that carries an implicit conversion option, such as a bond convertible into ordinary shares of the issuer, and no other characteristic of embedded derivative. In paragraph 28 requires the issuer of such financial instrument present in the statement of financial position, the passive component separated from the assets as follows:
  - (a) The obligation of the issuer to make scheduled payments of interest and principal is a financial liability that would exist until the instrument is not converted. For the purposes of initial recognition, the fair value of the liability component is the present value of the current, contractually determined, future cash flows discounted at the interest rate that applies at that time by the market for instruments a similar credit status providing substantially the same cash flows in the same way, but without the conversion option.

(b) The equity instrument is an implicit option to convert liabilities into assets of the issuer. The fair value of the option consists of a time value and, where appropriate, an intrinsic value. For the purposes of initial recognition, this option has value even when you are out of money (i.e., no intrinsic value).

- GA32 By converting the convertible instrument at maturity, the entity will drop component is recognized as liabilities and assets. The original equity component remains as such (albeit transferred from one heading to another asset). Will not occur any gain or loss on conversion at maturity.
- GA33 Where an entity cancels a convertible instrument before maturity through an early redemption or repurchase, which remain unchanged conversion privilege, the entity will distribute the consideration paid and transaction costs of redemption or repurchase between components liability and equity instrument, when performing the transaction. The method used to distribute the amount of the consideration paid and transaction costs between separate components will be consistent with that used in the original distribution between the separate components of the amounts received by the entity to issue the convertible instrument in accordance with paragraphs 28 to 32.
- GA34 Once the distribution of contribution received, the resulting gain or loss will be treated in accordance with accounting principles applicable to the component, as follows:
  - (a) the amount of gain or loss related to the liability component is recognized as a result of the exercise, and
  - (b) the amount of the contribution-related component is recognized as heritage assets.
- GA35 An entity may amend the terms of a convertible instrument to achieve an early conversion, for example by providing a more favorable conversion ratio, or pay an additional contribution in cases where the conversion takes place before a given date. The difference in the time of changing conditions, between the fair value of the consideration that the holder will receive for the conversion of the instrument with the new conditions and the fair value of the consideration you would have received under the original conditions were recognized as a loss in income for the year.

#### **Own shares (paragraphs 33 and 34)**

- GA36 Regardless of the reason we are having to buy, own equity instruments of the entity, may be recognized as financial assets. Paragraph 33 requires the entity that re-acquire its own equity instruments, those instruments that reveal the heritage. However, when the entity holds its own equity instruments on behalf of third parties (e.g. a financial institution has its own actions on behalf of a client), there will be an agency relationship and therefore, such investments are not included in the balance sheet of the entity.

#### **Interest, dividends, gains and losses (paragraphs 35 to 41)**

- GA37 The following example illustrates the application of paragraph 35 to a compound financial instrument. It is assumed that a preference share, with no cumulative dividend, redeemable in cash is required within five years, but such dividends are paid at the

discretion of the entity in the period preceding the date of redemption. Such an instrument is a compound financial instrument whose liability component is the current value of the amount of ransom. The interest which will accrue over time to reverse the discount is recognized in the results and are classified as interest expense. Any dividends paid related to the equity component and, accordingly, are recognized as distributions for the year. A similar treatment would apply if the ransom was not mandatory, but at the option of the holder, or if the action was compulsorily convertible into a variable number of ordinary shares, calculated in a way that involve a fixed amount or an amount based on changes in a underlying variables (e.g. a raw material listed). However, if unpaid dividends add to the amount fixed for redemption, the whole instrument would be a liability. In this case, dividends are classified as interest expense.

### **Offsetting a financial asset to a financial liability (paragraphs 42 to 50)**

- GA38 order to offset a financial asset to a financial liability, the entity must have a current and legally enforceable right to offset the recognized amounts of both. The entity may have a conditional right to offset amounts recognized, as in a basic agreement for compensation or in some forms of non-recourse debt, but those rights are enforceable only if there are any future event, which usually has to do with a failure of the counterparty. Therefore, these types of agreements do not qualify to make the compensation.
- In the Standard GA39 is not special treatment for so-called "synthetic instruments" which are groups of separate financial instruments acquired and maintained in order to emulate the characteristics of another instrument. For example, a long-term debt with variable interest, combined with an interest rate swap in which payments are variable and fixed payments are made, synthesized a long-term debt with fixed interest. Each of the individual financial instruments, which together constitute the "synthetic instrument" represents a right or a contractual obligation with its own terms and conditions, and each can be given or paid separately. Each financial instrument is subject to its own risks, may differ from the risks of concern to other financial instruments. According to the above, when a financial instrument that compose the "synthetic instrument" is an asset and a liability is not offset or be presented in net terms in the statement of financial position of an entity, unless they satisfy the qualify for compensation under paragraph 42.

### **Information Disclosure**

#### **Financial assets and financial liabilities at fair value with changes in the results (paragraph (f) of paragraph 94)**

- GA40 [Deleted]