

SCOPE		CLASSIFY (COMPONENTS OF) FI ON INITIAL RECOGNITION BASED ON SUBSTANCE OF CONTRACT & DEFINITIONS:			
<b>Apply to:</b> <b>(1)</b> All <b>financial instrument (FI)</b> types (i.e., contract that gives rise to <b>FA</b> of one entity and <b>FL/EI</b> of another entity). <b>(2)</b> Contracts to buy/sell non-financial items that can be settled net in cash/another <b>FI</b> /by exchanging <b>FIs</b> , as if contracts were <b>FIs</b> , <b>EXCEPT</b> contracts entered into & still held for receipt/delivery of non-financial item based on entity's expected purchase/sale/usage requirements. <b>(3)</b> Certain financial guarantee contracts/derivatives.	<b>Does NOT apply to:</b> <ul style="list-style-type: none"><li>Interests in subsidiaries/associates/joint ventures accounted for in accordance with IFRS 10, IAS 27/28.</li><li>Employers' rights and obligations under employee benefit plans (see IAS 19)</li><li>Insurance contracts (see IFRS 4).</li><li><b>FIs</b> with discretionary participation features (see IFRS 4) are exempt from applying certain paragraphs of IAS 32.</li><li><b>FIs</b>, contracts and obligations under share-based payment transactions (see IFRS 2) <b>EXCEPT</b> for treasury shares purchased/sold/issued/cancelled in connection with employee share option/purchase plans &amp; all other share-based payment arrangements <b>AND</b> contracts within scope of point <b>(2)</b>.</li><li>Tax assets/liabilities (see IAS 12), pre-paid expenses/accrued revenue &amp; constructive obligations under IAS 37.</li></ul>	FINANCIAL ASSET (FA)	FINANCIAL LIABILITY (FL)	EQUITY INSTRUMENT (EI)	
		<b>FA</b> = any asset that is: <ul style="list-style-type: none"><li>Cash/<b>EI</b> of another entity.</li><li>Contractual right to: receive cash/ <b>FA</b> OR exchange <b>FA/FL</b> under potentially <b>favourable</b> conditions.</li><li>Contract that will/may be settled in entity's own <b>EIs</b> and is a:<ul style="list-style-type: none"><li>Non-derivative for which entity is/may be obliged to receive variable # of own <b>EIs</b>; OR</li><li><i>Derivative</i> that will/may be settled other than by exchange of fixed amount of cash/another <b>FA</b> for fixed # of own <b>EIs</b>. For this purpose, own <b>EIs</b> ≠ contracts for future receipt/delivery (*) of own <b>EIs</b> OR the exceptions to the <b>FA/FL</b> definitions that are classified as <b>EIs</b> (**).</li></ul></li></ul>	<b>FL</b> = any liability that is: <ul style="list-style-type: none"><li>Contractual obligation to: deliver cash/<b>FA</b> OR exchange <b>FA/FL</b> under potentially <b>unfavourable</b> conditions.</li><li>Contract that will/may be settled in own <b>EIs</b> and is a:<ul style="list-style-type: none"><li>Non-derivative for which entity is/may be obliged to deliver variable # of own <b>EIs</b>; OR</li><li><i>Derivative</i> that will/may be settled other than by exchange of fixed amount of cash/ another <b>FA</b> for fixed # of own <b>EIs</b>. For this purpose the entity's own <b>EIs</b> does NOT include contracts for future receipt/delivery (*) of entity's own <b>EIs</b> OR the exceptions to the <b>FA/FL</b> definitions that are classified as <b>EIs</b> (** and ***)</li></ul></li></ul>	<b>EI</b> = contract that evidences residual interest in assets of entity after deducting all liabilities. <ul style="list-style-type: none"><li>E.g. issued share option where counterparty has right to buy fixed # of entity's shares for fixed price/stated principal amount of bond, preference share where issuer has option to redeem, etc.</li></ul>	
		<b>Derivative</b> = <b>FI</b> /other contract within scope of IFRS 9 with ALL the following characteristics: <ul style="list-style-type: none"><li>Value Δs in response to Δ in 'underlying' (e.g., interest rate /commodity price etc.) if non-fin. variable → variable is NOT specific to contract party AND no initial investment/smaller than for similar contracts AND settled at a future date (e.g., forwards/futures, options, caps/floors)</li></ul>			<ul style="list-style-type: none"><li>* A contract that contains an obligation to deliver its own equity instruments for cash/<b>FA</b> →reclassify PV of redemption amount from equity to liability even if # of shares to repurchase is not fixed.</li><li>** The following are classified as <b>EIs</b> and are <b>exceptions</b> to the <b>FL</b> definition:<ul style="list-style-type: none"><li>Puttable instruments that have features and meet conditions in 16A-B (e.g., entitlements at issuer's liquidation).</li><li>(Components of) instruments that impose an obligation on liquidation and have features &amp; meets conditions in 16C-D.</li></ul>If these instruments are received/delivered on settlement of contract → the <b>FI</b> = <b>FA/FL</b>, even if fixed amount of cash/<b>FA</b> is exchange for fixed # of the instruments.</li></ul>
		<b>COMPOUND FIs</b>			<b>INTEREST/DIVIDEND/LOSS/GAIN</b>
Issuer of non-derivative <b>FI</b> evaluates terms of <b>FI</b> ; if contains both a liability and an equity component → classify separately as <b>FL/FA/EI</b> . <ul style="list-style-type: none"><li>Classification not revised if Δ in likelihood of conversion.</li><li>Determine FV of <b>FL</b> component (including non-equity derivative features). <b>EI</b> component = FV of whole instrument MINUS FV of <b>FL</b> component (including derivative features).</li><li><b>Example:</b> debt instrument with embedded conversion option. On conversion → <b>FL</b> transferred to equity and no gain/loss recognized.</li><li>Note there are requirements on inducing early conversion/extinguishment before maturity.</li></ul>			<ul style="list-style-type: none"><li>Interest/dividends/losses/gains relating to an <b>FI</b> (or <b>FL</b> component) → recognized in P/L.</li><li>Distributions to <b>EI</b> holders → recognized directly in equity.</li><li>Transaction costs of equity transactions → deduction from equity (also consideration paid/(received) for <b>EI</b> is deducted/(added) from/(to) equity).</li><li>Income tax to be accounted for in accordance with IAS 12.</li><li>Δ in FV of <b>EIs</b> → NOT recognized.</li></ul>	<ul style="list-style-type: none"><li>Entity reacquires own <b>EIs</b> → deduct those 'treasury shares' from equity.</li><li>No gain/loss recognized in P/L on purchase/sale/issue/cancellation of own <b>EIs</b>.</li><li>May be acquired and held by entity /other members of group.</li><li>Consideration paid/received → recognized directly in equity.</li></ul>	
OFFSETTING		SETTLEMENT OPTIONS	CONTINGENT SETTLEMENT PROVISIONS		
<ul style="list-style-type: none"><li>Offset <b>FA</b> &amp; <b>FL</b> and present net amounts when current legally enforceable right to set off AND intention to net settle/realize simultaneously.</li><li>When transfer of <b>FA</b> does NOT qualify for derecognition → do NOT offset transferred <b>FA</b> and associated <b>FL</b>.</li></ul>		<ul style="list-style-type: none"><li>If derivative <b>FI</b> gives one party settlement choice → <b>FA/FL</b> UNLESS all settlement alternatives result in = <b>EI</b>.</li><li>If either cash/<b>FA</b>/own shares whose value substantially &gt; the value of cash/<b>FA</b> → <b>FL</b> as value of share settlement alternative is such that will settle in cash.</li></ul>	<ul style="list-style-type: none"><li>Settlement provisions may require settling in way that instrument = <b>FL</b>, in event of occurrence/non-occurrence of uncertain future events/outcome of uncertain circumstances BEYOND control of both issuer and holder (e.g., change in a stock market index) → <b>FL</b> as issuer does NOT have unconditional right to avoid settling in such a way that <b>FI</b> = <b>FL</b>.</li><li>Instrument = <b>FL</b> of issuer UNLESS contingent settlement provision is NOT genuine (e.g., very unlikely to occur) OR issuer can be required to settle obligation only at its liquidation OR <b>FI</b> has all features and meets conditions of puttable instruments in IAS 32.16A &amp; 16B.</li></ul>		