PBE IPSAS 28: FINANCIAL INSTRUMENTS - PRESENTATION

Version 1: 2014

Effective Periods Beginning
1 July 2014

FAIR VALUE

- **Fair value -** is defined in terms of a price agreed by a willing buyer and a willing seller in an arm's length transaction.

OFFSETTING

A financial asset and a financial liability are offset only when there is a legally enforceable right to offset and an intention to settle net or to settle both amounts simultaneously.

TREASURY SHARES

The cost of an entity's own equity instruments that it has reacquired ('treasury shares') is deducted from net assets/equity.

- Gain or loss is not recognised in surplus or deficit on the purchase, sale, issue, or cancellation of treasury shares.
- Treasury shares may be acquired and held by the entity or by other members of the consolidated group (i.e. an entity and its controlled entities).
- Consideration paid or received is recognised directly in net assets/equity.

OWNER TRANSACTIONS

- Distributions to holders of equity instruments are debited directly in net assets/equity.
- Transaction costs of net assets/equity transactions are accounted for as deductions from net/assets equity.

WHAT TYPE OF INSTRUMENT IS IT?

FINANCIAL INSTRUMENT

A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

EQUITY INSTRUMENT

- Any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.
- Some instruments that meet the definition of a liability, but represent the residual interest in the net assets of the entity may be classified as equity, in certain circumstances, such as puttable instruments that give the holder the right to put the instrument back to the issuer for cash or another financial asset, automatically on the occurrence of either (i) an uncertain future event (ii) death of the instrument holder (common in co-operative structures).
- Equity instruments issued to acquire a fixed number of the entities own non-derivative equity instruments (in any currency) are classified as equity instruments, provided they are issued pro-rata to all existing shareholders of the same class of the entities own non-derivative equity.

FINANCIAL ASSET

Any asset that is:

- Cash;
- An equity instrument of another entity;
- A contractual right to receive cash or another financial asset from another entity; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- A contract that will or may be settled in the entity's own equity instruments and is: a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

FINANCIAL LIABILITY

Any liability that is:

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

For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

CLASSIFICATION AS LIABILITY OR EQUITY

- The entity must on initial recognition of an instrument classify it as a financial liability or equity instrument in terms of its substance. The classification may not subsequently be changed.
- An instrument is a liability if the issuer could be obliged to settle in cash or another financial instrument.
- An instrument is a liability if it will or may be settled in a variable number of an entities own equity instruments.

Some instruments may have to be classified as liabilities even if they are issued in the form of shares.

COMPOUND FINANCIAL INSTRUMENTS

Compound instruments that have both liability and net assets/equity characteristics are split into these components. The split is made on initial recognition of the instruments and is not subsequently revised.

The net assets/equity component of the compound instrument is the residual amount after deducting the fair value of the liability component from the fair value of the instrument as a whole. No gain/loss arises from initial recognition.

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