



## **PUBLIC BENEFIT ENTITY INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 28 FINANCIAL INSTRUMENTS: PRESENTATION (PBE IPSAS 28)**

**Issued September 2014 and incorporates amendments to 28 February 2025.**

This Standard was issued on 11 September 2014 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 9 October 2014.

Reporting entities that are subject to this Standard are required to apply it in accordance with the commencement and application provisions set out in paragraphs 62.1 to 62.7.

In finalising this Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Tier 1 and Tier 2 PBE Standard has been issued as part of a revised full set of PBE Standards that incorporate enhancements for not-for-profit public benefit entities.

This Standard, when applied, supersedes PBE IPSAS 28 *Financial Instruments: Presentation* issued in May 2013.

## **PBE IPSAS 28 FINANCIAL INSTRUMENTS: PRESENTATION**

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<b>The following is available on the XRB website as additional material:</b>
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IPSASB Basis for Conclusions

Public Benefit Entity International Public Sector Accounting Standard 28 *Financial Instruments: Presentation* is set out in paragraphs 1–63 and Appendices A and B. All the paragraphs have equal authority. PBE IPSAS 28 should be read in the context of its objective, the NZASB’s Basis for Conclusions on PBE IPSAS 28, the IPSASB’s Basis for Conclusions on IPSAS 28, the *Public Benefit Entities’ Conceptual Framework* and Standard XRB A1 *Application of the Accounting Standards Framework*. PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

## Objective

1. The objective of this Standard is to establish principles for presenting financial instruments as liabilities or net assets/equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends or similar distributions, losses and gains; and the circumstances in which financial assets and financial liabilities should be offset.
2. The principles in this Standard complement the principles for recognising and measuring financial assets and financial liabilities in PBE IPSAS 41 *Financial Instruments* and for disclosing information about them in PBE IPSAS 30 *Financial Instruments: Disclosures*.

## Scope (see also paragraphs AG3–AG9)

3. **An entity that prepares and presents financial statements shall apply this Standard to all types of financial instruments except:**
  - (a) **Those interests in controlled entities, associates or joint ventures that are accounted for in accordance with PBE IPSAS 34 *Separate Financial Statements*, PBE IPSAS 35 *Consolidated Financial Statements* or PBE IPSAS 36 *Investments in Associates and Joint Ventures*. However, in some cases, PBE IPSAS 34, PBE IPSAS 35, or PBE IPSAS 36 require or permit an entity to account for an interest in a controlled entity, associate, or joint venture using PBE IPSAS 41; in those cases, entities shall apply the requirements of this Standard. Entities shall also apply this Standard to all derivatives linked to interests in controlled entities, associates, or joint ventures.**
  - (b) **Employers' rights and obligations under employee benefit plans, to which PBE IPSAS 39 *Employee Benefits* applies.**
  - (c) **Insurance contracts as defined in PBE IFRS 17 *Insurance Contracts* and investment contracts with discretionary participation features within the scope of PBE IFRS 17. However, this Standard applies to:**
    - (i) **Derivatives that are embedded in contracts within the scope of PBE IFRS 17 if PBE IPSAS 41 requires the entity to account for them separately.**
    - (ii) **Investment components that are separated from contracts within the scope of PBE IFRS 17, if PBE IFRS 17 requires such separation, unless the separated investment component is an investment contract with discretionary participation features within the scope of PBE IFRS 17.**
    - (iii) **An issuer's rights and obligations arising under insurance contracts that meet the definition of financial guarantee contracts, if the issuer applies PBE IPSAS 41 in recognising and measuring the contracts. However, the issuer shall apply PBE IFRS 17 if the issuer elects, in accordance with paragraph 7(e) of PBE IFRS 17, to apply PBE IFRS 17 in recognising and measuring the contracts.**
    - (iv) **An entity's rights and obligations that are financial instruments arising under credit card contracts, or similar contracts that provide credit or payment arrangements, that an entity issues that meet the definition of an insurance contract if the entity applies PBE IPSAS 41 to those rights and obligations in accordance with paragraph 7(h) of PBE IFRS 17 and paragraph 2(e)(iv) of PBE IPSAS 41.**
    - (v) **An entity's rights and obligations that are financial instruments arising under insurance contracts that an entity issues that limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract, if the entity elects, in accordance with paragraph 8A of PBE IFRS 17, to apply PBE IPSAS 41 instead of PBE IFRS 17 to such contracts.**
  - (d) [Deleted by NZASB]
  - (e) **Financial instruments, contracts and obligations under share-based payment transactions to which the relevant international or national accounting standard dealing with share-based payments applies, except for:**

- (i) **Contracts within the scope of paragraphs 4–6 of this Standard, to which this Standard applies; or**
  - (ii) **Paragraphs 38 and 39 of this Standard, which shall be applied to treasury shares purchased, sold, issued, or cancelled in connection with employee share option plans, employee share purchase plans, and all other share-based payment arrangements.**
4. **This Standard shall be applied to those contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale, or usage requirements. However, this Standard shall be applied to those contracts that an entity designates as measured at fair value through surplus or deficit in accordance with paragraph 6 of PBE IPSAS 41.**
5. There are various ways in which a contract to buy or sell a non-financial item can be settled net in cash or another financial instrument or by exchanging financial instruments. These include:
- (a) When the terms of the contract permit either party to settle it net in cash or another financial instrument or by exchanging financial instruments;
  - (b) When the ability to settle net in cash or another financial instrument, or by exchanging financial instruments, is not explicit in the terms of the contract, but the entity has a practice of settling similar contracts net in cash or another financial instrument, or by exchanging financial instruments (whether with the counterparty, by entering into offsetting contracts or by selling the contract before its exercise or lapse);
  - (c) When, for similar contracts, the entity has a practice of taking delivery of the underlying and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price or dealer's margin; and
  - (d) When the non-financial item that is the subject of the contract is readily convertible to cash.
- A contract to which (b) or (c) applies is not entered into for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale, or usage requirements, and, accordingly, is within the scope of this Standard. Other contracts to which paragraph 4 applies are evaluated to determine whether they were entered into and continue to be held for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale, or usage requirement, and accordingly, whether they are within the scope of this Standard.
6. A written option to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, in accordance with paragraph 5(a) or (d) is within the scope of this Standard. Such a contract cannot be entered into for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale, or usage requirements.
7. [Not used]
- 7.1 **This Standard applies to Tier 1 and Tier 2 public benefit entities.**
8. [Not used]

## **Definitions (see also paragraphs AG10–AG48)**

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

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

**A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of 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 favourable to the entity; or
- (d) A contract that will or may be settled in the entity's own equity instruments and is:
  - (i) 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
  - (ii) 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 puttable financial instruments classified as equity instruments in accordance with paragraphs 15 and 16, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 17 and 18, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.

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

- (a) A contractual obligation:
  - (i) To 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 unfavourable to the entity; or
- (b) A contract that will or may be settled in the entity's own equity instruments and is:
  - (i) 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
  - (ii) 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, rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Also for these purposes the entity's own equity instruments do not include puttable financial instruments classified as equity instruments in accordance with paragraphs 15 and 16, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 17 and 18, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.

As an exception, an instrument that meets the definition of a financial liability is classified as an equity instrument if it has all the features and meets the conditions in paragraphs 15 and 16 or paragraphs 17 and 18.

An **insurance contract** is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. (See the Application Guidance in PBE IFRS 17 for guidance on this definition.)

A **puttable instrument** is a financial instrument that gives the holder the right to put the instrument back to the issuer for cash or another financial asset or is automatically put back to the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder.

Terms defined in other PBE Standards are used in this Standard with the same meanings as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

10. The following terms are defined in paragraph 9 of PBE IPSAS 41 or paragraph 10 of PBE IPSAS 29 *Financial Instruments: Recognition and Measurement* and are used in this Standard with the meaning specified in that Standard.

- Amortised cost of a financial asset or financial liability;
  - Derecognition;
  - Derivative;
  - Effective interest method;
  - Financial guarantee contract;
  - Financial liability at fair value through surplus or deficit;
  - Firm commitment;
  - Forecast transaction;
  - Hedge effectiveness;
  - Hedged item;
  - Hedging instrument;
  - Held for trading;
  - Regular way purchase or sale; and
  - Transaction costs.
11. In this Standard, “contract” and “contractual” refer to an agreement between two or more parties that has clear economic consequences that the parties have little, if any, discretion to avoid, usually because the agreement is enforceable by law. Contracts, and thus financial instruments, may take a variety of forms and need not be in writing.
12. In this Standard, “entity” includes public sector entities, individuals, partnerships, incorporated bodies and trusts.

## Presentation

### Liabilities and Net Assets/Equity (see also paragraphs AG49–AG54)

13. **The issuer of a financial instrument shall classify the instrument, or its component parts, on 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 a financial liability, a financial asset and an equity instrument.**
14. When an issuer applies the definitions in paragraph 9 to determine whether a financial instrument is an equity instrument rather than a financial liability, the instrument is an equity instrument if, and only if, both conditions (a) and (b) below are met.
- (a) The instrument includes no contractual obligation:
- (i) To 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 unfavourable to the issuer.
- (b) If the instrument will or may be settled in the issuer’s own equity instruments, it is:
- (i) A non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or
  - (ii) A derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of an entity’s own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Also for these purposes the issuer’s own equity instruments do not include instruments that have all the features and meet the conditions described in paragraphs 15 and 16 or paragraphs 17 and 18, or instruments that are contracts for the future receipt or delivery of the issuer’s own equity instruments.



A contractual obligation, including one arising from a derivative financial instrument, that will or may result in the future receipt or delivery of the issuer's own equity instruments, but does not meet conditions (a) and (b) above, is not an equity instrument. As an exception, an instrument that meets the definition of a financial liability is classified as an equity instrument if it has all the features and meets the conditions in paragraphs 15 and 16 or paragraphs 17 and 18.

#### *Puttable Instruments*

15. A puttable financial instrument includes a contractual obligation for the issuer to repurchase or redeem that instrument for cash or another financial asset on exercise of the put. As an exception to the definition of a financial liability, an instrument that includes such an obligation is classified as an equity instrument if it has all of the following features:
  - (a) It entitles the holder to a pro rata share of the entity's net assets in the event of the entity's liquidation. The entity's net assets are those assets that remain after deducting all other claims on its assets. A pro rata share is determined by:
    - (i) Dividing the entity's net assets on liquidation into units of equal amount; and
    - (ii) Multiplying that amount by the number of the units held by the financial instrument holder.
  - (b) The instrument is in the class of instruments that is subordinate to all other classes of instruments. To be in such a class the instrument:
    - (i) Has no priority over other claims to the assets of the entity on liquidation; and
    - (ii) Does not need to be converted into another instrument before it is in the class of instruments that is subordinate to all other classes of instruments.
  - (c) All financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features. For example, they must all be puttable, and the formula or other method used to calculate the repurchase or redemption price is the same for all instruments in that class.
  - (d) Apart from the contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any 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, and it is not a contract that will or may be settled in the entity's own equity instruments as set out in subparagraph (b) of the definition of a financial liability.
  - (e) The total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the surplus or deficit, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the entity over the life of the instrument (excluding any effects of the instrument).
16. For an instrument to be classified as an equity instrument, in addition to the instrument having all the above features, the issuer must have no other financial instrument or contract that has:
  - (a) Total cash flows based substantially on the surplus or deficit, the change in the recognised net assets, or the change in the fair value of the recognised and unrecognised net assets of the entity (excluding any effects of such instrument or contract); and
  - (b) The effect of substantially restricting or fixing the residual return to the puttable instrument holders.

For the purposes of applying this condition, the entity shall not consider non-financial contracts with a holder of an instrument described in paragraph 15 that have contractual terms and conditions that are similar to the contractual terms and conditions of an equivalent contract that might occur between a non-instrument holder and the issuing entity. If the entity cannot determine that this condition is met, it shall not classify the puttable instrument as an equity instrument.

#### *Instruments, or Components of Instruments, that Impose on the Entity an Obligation to Deliver to Another Party a pro rata Share of the Net Assets of the Entity only on Liquidation*

17. Some financial instruments include a contractual obligation for the issuing entity to deliver to another entity a pro rata share of its net assets only on liquidation. The obligation arises because liquidation either is

certain to occur and outside the control of the entity (e.g., a limited life entity) or is uncertain to occur but is at the option of the instrument holder. As an exception to the definition of a financial liability, an instrument that includes such an obligation is classified as an equity instrument if it has all of the following features:

- (a) It entitles the holder to a pro rata share of the entity's net assets in the event of the entity's liquidation. The entity's net assets are those assets that remain after deducting all other claims on its assets. A pro rata share is determined by:
    - (i) Dividing the net assets of the entity on liquidation into units of equal amount; and
    - (ii) Multiplying that amount by the number of the units held by the financial instrument holder.
  - (b) The instrument is in the class of instruments that is subordinate to all other classes of instruments. To be in such a class the instrument:
    - (i) Has no priority over other claims to the assets of the entity on liquidation; and
    - (ii) Does not need to be converted into another instrument before it is in the class of instruments that is subordinate to all other classes of instruments.
  - (c) All financial instruments in the class of instruments that is subordinate to all other classes of instruments must have an identical contractual obligation for the issuing entity to deliver a pro rata share of its net assets on liquidation.
18. For an instrument to be classified as an equity instrument, in addition to the instrument having all the above features, the issuer must have no other financial instrument or contract that has:
- (a) Total cash flows based substantially on the surplus or deficit, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the entity (excluding any effects of such instrument or contract); and
  - (b) The effect of substantially restricting or fixing the residual return to the instrument holders.

For the purposes of applying this condition, the entity shall not consider non-financial contracts with a holder of an instrument described in paragraph 17 that have contractual terms and conditions that are similar to the contractual terms and conditions of an equivalent contract that might occur between a non-instrument holder and the issuing entity. If the entity cannot determine that this condition is met, it shall not classify the instrument as an equity instrument.

*Reclassification of Puttable Instruments and Instruments that Impose on the Entity an Obligation to Deliver to Another Party a pro rata Share of the Net Assets of the Entity only on Liquidation*

19. An entity shall classify a financial instrument as an equity instrument in accordance with paragraphs 15 and 16 or paragraphs 17 and 18 from the date when the instrument has all the features and meets the conditions set out in those paragraphs. An entity shall reclassify a financial instrument from the date when the instrument ceases to have all the features or meet all the conditions set out in those paragraphs. For example, if an entity redeems all its issued non-puttable instruments and any puttable instruments that remain outstanding have all of the features and meet all the conditions in paragraphs 15 and 16, the entity shall reclassify the puttable instruments as equity instruments from the date when it redeems the non-puttable instruments.
20. An entity shall account as follows for the reclassification of an instrument in accordance with paragraph 19:
- (a) It shall reclassify an equity instrument as a financial liability from the date when the instrument ceases to have all of the features or meet the conditions in paragraphs 15 and 16 or paragraphs 17 and 18. The financial liability shall be measured at the instrument's fair value at the date of reclassification. The entity shall recognise in net assets/equity any difference between the carrying value of the equity instrument and the fair value of the financial liability at the date of reclassification.
  - (b) It shall reclassify a financial liability as an equity instrument from the date when the instrument has all of the features and meets the conditions set out in paragraphs 15 and 16 or paragraphs 17 and 18. An equity instrument shall be measured at the carrying value of the financial liability at the date of reclassification.

*No Contractual Obligation to Deliver Cash or Another Financial Asset (paragraph 14(a))*

21. With the exception of the circumstances described in paragraphs 15 and 16 or paragraphs 17 and 18, a critical feature in differentiating a financial liability from an equity instrument is the existence of a contractual obligation of one party to the financial instrument (the issuer) either to deliver cash or another financial asset to the other party (the holder) or to exchange financial assets or financial liabilities with the holder under conditions that are potentially unfavourable to the issuer. Although the holder of an equity instrument may be entitled to receive a pro rata share of any dividends or similar distributions declared, or distributions of the net assets/equity, the issuer does not have a contractual obligation to make such distributions because it cannot be required to deliver cash or another financial asset to another party.
22. The substance of a financial instrument, rather than its legal form, governs its classification on the entity's statement of financial position. Substance and legal form are commonly consistent, but not always. Some financial instruments take the legal form of equity instruments but are liabilities in substance and others may combine features associated with equity instruments and features associated with financial liabilities. For example:
  - (a) A preference share that provides for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the issuer to redeem the instrument at or after a particular date for a fixed or determinable amount, is a financial liability.
  - (b) A financial instrument that gives the holder the right to put it back to the issuer for cash or another financial asset (a "puttable instrument") is a financial liability, except for those instruments classified as equity instruments in accordance with paragraphs 15 and 16 or paragraphs 17 and 18. The financial instrument is a financial liability even when the amount of cash or other financial assets is determined on the basis of an index or other item that has the potential to increase or decrease. The existence of an option for the holder to put the instrument back to the issuer for cash or another financial asset means that the puttable instrument meets the definition of a financial liability, except for those instruments classified as equity instruments in accordance with paragraphs 15 and 16 or paragraphs 17 and 18. For example, open-ended mutual funds, unit trusts, partnerships and some co-operative entities may provide their unitholders or members with a right to redeem their interests in the issuer at any time for cash, which results in the unitholders' or members' interests being classified as financial liabilities, except for those instruments classified as equity instruments in accordance with paragraphs 15 and 16 or paragraphs 17 and 18. However, classification as a financial liability does not preclude the use of descriptors such as "net asset value attributable to unitholders" and "change in net asset value attributable to unitholders" on the face of the financial statements of an entity that has no contributed net assets/equity (such as some mutual funds and unit trusts, see Illustrative Example 7) or the use of additional disclosure to show that total members' interests comprise items such as reserves that meet the definition of net assets/equity and puttable instruments that do not (see Illustrative Example 8).
23. 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 for those instruments classified as equity instruments in accordance with paragraphs 15 and 16 or paragraphs 17 and 18. For example:
  - (a) A restriction on the ability of an entity to satisfy a contractual obligation, such as lack of access to foreign currency or the need to obtain approval for payment from a regulatory authority, does not negate the entity's contractual obligation or the holder's contractual right under the instrument.
  - (b) A contractual obligation that is conditional on a counterparty exercising its right to redeem is a financial liability because the entity does not have the unconditional right to avoid delivering cash or another financial asset.
24. A financial instrument that does not explicitly establish a contractual obligation to deliver cash or another financial asset may establish an obligation indirectly through its terms and conditions. For example:
  - (a) A financial instrument may contain a non-financial obligation that must be settled if, and only if, the entity fails to make distributions or to redeem the instrument. If the entity can avoid a transfer of cash or another financial asset only by settling the non-financial obligation, the financial instrument is a financial liability.

- (b) A financial instrument is a financial liability if it provides that on settlement the entity will deliver either:
  - (i) Cash or another financial asset; or
  - (ii) Its own shares whose value is determined to exceed substantially the value of the cash or other financial asset.

Although the entity does not have an explicit contractual obligation to deliver cash or another financial asset, the value of the share settlement alternative is such that the entity will settle in cash. In any event, the holder has in substance been guaranteed receipt of an amount that is at least equal to the cash settlement option (see paragraph 25).

*Settlement in the Entity's Own Equity Instruments (paragraph 14(b))*

25. A contract is not an equity instrument solely because it may result in the receipt or delivery of the entity's own equity instruments. An entity may have a contractual right or obligation to receive or deliver a number of its own shares or other equity instruments that varies so that the fair value of the entity's own equity instruments to be received or delivered equals the amount of the contractual right or obligation. Such a contractual right or obligation may be for a fixed amount or an amount that fluctuates in part or in full in response to changes in a variable other than the market price of the entity's own equity instruments (e.g., an interest rate, a commodity price, or a financial instrument price). Two examples are (a) a contract to deliver as many of the entity's own equity instruments as are equal in value to CU100, and (b) a contract to deliver as many of the entity's own equity instruments as are equal in value to the value of 100 barrels of oil. Such a contract is a financial liability of the entity even though the entity must or can settle it by delivering its own equity instruments. It is not an equity instrument because the entity uses a variable number of its own equity instruments as a means to settle the contract. Accordingly, the contract does not evidence a residual interest in the entity's assets after deducting all of its liabilities.
26. Except as stated in paragraph 27, a contract that will be settled by the entity (receiving or) delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset is an equity instrument. For example, an issued share option that gives the counterparty a right to buy a fixed number of the entity's shares for a fixed price or for a fixed stated principal amount of a bond is an equity instrument. Changes in the fair value of a contract arising from variations in market interest rates that do not affect the amount of cash or other financial assets to be paid or received, or the number of equity instruments to be received or delivered, on settlement of the contract do not preclude the contract from being an equity instrument. Any consideration received (such as the premium received for a written option or warrant on the entity's own shares) is added directly to net assets/equity. Any consideration paid (such as the premium paid for a purchased option) is deducted directly from net assets/equity. Changes in the fair value of an equity instrument are not recognised in the financial statements.
27. If the entity's own equity instruments to be received, or delivered, by the entity upon settlement of a contract are puttable financial instruments with all of the features and meeting the conditions described in paragraphs 15 and 16, or instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation with all of the features and meeting the conditions described in paragraphs 17 and 18, the contract is a financial asset or a financial liability. This includes a contract that will be settled by the entity receiving or delivering a fixed number of such instruments in exchange for a fixed amount of cash or another financial asset.
28. With the exception of the circumstances described in paragraphs 15 and 16 or paragraphs 17 and 18, a contract that contains an obligation for an entity to purchase its own equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount (e.g., for the present value of the forward repurchase price, option exercise price, or other redemption amount). This is the case even if the contract itself is an equity instrument. One example is an entity's obligation under a forward contract to purchase its own equity instruments for cash. The financial liability is recognised initially at the present value of the redemption amount, and is reclassified from net assets/equity. Subsequently, the financial liability is measured in accordance with PBE IPSAS 41. If the contract expires without delivery, the carrying amount of the financial liability is reclassified to net assets/equity. An entity's contractual obligation to purchase its own equity instruments gives rise to a financial liability for the present value of the redemption amount even if the obligation to purchase is conditional on the counterparty exercising a right to redeem (e.g., a written put option that gives the counterparty the right to sell an entity's own equity instruments to the entity for a fixed price).

29. A contract that will be settled by the entity delivering or receiving a fixed number of its own equity instruments in exchange for a variable amount of cash or another financial asset is a financial asset or financial liability. An example is a contract for the entity to deliver 100 of its own equity instruments in return for an amount of cash calculated to equal the value of 100 barrels of oil.

#### *Contingent Settlement Provisions*

30. A financial instrument may require the entity to deliver cash or another financial asset, or otherwise to settle it in such a way that it would be a financial liability, in the event of the occurrence or non-occurrence of uncertain future events (or on the outcome of uncertain circumstances) that are beyond the control of both the issuer and the holder of the instrument, such as a change in a stock market index, consumer price index, interest rate, or taxation requirements, or the issuer's future revenues, surplus or deficit, or debt-to-equity ratio. The issuer of such an instrument does not have the unconditional right to avoid delivering cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability). Therefore, it is a financial liability of the issuer unless:
- (a) The part of the contingent settlement provision that could require settlement in cash or another financial asset (or otherwise in such a way that it would be a financial liability) is not genuine;
  - (b) The issuer can be required to settle the obligation in cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability) only in the event of liquidation of the issuer; or
  - (c) The instrument has all of the features and meets the conditions in paragraphs 15 and 16.

#### *Settlement Options*

31. **When a derivative financial instrument gives one party a choice over how it is settled (e.g., the issuer or the holder can choose settlement net in cash or by exchanging shares for cash), it is a financial asset or a financial liability unless all of the settlement alternatives would result in it being an equity instrument.**
32. An example of a derivative financial instrument with a settlement option that is a financial liability is a share option that the issuer can decide to settle net in cash or by exchanging its own shares for cash. Similarly, some contracts to buy or sell a non-financial item in exchange for the entity's own equity instruments are within the scope of this Standard because they can be settled either by delivery of the non-financial item or net in cash or another financial instrument (see paragraphs 4–6). Such contracts are financial assets or financial liabilities and not equity instruments.

#### **Compound Financial Instruments (see also paragraphs AG55–AG60 and Illustrative Examples 9–12)**

33. **The issuer of a non-derivative financial instrument shall evaluate the terms of the financial instrument to determine whether it contains both a liability component and a net assets/equity component. Such components shall be classified separately as financial liabilities, financial assets, or equity instruments in accordance with paragraph 13.**
34. An entity recognises separately the components of a financial instrument that (a) creates a financial liability of the entity and (b) grants an option to the holder of the instrument to convert it into an equity instrument of the entity. For example, a bond or similar instrument convertible by the holder into a fixed number of ordinary shares of the entity is a compound financial instrument. From the perspective of the entity, such an instrument comprises two components: a financial liability (a contractual arrangement to deliver cash or another financial asset) and an equity instrument (a call option granting the holder the right, for a specified period of time, to convert it into a fixed number of ordinary shares of the entity). The economic effect of issuing such an instrument is substantially the same as issuing simultaneously a debt instrument with an early settlement provision and warrants to purchase ordinary shares, or issuing a debt instrument with detachable share purchase warrants. Accordingly, in all cases, the entity presents the liability and net assets/equity components separately in its statement of financial position.
35. Classification of a convertible instrument into its components is not revised as a result of a change in the likelihood that a conversion option will be exercised, even when exercise of the option may appear to have become economically advantageous to some holders. Holders may not always act in the way that might be expected because, for example, the tax consequences resulting from conversion may differ among holders. Furthermore, the likelihood of conversion will change from time to time. The entity's contractual obligation

to make future payments remains outstanding until it is extinguished through conversion, maturity of the instrument, or some other transaction.

36. PBE IPSAS 41 deals with the measurement of financial assets and financial liabilities. Equity instruments evidence a residual interest in the assets of an entity after deducting all of its liabilities. Therefore, when the initial carrying amount of a compound financial instrument is allocated into its components, the net assets/equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. The value of any derivative features (such as a call option) embedded in the compound financial instrument is included in the liability component unless it forms part of the component of net assets/equity (such as an equity conversion option). The sum of the carrying amounts assigned to the liability and the net assets/equity components on initial recognition is always equal to the fair value that would be ascribed to the instrument as a whole. No gain or loss arises from initially recognising the components of the instrument separately.
37. Under the approach described in paragraph 36, the issuer of a bond convertible into ordinary shares first determines the carrying amount of the liability component by measuring the fair value of a similar liability (including any embedded non-equity derivative features) that does not have an associated net assets/equity component. The carrying amount of the equity instrument represented by the option to convert the instrument into ordinary shares is then determined by deducting the fair value of the financial liability from the fair value of the compound financial instrument as a whole.

#### **Treasury Shares (see also paragraph AG61)**

38. **If an entity reacquires its own equity instruments, those instruments (“treasury shares”) shall be deducted from net assets/equity. No gain or loss shall be recognised in surplus or deficit on the purchase, sale, issue, or cancellation of an entity’s own equity instruments. Such treasury shares may be acquired and held by the entity or by other members of the economic entity. Consideration paid or received shall be recognised directly in net assets/equity.**
- 38.1 Some entities operate, either internally or externally, an investment fund that provides investors with benefits determined by units in the fund and recognise financial liabilities for the amounts to be paid to those investors. Similarly, some entities issue groups of insurance contracts with direct participation features and those entities hold the underlying items. Some such funds or underlying items include the entity’s treasury shares. Despite paragraph 38, an entity may elect not to deduct from net assets/equity a treasury share that is included in such a fund or is an underlying item when, and only when, an entity reacquires its own equity instrument for such purposes. Instead, the entity may elect to continue to account for that treasury share as net assets/equity and to account for the reacquired instrument as if the instrument were a financial asset and measure it at fair value through surplus or deficit in accordance with PBE IPSAS 41. That election is irrevocable and made on an instrument-by-instrument basis. For the purposes of this election, insurance contracts include investment contracts with discretionary participation features. (See PBE IFRS 17 for terms used in this paragraph that are defined in that Standard.)
39. The amount of treasury shares held is disclosed separately either in the statement of financial position or in the notes, in accordance with PBE IPSAS 1 *Presentation of Financial Reports*. An entity provides disclosure in accordance with PBE IPSAS 20 *Related Party Disclosures* if the entity reacquires its own equity instruments from related parties.

#### **Interest, Dividends or Similar Distributions, Losses, and Gains (see also paragraph AG62)**

40. **Interest, dividends or similar distributions, losses, and gains relating to a financial instrument or a component that is a financial liability shall be recognised as revenue or expense in surplus or deficit. Distributions to holders of an equity instrument shall be recognised by the entity directly in net assets/equity. Transaction costs incurred on transactions in net assets/equity shall be accounted for as a deduction from net assets/equity.**
- 40A. Income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with PBE IAS 12 *Income Taxes*.
41. The classification of a financial instrument as a financial liability or an equity instrument determines whether interest, dividends or similar distributions, losses, and gains relating to that instrument are recognised as revenue or expense in surplus or deficit. Thus, dividends or similar distributions on shares wholly recognised as liabilities are recognised as expenses in the same way as interest on a bond. Similarly, gains and losses associated with redemptions or refinancings of financial liabilities are recognised in surplus

or deficit, whereas redemptions or refinancings of equity instruments are recognised as changes in net assets/equity. Changes in the fair value of an equity instrument are not recognised in the financial statements.

42. An entity typically incurs various costs in issuing or acquiring its own equity instruments. Those costs might include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs, and stamp duties. Any related transaction costs are accounted for as a deduction from net assets/equity to the extent they are incremental costs directly attributable to the transaction that otherwise would have been avoided. The costs of such a transaction that is abandoned are recognised as an expense.
43. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and the net assets/equity components of the instrument in proportion to the allocation of proceeds. Transaction costs that relate jointly to more than one transaction are allocated to those transactions using a basis of allocation that is rational and consistent with similar transactions.
44. The amount of transaction costs accounted for as a deduction from net assets/equity in the period is disclosed separately in accordance with PBE IPSAS 1.
45. Dividends or similar distributions classified as an expense are presented in the statement of comprehensive revenue and expense either with interest on other liabilities or as a separate item. In addition to the requirements of this Standard, disclosure of interest and dividends or similar distributions is subject to the requirements of PBE IPSAS 1 and PBE IPSAS 30. In some circumstances, because of the differences between interest and dividends or similar distributions with respect to matters such as tax deductibility, it is desirable to disclose them separately in the statement of comprehensive revenue and expense.
46. Gains and losses related to changes in the carrying amount of a financial liability are recognised as revenue or expense in surplus or deficit even when they relate to an instrument that includes a right to the residual interest in the assets of the entity in exchange for cash or another financial asset (see paragraph 22(b)). Under PBE IPSAS 1 the entity presents any gain or loss arising from remeasurement of such an instrument separately in the statement of comprehensive revenue and expense when it is relevant in explaining the entity's performance.

**Offsetting a Financial Asset and a Financial Liability (see also paragraphs AG63A–AG63F and AG64)**

47. **A financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when, and only when, an entity:**
  - (a) **Currently has a legally enforceable right to set off the recognised amounts; and**
  - (b) **Intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.**

**In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity shall not offset the transferred asset and the associated liability (see PBE IPSAS 41, paragraph 33).**

48. This Standard requires the presentation of financial assets and financial liabilities on a net basis when doing so reflects an entity's expected future cash flows from settling two or more separate financial instruments. When an entity has the right to receive or pay a single net amount and intends to do so, it has, in effect, only a single financial asset or financial liability. In other circumstances, financial assets and financial liabilities are presented separately from each other consistently with their characteristics as resources or obligations of the entity. An entity shall disclose the information required in paragraphs 17B–17E in PBE IPSAS 30 for recognised financial instruments that are within the scope of paragraph 17A of PBE IPSAS 30.
49. Offsetting a recognised financial asset and a recognised financial liability and presenting the net amount differs from the derecognition of a financial asset or a financial liability. Although offsetting does not give rise to recognition of a gain or loss, the derecognition of a financial instrument not only results in the removal of the previously recognised item from the statement of financial position but also may result in recognition of a gain or loss.
50. A right of set-off is a debtor's legal right, by contract or otherwise, to settle or otherwise eliminate all or a portion of an amount due to a creditor by applying against that amount an amount due from the creditor. In unusual circumstances, a debtor may have a legal right to apply an amount due from a third party against

the amount due to a creditor provided that there is an agreement between the three parties that clearly establishes the debtor's right of set-off. Because the right of set-off is a legal right, the conditions supporting the right may vary from one legal jurisdiction to another and the laws applicable to the relationships between the parties need to be considered.

51. The existence of an enforceable right to set-off a financial asset and a financial liability affects the rights and obligations associated with a financial asset and a financial liability and may affect an entity's exposure to credit and liquidity risk. However, the existence of the right, by itself, is not a sufficient basis for offsetting. In the absence of an intention to exercise the right or to settle simultaneously, the amount and timing of an entity's future cash flows are not affected. When an entity intends to exercise the right or to settle simultaneously, presentation of the asset and liability on a net basis reflects more appropriately the amounts and timing of the expected future cash flows, as well as the risks to which those cash flows are exposed. An intention by one or both parties to settle on a net basis without the legal right to do so is not sufficient to justify offsetting because the rights and obligations associated with the individual financial asset and financial liability remain unaltered.
52. An entity's intentions with respect to settlement of particular assets and liabilities may be influenced by its normal operating practices, the requirements of the financial markets, and other circumstances that may limit the ability to settle net or to settle simultaneously. When an entity has a right of set-off, but does not intend to settle net or to realise the asset and settle the liability simultaneously, the effect of the right on the entity's credit risk exposure is disclosed in accordance with paragraph 42 of PBE IPSAS 30.
53. Simultaneous settlement of two financial instruments may occur through, for example, the operation of a clearing house in an organised financial market or a face-to-face exchange. In these circumstances the cash flows are, in effect, equivalent to a single net amount and there is no exposure to credit or liquidity risk. In other circumstances, an entity may settle two instruments by receiving and paying separate amounts, becoming exposed to credit risk for the full amount of the asset or liquidity risk for the full amount of the liability. Such risk exposures may be significant even though relatively brief. Accordingly, realisation of a financial asset and settlement of a financial liability are treated as simultaneous only when the transactions occur at the same moment.
54. The conditions set out in paragraph 47 are generally not satisfied and offsetting is usually inappropriate when:
  - (a) Several different financial instruments are used to emulate the features of a single financial instrument (a "synthetic instrument");
  - (b) Financial assets and financial liabilities arise from financial instruments having the same primary risk exposure (e.g., assets and liabilities within a portfolio of forward contracts or other derivative instruments) but involve different counterparties;
  - (c) Financial or other assets are pledged as collateral for non-recourse financial liabilities;
  - (d) Financial assets are set aside in trust by a debtor for the purpose of discharging an obligation without those assets having been accepted by the creditor in settlement of the obligation (e.g., a sinking fund arrangement); or
  - (e) Obligations incurred as a result of events giving rise to losses are expected to be recovered from a third party by virtue of a claim made under an insurance contract.
55. An entity that undertakes a number of financial instrument transactions with a single counterparty may enter into a "master netting arrangement" with that counterparty. Such an agreement provides for a single net settlement of all financial instruments covered by the agreement in the event of default on, or termination of, any one contract. These arrangements may be commonly used to provide protection against loss in the event of bankruptcy or other circumstances that result in a counterparty being unable to meet its obligations. A master netting arrangement commonly creates a right of set-off that becomes enforceable and affects the realisation or settlement of individual financial assets and financial liabilities only following a specified event of default or in other circumstances not expected to arise in the normal course of operations. A master netting arrangement does not provide a basis for offsetting unless both of the criteria in paragraph 47 are satisfied. When financial assets and financial liabilities subject to a master netting arrangement are not offset, the effect of the arrangement on an entity's exposure to credit risk is disclosed in accordance with paragraph 42 of PBE IPSAS 30.



## Transition

56–58. [Not used]

## Commencement and application

59–62. [Not used]

- 62.1 A public benefit entity shall apply this Standard for annual financial statements covering periods beginning on or after 1 April 2015. Earlier application is permitted for not-for-profit public benefit entities as long as the full suite of PBE Standards is applied at the same time.
- 62.2 *2015 Omnibus Amendments to PBE Standards*, issued in July 2015, amended paragraphs 40, 42 and 44 and added paragraph 40A. An entity shall apply those amendments for annual financial statements covering periods beginning on or after 1 January 2016. Earlier application is permitted, subject to paragraph 62.1. If an entity applies those amendments for an earlier period it shall disclose that fact.
- 62.3 PBE IPSAS 34 *Separate Financial Statements*, PBE IPSAS 35 *Consolidated Financial Statements*, PBE IPSAS 36 *Interests in Associates and Joint Ventures* and PBE IPSAS 37 *Joint Arrangements* issued in January 2017 amended paragraphs 3 and AG53. An entity shall apply that amendment when it applies PBE IPSAS 34, PBE IPSAS 35, PBE IPSAS 36 and PBE IPSAS 37.
- 62.4 PBE IFRS 9 *Financial Instruments*, issued in January 2017, amended paragraphs 2, 3, 4, 10, 28, 36, 47, AG2, AG55, B19 and B21. An entity shall apply those amendments when it applies PBE IFRS 9.<sup>1</sup>
- 62.5 PBE IPSAS 39, issued in May 2017, amended paragraph 3. An entity shall apply that amendment when it applies PBE IPSAS 39.
- 62.6 PBE IPSAS 41, issued in March 2019, amended paragraphs 2, 3, 4, 9, 10, 14, 28, 36, 47, 48, 62.4, AG2, AG55, B19 and B21, added paragraphs AG63A–AG63F (and the related headings) and deleted paragraph AG63. An entity shall apply those amendments when it applies PBE IPSAS 41.
- 62.7 PBE IFRS 17, issued in July 2019, amended paragraphs 3, 9, AG9, AG15 and AG61, and added paragraph 38.1. *Amendments to PBE IFRS 17*, issued in August 2020, further amended paragraphs 3 and 38.1. An entity shall apply those amendments when it applies PBE IFRS 17.

## Withdrawal and Replacement of PBE IPSAS 28 (May 2013)

- 63. This Standard, when applied, supersedes PBE IPSAS 28 *Financial Instruments: Presentation* issued in May 2013.

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<sup>1</sup> PBE IFRS 9 was subsequently withdrawn by PBE IPSAS 41. The amendments in Appendix D of PBE IFRS 9 were not compiled.

## Appendix A

### Application Guidance

*This Appendix is an integral part of PBE IPSAS 28.*

- AG1. This Application Guidance explains the application of particular aspects of the Standard.
- AG2. The Standard does not deal with the recognition or measurement of financial instruments. Requirements about the recognition and measurement of financial assets and financial liabilities are set out in PBE IPSAS 41 *Financial Instruments*.

### Scope (paragraphs 3–6)

#### *Financial Guarantee Contracts*

- AG3. Financial guarantee contracts are those contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original terms of a debt instrument. Governments may issue financial guarantees for a variety of reasons. They are often issued to further a government's policy objectives, for example, to support infrastructure projects and stabilise the financial market in times of distress. Governments and public sector entities may be granted the power to issue financial guarantees by legislation or other authority. In assessing whether a guarantee is contractual or non-contractual, an entity distinguishes the right to issue the guarantee and the actual issue of the guarantee. The right to issue the guarantee in terms of legislation or other authority is non-contractual, while the actual issue of the guarantee should be assessed using the principles in paragraph AG20 to determine whether the guarantee is contractual.
- AG4. The issuing of financial guarantees in favour of a third party, whether explicitly or implicitly, may result in a contractual arrangement. Financial guarantees may be issued to a specific party or they may be issued to the holder of an instrument. Consider the following two examples:
- In a service concession arrangement, a government may issue a financial guarantee directly to the financiers of the transaction stating that, in the event of default, it would assume payment for any outstanding principal and interest payments of a loan. In this instance, the financial guarantee is explicitly issued in favour of an identified counterparty.
  - Road authority A is responsible for constructing and maintaining a country's road infrastructure. It finances the construction of new roads by issuing long term bonds. Central government A exercises its powers in legislation and guarantees the bond issue of road authority A. At the time the guarantee is issued, there are no specific counterparties that have been identified, rather the guarantee is implicitly issued in favour of the holders of a specific instrument.

In both these scenarios, assuming that all the other features of a contract are met, the financial guarantee is contractual in nature.

#### *Insurance Contracts*

- AG5. Some economic entities in the public sector may include entities that issue insurance contracts. Those entities are within the scope of this Standard, but the insurance contracts themselves are outside the scope of this Standard.
- AG6. [Not used]
- AG7. Some financial instruments take the form of insurance contracts but principally involve the transfer of financial risks, such as market, credit, or liquidity risk. Examples of such instruments include financial guarantee contracts, reinsurance, and guaranteed investment contracts issued by public sector insurers and other entities. An entity is required to apply this Standard to certain financial guarantee contracts, and is permitted to apply this Standard to other insurance contracts that involve the transfer of financial risk.
- AG8. Financial guarantee contracts are treated as financial instruments unless an entity elects to treat them as insurance contracts in accordance with this paragraph and also complies with the requirements of paragraph AG9. An entity may make this election in the following instances:
- (a) If an entity previously applied accounting applicable to insurance contracts and adopted an accounting policy that treated financial guarantee contracts as insurance contracts, it may continue

to treat such contracts either as insurance contracts or as financial instruments in accordance with this Standard.

- (b) If an entity previously did not apply accounting applicable to insurance contracts, it may elect to treat financial guarantee contracts either as insurance contracts or as financial instruments when an entity adopts this Standard.

In both (a) and (b) above, the election is made on a contract by contract basis, and the choice is irrevocable.

- AG9. In accordance with paragraph 3(c), an entity treats financial guarantee contracts as financial instruments unless it elects to treat such contracts as insurance contracts in accordance with PBE IFRS 17.

## Definitions (paragraphs 9–12)

### *Financial Assets and Financial Liabilities*

- AG10. Currency (cash) is a financial asset because it represents the medium of exchange and is therefore the basis on which all transactions are measured and recognised in financial statements. A deposit of cash with a bank or similar financial institution is a financial asset because it represents the contractual right of the depositor to obtain cash from the institution or to draw a check or similar instrument against the balance in favour of a creditor in payment of a financial liability. Unissued currency does not meet the definition of a financial instrument. An entity applies paragraph 13 of PBE IPSAS 12 *Inventories* in accounting for any unissued currency. Currency issued as legal tender from the perspective of the issuer, is not addressed in this Standard.

- AG11. Common examples of financial assets representing a contractual right to receive cash in the future and corresponding financial liabilities representing a contractual obligation to deliver cash in the future are:

- (a) Accounts receivable and payable;
- (b) Notes receivable and payable;
- (c) Loans receivable and payable; and
- (d) Bonds receivable and payable.

In each case, one party's contractual right to receive (or obligation to pay) cash is matched by the other party's corresponding obligation to pay (or right to receive).

- AG12. Another type of financial instrument is one for which the economic benefit to be received or given up is a financial asset other than cash. For example, a note payable in government bonds gives the holder the contractual right to receive and the issuer the contractual obligation to deliver government bonds, not cash. The bonds are financial assets because they represent obligations of the issuing government to pay cash. The note is, therefore, a financial asset of the note holder and a financial liability of the note issuer.

- AG13. "Perpetual" debt instruments (such as "perpetual" bonds, debentures and capital notes) normally provide the holder with the contractual right to receive payments on account of interest at fixed dates extending into the indefinite future, either with no right to receive a return of principal or a right to a return of principal under terms that make it very unlikely or very far in the future. For example, an entity may issue a financial instrument requiring it to make annual payments in perpetuity equal to a stated interest rate of 8 percent applied to a stated par or principal amount of CU1,000. Assuming 8 percent to be the market rate of interest for the instrument when issued, the issuer assumes a contractual obligation to make a stream of future interest payments having a fair value (present value) of CU1,000 on initial recognition. The holder and issuer of the instrument have a financial asset and a financial liability, respectively.

- AG14. A contractual right or contractual obligation to receive, deliver or exchange financial instruments is itself a financial instrument. A chain of contractual rights or contractual obligations meets the definition of a financial instrument if it will ultimately lead to the receipt or payment of cash or to the acquisition or issue of an equity instrument.

- AG15. The ability to exercise a contractual right or the requirement to satisfy a contractual obligation may be absolute, or it may be contingent on the occurrence of a future event. For example, a financial guarantee is a contractual right of the lender to receive cash from the guarantor, and a corresponding contractual obligation of the guarantor to pay the lender, if the borrower defaults. The contractual right and obligation exist because of a past transaction or event (assumption of the guarantee), even though the lender's ability to exercise its right and the requirement for the guarantor to perform under its obligation are both

contingent on a future act of default by the borrower. A contingent right and obligation meet the definition of a financial asset and a financial liability, even though such assets and liabilities are not always recognised in the financial statements. Some of these contingent rights and obligations may be contracts within the scope of PBE IFRS 17.

- AG16. Under PBE IPSAS 13 *Leases*, a finance lease is regarded as primarily an entitlement of the lessor to receive, and an obligation of the lessee to pay, a stream of payments that are substantially the same as blended payments of principal and interest under a loan agreement. The lessor accounts for its investment in the amount receivable under the lease contract rather than the leased asset itself. An operating lease, on the other hand, is regarded as primarily an uncompleted contract committing the lessor to provide the use of an asset in future periods in exchange for consideration similar to a fee for a service. The lessor continues to account for the leased asset itself rather than any amount receivable in the future under the contract. Accordingly, a finance lease is regarded as a financial instrument and an operating lease is not regarded as a financial instrument (except as regards individual payments currently due and payable).
- AG17. Physical assets (such as inventories, property, plant and equipment), leased assets and intangible assets (such as patents and trademarks) are not financial assets. Control of such physical and intangible assets creates an opportunity to generate an inflow of cash or another financial asset, but it does not give rise to a present right to receive cash or another financial asset.
- AG18. Assets (such as prepaid expenses) for which the future economic benefit is the receipt of goods or services, rather than the right to receive cash or another financial asset, are not financial assets. Similarly, items such as deferred revenue and most warranty obligations are not financial liabilities because the outflow of economic benefits associated with them is the delivery of goods and services rather than a contractual obligation to pay cash or another financial asset.
- AG19. Assets and liabilities in the public sector arise out of both contractual and non-contractual arrangements. Assets and liabilities arising out of non-contractual arrangements do not meet the definition of a financial asset or a financial liability.
- AG20. An entity considers the substance rather than the legal form of an arrangement in determining whether it is a “contract” for purposes of this Standard. Contracts, for the purposes of this Standard, are generally evidenced by the following (although this may differ from jurisdiction to jurisdiction):
- Contracts involve willing parties entering into an arrangement;
  - The terms of the contract create rights and obligations for the parties to the contract, and those rights and obligations need not result in equal performance by each party. For example, a donor funding arrangement creates an obligation for the donor to transfer resources to the recipient in terms of the agreement concluded, and establishes the right of the recipient to receive those resources. These types of arrangements may be contractual even though the recipient did not provide equal consideration in return i.e., the arrangement does not result in equal performance by the parties; and
  - The remedy for non-performance is enforceable by law.
- AG21. It is possible that contractual and non-contractual arrangements are non-exchange in nature. Assets and liabilities arising from non-exchange revenue transactions are accounted for in accordance with PBE IPSAS 23 *Revenue from Non-Exchange Transactions*. If non-exchange revenue transactions are contractual, an entity assesses if the assets or liabilities arising from such transactions are financial assets or financial liabilities by using paragraphs 10 and AG10–AG18 of this Standard. An entity uses the guidance in this Standard and PBE IPSAS 23 in assessing whether a non-exchange transaction gives rise to a liability or an equity instrument (contribution from owners).
- AG22. An entity would particularly consider the classification requirements of this Standard in determining whether an inflow of resources as part of a contractual non-exchange revenue transaction is in substance a liability or an equity instrument.
- AG23. Statutory obligations can be accounted for in a number of ways:
- Obligations to pay income taxes are accounted for in accordance with PBE IAS 12 *Income Taxes*.

- Obligations to provide social benefits are accounted for in accordance with PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* and PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*.
- Other statutory obligations are accounted for in accordance with PBE IPSAS 19.

AG24. Constructive obligations, as defined in PBE IPSAS 19, also do not arise from contracts and are therefore not financial liabilities.

#### *Equity Instruments*

AG25. It is not common for public benefit entities to have contributed capital comprising equity instruments, for example, shares and other forms of unitised capital. Where entities do issue equity instruments, the ownership and use of those instruments may be restricted by legislation. For example, legislation may stipulate that shares in a public sector entity may only be owned by another public sector entity and may therefore not be used as consideration for the settlement of transactions.

AG26. Contributed capital of public benefit entities may also be evidenced by transfers of resources between parties. The issuance of equity instruments in respect of a transfer of resources is not essential for the transfer to meet the definition of a contribution from owners. Transfers of resources that result in an interest in the net assets/equity of an entity are distinguished from other transfers of resources because they may be evidenced by the following:

- A formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets/equity, either before the contribution occurs or at the time of the contribution. For example, on establishing a new entity, the budget office of the department of finance may deem that the initial transfers of resources to an entity establish an interest in the net assets/equity of an entity rather than provide funding to meet operational requirements.
- A formal agreement, in relation to the transfer, establishing or increasing an existing financial interest in the net assets/equity of an entity that can be sold, transferred or redeemed.

Even though transfers of resources may be evidenced by a designation or formal agreement, an entity assesses the nature of transfers of resources based on their substance and not merely their legal form.

AG27. For the purposes of this Standard, the term "equity instrument" may be used to denote the following:

- A form of unitised capital such as ordinary or preference shares;
- Transfers of resources (either designated or agreed as such between the parties to the transaction) that evidence a residual interest in the net assets of another entity; and/or
- Financial liabilities in the legal form of debt that, in substance, represent an interest in an entity's net assets.

#### *Puttable Instruments*

AG28. Where an entity's contributed capital is comprised of shares or other forms of unitised capital, these instruments may take a number of forms, for example non-puttable ordinary shares, some puttable instruments (see paragraphs 15 and 16), some instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation (see paragraphs 17 and 18), some types of preference shares (see paragraphs AG49 and AG50), and warrants or written call options that allow the holder to subscribe for or purchase a fixed number of non-puttable ordinary shares in the issuing entity in exchange for a fixed amount of cash or another financial asset. An entity's obligation to issue or purchase a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset is an equity instrument of the entity (except as stated in paragraph 27). However, if such a contract contains an obligation for the entity to pay cash or another financial asset (other than a contract classified as an equity instrument in accordance with paragraphs 15 and 16 or paragraphs 17 and 18), it also gives rise to a liability for the present value of the redemption amount (see paragraph AG51(a)). An issuer of non-puttable ordinary shares assumes a liability when it formally acts to make a distribution and becomes legally obliged to the shareholders to do so. This may be the case following the declaration of a dividend or when the entity is being wound up and any assets remaining after the satisfaction of liabilities become distributable to shareholders.

- AG29. A purchased call option or other similar contract acquired by an entity that gives it the right to reacquire a fixed number of its own equity instruments in exchange for delivering a fixed amount of cash or another financial asset is not a financial asset of the entity (except as stated in paragraph 27). Instead, any consideration paid for such a contract is deducted from net assets/equity.

**The Class of Instruments that is Subordinate to all Other Classes (paragraphs 15(b) and 17(b))**

- AG30. One of the features of paragraphs 15 and 17 is that the financial instrument is in the class of instruments that is subordinate to all other classes.
- AG31. When determining whether an instrument is in the subordinate class, an entity evaluates the instrument's claim on liquidation as if it were to liquidate on the date when it classifies the instrument. An entity shall reassess the classification if there is a change in relevant circumstances. For example, if the entity issues or redeems another financial instrument, this may affect whether the instrument in question is in the class of instruments that is subordinate to all other classes.
- AG32. An instrument that has a preferential right on liquidation of the entity is not an instrument with an entitlement to a pro rata share of the net assets of the entity. For example, an instrument has a preferential right on liquidation if it entitles the holder to a fixed dividend on liquidation, in addition to a share of the entity's net assets, when other instruments in the subordinate class with a right to a pro rata share of the net assets of the entity do not have the same right on liquidation.
- AG33. If an entity has only one class of financial instruments, that class shall be treated as if it were subordinate to all other classes.

**Total Expected Cash Flows Attributable to the Instrument over the Life of the Instrument (paragraph 15(e))**

- AG34. The total expected cash flows of the instrument over the life of the instrument must be substantially based on the surplus or deficit, change in the recognised net assets, or fair value of the recognised and unrecognised net assets of the entity over the life of the instrument. Surplus or deficit and the change in the recognised net assets shall be measured in accordance with relevant PBE Standards.

**Transactions Entered into by an Instrument Holder Other Than as Owner of the Entity (paragraphs 15 and 17)**

- AG35. The holder of a puttable financial instrument or an instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation may enter into transactions with the entity in a role other than that of an owner. For example, an instrument holder also may be an employee of the entity. Only the cash flows and the contractual terms and conditions of the instrument that relate to the instrument holder as an owner of the entity shall be considered when assessing whether the instrument should be classified as an equity instrument under paragraph 15 or paragraph 17.
- AG36. An example is a limited partnership that has limited and general partners. Some general partners may provide a guarantee to the entity and may be remunerated for providing that guarantee. In such situations, the guarantee and the associated cash flows relate to the instrument holders in their role as guarantors and not in their roles as owners of the entity. Therefore, such a guarantee and the associated cash flows would not result in the general partners being considered subordinate to the limited partners, and would be disregarded when assessing whether the contractual terms of the limited partnership instruments and the general partnership instruments are identical.
- AG37. Another example is a surplus or deficit sharing arrangement that allocates surpluses and deficits to the instrument holders on the basis of services rendered or business generated during the current and previous years. Such arrangements are transactions with instrument holders in their role as non-owners and should not be considered when assessing the features listed in paragraph 15 or paragraph 17. However, such arrangements that allocate surpluses and deficits to instrument holders based on the nominal amount of their instruments relative to others in the class represent transactions with the instrument holders in their roles as owners and should be considered when assessing the features listed in paragraph 15 or paragraph 17.
- AG38. The cash flows and contractual terms and conditions of a transaction between the instrument holder (in the role as a non-owner) and the issuing entity must be similar to an equivalent transaction that might occur between a non-instrument holder and the issuing entity.

**No Other Financial Instrument or Contract with Total Cash Flows that Substantially Fixes or Restricts the Residual Return to the Instrument Holder (paragraphs 16 and 18)**

- AG39. A condition for classifying an equity instrument as a financial instrument that otherwise meets the criteria in paragraph 15 or paragraph 17 is that the entity has no other financial instrument or contract that has (a) total cash flows based substantially on the surplus or deficit, the change in the recognised net assets, or the change in the fair value of the recognised and unrecognised net assets of the entity and (b) the effect of substantially restricting or fixing the residual return. The following instruments, when entered into on normal commercial terms with unrelated parties, are unlikely to prevent instruments that otherwise meet the criteria in paragraph 15 or paragraph 17 from being classified as equity instruments:
- (a) Instruments with total cash flows substantially based on specific assets of the entity.
  - (b) Instruments with total cash flows based on a percentage of revenue.
  - (c) Contracts designed to reward individual employees for services rendered to the entity.
  - (d) Contracts requiring the payment of an insignificant percentage of profit for services rendered or goods provided.

*Derivative Financial Instruments*

- AG40. Financial instruments include primary instruments (such as receivables, payables and equity instruments) and derivative financial instruments (such as financial options, futures and forwards, interest rate swaps and currency swaps). Derivative financial instruments meet the definition of a financial instrument and, accordingly, are within the scope of this Standard.
- AG41. Derivative financial instruments create rights and obligations that have the effect of transferring between the parties to the instrument one or more of the financial risks inherent in an underlying primary financial instrument. On inception, derivative financial instruments give one party a contractual right to exchange financial assets or financial liabilities with another party under conditions that are potentially favourable, or a contractual obligation to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable. However, they generally<sup>2</sup> do not result in a transfer of the underlying primary financial instrument on inception of the contract, nor does such a transfer necessarily take place on maturity of the contract. Some instruments embody both a right and an obligation to make an exchange. Because the terms of the exchange are determined on inception of the derivative instrument, as prices in financial markets change those terms may become either favourable or unfavourable.
- AG42. A put or call option to exchange financial assets or financial liabilities (i.e., financial instruments other than an entity's own equity instruments) gives the holder a right to obtain potential future economic benefits associated with changes in the fair value of the financial instrument underlying the contract. Conversely, the writer of an option assumes an obligation to forgo potential future economic benefits or bear potential losses of economic benefits associated with changes in the fair value of the underlying financial instrument. The contractual right of the holder and obligation of the writer meet the definition of a financial asset and a financial liability, respectively. The financial instrument underlying an option contract may be any financial asset, including shares in other entities and interest-bearing instruments. An option may require the writer to issue a debt instrument, rather than transfer a financial asset, but the instrument underlying the option would constitute a financial asset of the holder if the option were exercised. The option-holder's right to exchange the financial asset under potentially favourable conditions and the writer's obligation to exchange the financial asset under potentially unfavourable conditions are distinct from the underlying financial asset to be exchanged upon exercise of the option. The nature of the holder's right and of the writer's obligation are not affected by the likelihood that the option will be exercised.
- AG43. Another example of a derivative financial instrument is a forward contract to be settled in six months' time in which one party (the purchaser) promises to deliver CU1,000,000 cash in exchange for CU1,000,000 face amount of fixed rate government bonds, and the other party (the seller) promises to deliver CU1,000,000 face amount of fixed rate government bonds in exchange for CU1,000,000 cash. During the six months, both parties have a contractual right and a contractual obligation to exchange financial instruments. If the market price of the government bonds rises above CU1,000,000, the

<sup>2</sup> This is true of most, but not all derivatives, e.g., in some cross-currency interest rate swaps principal is exchanged on inception (and re-exchanged on maturity).

conditions will be favourable to the purchaser and unfavourable to the seller; if the market price falls below CU1,000,000, the effect will be the opposite. The purchaser has a contractual right (a financial asset) similar to the right under a call option held and a contractual obligation (a financial liability) similar to the obligation under a put option written; the seller has a contractual right (a financial asset) similar to the right under a put option held and a contractual obligation (a financial liability) similar to the obligation under a call option written. As with options, these contractual rights and obligations constitute financial assets and financial liabilities separate and distinct from the underlying financial instruments (the bonds and cash to be exchanged). Both parties to a forward contract have an obligation to perform at the agreed time, whereas performance under an option contract occurs only if and when the holder of the option chooses to exercise it.

- AG44. Many other types of derivative instruments embody a right or obligation to make a future exchange, including interest rate and currency swaps, interest rate caps, collars and floors, loan commitments, note issuance facilities, and letters of credit. An interest rate swap contract may be viewed as a variation of a forward contract in which the parties agree to make a series of future exchanges of cash amounts, one amount calculated with reference to a floating interest rate and the other with reference to a fixed interest rate. Futures contracts are another variation of forward contracts, differing primarily in that the contracts are standardised and traded on an exchange.

*Contracts to Buy or Sell Non-Financial Items (paragraphs 4–6)*

- AG45. Contracts to buy or sell non-financial items do not meet the definition of a financial instrument because the contractual right of one party to receive a non-financial asset or service and the corresponding obligation of the other party do not establish a present right or obligation of either party to receive, deliver or exchange a financial asset. For example, contracts that provide for settlement only by the receipt or delivery of a non-financial item (e.g., an option, futures or forward contract on oil) are not financial instruments. Many commodity contracts are of this type. Some are standardised in form and traded on organised markets in much the same fashion as some derivative financial instruments. For example, a commodity futures contract may be bought and sold readily for cash because it is listed for trading on an exchange and may change hands many times. However, the parties buying and selling the contract are, in effect, trading the underlying commodity. The ability to buy or sell a commodity contract for cash, the ease with which it may be bought or sold and the possibility of negotiating a cash settlement of the obligation to receive or deliver the commodity do not alter the fundamental character of the contract in a way that creates a financial instrument. Nevertheless, some contracts to buy or sell non-financial items that can be settled net or by exchanging financial instruments, or in which the non-financial item is readily convertible to cash, are within the scope of the Standard as if they were financial instruments (see paragraph 4).
- AG46. A contract that involves the receipt or delivery of physical assets does not give rise to a financial asset of one party and a financial liability of the other party unless any corresponding payment is deferred past the date on which the physical assets are transferred. Such is the case with the purchase or sale of goods on credit.
- AG47. Some contracts are commodity-linked, but do not involve settlement through the physical receipt or delivery of a commodity. They specify settlement through cash payments that are determined according to a formula in the contract, rather than through payment of fixed amounts. For example, the principal amount of a bond may be calculated by applying the market price of oil prevailing at the maturity of the bond to a fixed quantity of oil. The principal is indexed by reference to a commodity price, but is settled only in cash. Such a contract constitutes a financial instrument.
- AG48. The definition of a financial instrument also encompasses a contract that gives rise to a non-financial asset or non-financial liability in addition to a financial asset or financial liability. Such financial instruments often give one party an option to exchange a financial asset for a non-financial asset. For example, an oil-linked bond may give the holder the right to receive a stream of fixed periodic interest payments and a fixed amount of cash on maturity, with the option to exchange the principal amount for a fixed quantity of oil. The desirability of exercising this option will vary from time to time depending on the fair value of oil relative to the exchange ratio of cash for oil (the exchange price) inherent in the bond. The intentions of the bondholder concerning the exercise of the option do not affect the substance of the component assets. The financial asset of the holder and the financial liability of the issuer make the bond a financial instrument, regardless of the other types of assets and liabilities also created.



## Presentation

### *Liabilities and Net Assets/Equity (paragraphs 13–32)*

#### **No Contractual Obligation to Deliver Cash or another Financial Asset (paragraphs 21–24)**

- AG49. Preference shares may be issued with various rights. In determining whether a preference share is a financial liability or an equity instrument, an issuer assesses the particular rights attaching to the share to determine whether it exhibits the fundamental characteristic of a financial liability. For example, a preference share that provides for redemption on a specific date or at the option of the holder contains a financial liability because the issuer has an obligation to transfer financial assets to the holder of the share. The potential inability of an issuer to satisfy an obligation to redeem a preference share when contractually required to do so, whether because of a lack of funds, a statutory restriction, or insufficient surpluses or reserves, does not negate the obligation. An option of the issuer to redeem the shares for cash does not satisfy the definition of a financial liability because the issuer does not have a present obligation to transfer financial assets to the shareholders. In this case, redemption of the shares is solely at the discretion of the issuer. An obligation may arise, however, when the issuer of the shares exercises its option, usually by formally notifying the shareholders of an intention to redeem the shares.
- AG50. When preference shares are non-redeemable, the appropriate classification is determined by the other rights that attach to them. Classification is based on an assessment of the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. When distributions to holders of the preference shares, whether cumulative or non-cumulative, are at the discretion of the issuer, the shares are equity instruments. The classification of a preference share as an equity instrument or a financial liability is not affected by, for example:
- (a) A history of making distributions;
  - (b) An intention to make distributions in the future;
  - (c) A possible negative impact on the price of ordinary shares of the issuer if distributions are not made (because of restrictions on paying dividends on the ordinary shares if dividends are not paid on the preference shares);
  - (d) The amount of the issuer's reserves;
  - (e) An issuer's expectation of a surplus or deficit for a period; or
  - (f) An ability or inability of the issuer to influence the amount of its surplus or deficit for the period.

#### **Settlement in the Entity's Own Equity Instruments (paragraphs 25–29)**

- AG51. As noted in paragraph AG25, it is not common for public benefit entities to issue equity instruments comprising shares or other forms of unitised capital; and where such instruments do exist, their use and ownership is usually restricted in legislation. As a result of the capital structure of public benefit entities generally being different from private sector entities, and the legislative environment in which public benefit entities operate, transactions that are settled in an entity's own equity instruments are not likely to occur as frequently in the public benefit sector as in the private sector. However, where such transactions do occur, the following examples may assist in illustrating how to classify different types of contracts on an entity's own equity instruments:
- (a) A contract that will be settled by the entity receiving or delivering a fixed number of its own shares for no future consideration, or exchanging a fixed number of its own shares for a fixed amount of cash or another financial asset, is an equity instrument (except as stated in paragraph 27). Accordingly, any consideration received or paid for such a contract is added directly to or deducted directly from net assets/equity. One example is an issued share option that gives the counterparty a right to buy a fixed number of the entity's shares for a fixed amount of cash. However, if the contract requires the entity to purchase (redeem) its own shares for cash or another financial asset at a fixed or determinable date or on demand, the entity also recognises a financial liability for the present value of the redemption amount (with the exception of instruments that have all the features and meet the conditions in paragraphs 15 and 16 or paragraphs 17 and 18). One example is an entity's obligation under a forward contract to repurchase a fixed number of its own shares for a fixed amount of cash.

- (b) An entity's obligation to purchase its own shares for cash gives rise to a financial liability for the present value of the redemption amount even if the number of shares that the entity is obliged to repurchase is not fixed or if the obligation is conditional on the counterparty exercising a right to redeem (except as stated in paragraphs 15 and 16 or paragraphs 17 and 18). One example of a conditional obligation is an issued option that requires the entity to repurchase its own shares for cash if the counterparty exercises the option.
- (c) A contract that 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 that will be received or delivered is based on changes in the market price of the entity's own equity instruments (except as stated in paragraphs 15 and 16 or paragraphs 17 and 18). One example is a net cash-settled share option.

A contract that will be settled in a variable number of the entity's own shares whose value equals a fixed amount or an amount based on changes in an underlying variable (e.g., a commodity price) is a financial asset or a financial liability. An example is a written option to buy oil that, if exercised, is settled net in the entity's own instruments by the entity delivering as many of those instruments as are equal to the value of the option contract. Such a contract is a financial asset or financial liability even if the underlying variable is the entity's own share price rather than oil. Similarly, a contract that will be settled in a fixed number of the entity's own shares, but the rights attaching to those shares will be varied so that the settlement value equals a fixed amount or an amount based on changes in an underlying variable, is a financial asset or a financial liability.

#### **Contingent Settlement Provisions (paragraph 30)**

- AG52. Paragraph 30 requires that if a part of a contingent settlement provision that could require settlement in cash or another financial asset (or in another way that would result in the instrument being a financial liability) is not genuine, the settlement provision does not affect the classification of a financial instrument. Thus, a contract that requires settlement in cash or a variable number of the entity's own shares only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur is an equity instrument. Similarly, settlement in a fixed number of an entity's own shares may be contractually precluded in circumstances that are outside the control of the entity, but if these circumstances have no genuine possibility of occurring, classification as an equity instrument is appropriate.

#### **Treatment in Consolidated Financial Statements**

- AG53. In consolidated financial statements, an entity presents non-controlling interests i.e., the interests of other parties in the net assets/equity and revenue of its controlled entities in accordance with PBE IPSAS 1 *Presentation of Financial Reports* and PBE IPSAS 35. When classifying a financial instrument (or a component of it) in consolidated financial statements, an entity considers all terms and conditions agreed between members of the economic entity and the holders of the instrument in determining whether the economic entity as a whole has an obligation to deliver cash or another financial asset in respect of the instrument or to settle it in a manner that results in liability classification. When a controlled entity issues a financial instrument and a controlling entity or other entity within the economic entity agrees additional terms directly with the holders of the instrument (e.g., a guarantee), the economic entity may not have discretion over distributions or redemption. Although the controlled entity may appropriately classify the instrument without regard to these additional terms in its individual financial statements, the effect of other agreements between members of the economic entity and the holders of the instrument is considered in order to ensure that consolidated financial statements reflect the contracts and transactions entered into by the economic entity as a whole. To the extent that there is such an obligation or settlement provision, the instrument (or the component of it that is subject to the obligation) is classified as a financial liability in consolidated financial statements.
- AG54. Some types of instruments that impose a contractual obligation on the entity are classified as equity instruments in accordance with paragraphs 15 and 16 or paragraphs 17 and 18. Classification in accordance with those paragraphs is an exception to the principles otherwise applied in this Standard to the classification of an instrument and cannot be applied by analogy to other instruments. This exception is not extended to the classification of non-controlling interests in the consolidated financial statements. Therefore, instruments classified as equity instruments in accordance with either paragraphs 15 and 16 or paragraphs 17 and 18 in the separate or individual financial statements that are non-controlling interests are classified as liabilities in the consolidated financial statements of the economic entity.

*Compound Financial Instruments (paragraphs 33–37)*

- AG55. Paragraph 33 applies only to issuers of non-derivative compound financial instruments. Paragraph 33 does not deal with compound financial instruments from the perspective of holders. PBE IPSAS 41 deals with the classification and measurement of financial assets that are compound financial instruments from the holder's perspective.
- AG56. Compound financial instruments are not common in public benefit entities because of the capital structure of those entities. The following discussion does, however, illustrate how a compound financial instrument would be analysed into its component parts. A common form of compound financial instrument is a debt instrument with an embedded conversion option, such as a bond convertible into ordinary shares of the issuer, and without any other embedded derivative features. Paragraph 33 requires the issuer of such a financial instrument to present the liability component and net assets/equity component separately in the statement of financial position, as follows:
- (a) The issuer's obligation to make scheduled payments of interest and principal is a financial liability that exists as long as the instrument is not converted. On initial recognition, the fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option.
  - (b) The equity instrument is an embedded option to convert the liability into net assets/equity of the issuer. The fair value of the option comprises its time value and its intrinsic value, if any. This option has value on initial recognition even when it is out of the money.
- AG57. On conversion of a convertible instrument at maturity, the entity derecognises the liability component and recognises it as net assets/equity. The original net assets/equity component remains as net assets/equity (although it may be transferred from one line item within net assets/equity to another). There is no gain or loss on conversion at maturity.
- AG58. When an entity extinguishes a convertible instrument before maturity through an early redemption or repurchase in which the original conversion privileges are unchanged, the entity allocates the consideration paid and any transaction costs for the repurchase or redemption to the components of the instrument at the date of the transaction. The method used in allocating the consideration paid and transaction costs to the separate components is consistent with that used in the original allocation to the separate components of the proceeds received by the entity when the convertible instrument was issued, in accordance with paragraphs 33–37.
- AG59. Once the allocation of the consideration is made, any resulting gain or loss is treated in accordance with accounting principles applicable to the related component, as follows:
- (a) The amount of gain or loss relating to the liability component is recognised in surplus or deficit; and
  - (b) The amount of consideration relating to the net assets/equity component is recognised in net assets/equity.
- AG60. An entity may amend the terms of a convertible instrument to induce early conversion, for example by offering a more favourable conversion ratio or paying other additional consideration in the event of conversion before a specified date. The difference, at the date the terms are amended, between the fair value of the consideration the holder receives on conversion of the instrument under the revised terms and the fair value of the consideration the holder would have received under the original terms is recognised as a loss in surplus or deficit.

*Treasury Shares (paragraphs 38 and 39)*

- AG61. An entity's own equity instruments are not recognised as a financial asset regardless of the reason for which they are reacquired. Paragraph 38 requires an entity that reacquires its own equity instruments to deduct those equity instruments from net assets/equity (but see also paragraph 38.1). However, when an entity holds its own equity instruments on behalf of others, for example, a financial institution holding its own equity instruments on behalf of a client, there is an agency relationship and as a result those holdings are not included in the entity's statement of financial position.

*Interest, Dividends or Similar Distributions, Losses, and Gains (paragraphs 40–46)*

AG62. The following example illustrates the application of paragraph 40 to a compound financial instrument. Assume that a non-cumulative preference share is mandatorily redeemable for cash in five years, but that dividends are payable at the discretion of the entity before the redemption date. Such an instrument is a compound financial instrument, with the liability component being the present value of the redemption amount. The unwinding of the discount on this component is recognised in surplus or deficit and classified as interest expense. Any dividends paid relate to the net assets/equity component and, accordingly, are recognised as a distribution of surplus or deficit. A similar treatment would apply if the redemption was not mandatory but at the option of the holder, or if the share was mandatorily convertible into a variable number of ordinary shares calculated to equal a fixed amount or an amount based on changes in an underlying variable (for example, a commodity). However, if any unpaid dividends or similar distributions are added to the redemption amount, the entire instrument is a liability. In such a case, any dividends or similar distributions are classified as interest expense.

*Offsetting a Financial Asset and a Financial Liability (paragraphs 47–55)*

AG63. [Deleted by IPSASB]

*Criterion that an Entity ‘Currently has a Legally Enforceable Right to Set off the Recognised Amounts’ (paragraph 47(a))*

AG63A. A right of set-off may be currently available or it may be contingent on a future event (for example, the right may be triggered or exercisable only on the occurrence of some future event, such as the default, insolvency or bankruptcy of one of the counterparties). Even if the right of set-off is not contingent on a future event, it may only be legally enforceable in the normal course of operations, or in the event of default, or in the event of insolvency or bankruptcy, of one or all of the counterparties.

AG63B. To meet the criterion in paragraph 47(a), an entity must currently have a legally enforceable right of set-off. This means that the right of set-off:

- (a) Must not be contingent on a future event; and
- (b) Must be legally enforceable in all of the following circumstances:
  - (i) The normal course of business;
  - (ii) The event of default; and
  - (iii) The event of insolvency or bankruptcy
 of the entity and all of the counterparties.

AG63C. The nature and extent of the right of set-off, including any conditions attached to its exercise and whether it would remain in the event of default or insolvency or bankruptcy, may vary from one legal jurisdiction to another. Consequently, it cannot be assumed that the right of set-off is automatically available outside of the normal course of operations. For example, the bankruptcy or insolvency laws of a jurisdiction may prohibit, or restrict, the right of set-off in the event of bankruptcy or insolvency in some circumstances.

AG63D. The laws applicable to the relationships between the parties (for example, contractual provisions, the laws governing the contract, or the default, insolvency or bankruptcy laws applicable to the parties) need to be considered to ascertain whether the right of set-off is enforceable in the normal course of operations, in an event of default, and in the event of insolvency or bankruptcy, of the entity and all of the counterparties (as specified in paragraph AG63B(b)).

*Criterion that an Entity ‘Intends Either to Settle on a Net Basis, or to Realise the Asset and Settle the Liability Simultaneously’ (paragraph 47(b))*

AG63E. To meet the criterion in paragraph 47(b) an entity must intend either to settle on a net basis or to realise the asset and settle the liability simultaneously. Although the entity may have a right to settle net, it may still realise the asset and settle the liability separately.

AG63F. If an entity can settle amounts in a manner such that the outcome is, in effect, equivalent to net settlement, the entity will meet the net settlement criterion in paragraph 47(b). This will occur if, and only if, the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk, and that will process receivables and payables in a single settlement process or cycle. For example, a

gross settlement system that has all of the following characteristics would meet the net settlement criterion in paragraph 47(b):

- (a) Financial assets and financial liabilities eligible for set-off are submitted at the same point in time for processing;
- (b) Once the financial assets and financial liabilities are submitted for processing, the parties are committed to fulfil the settlement obligation;
- (c) There is no potential for the cash flows arising from the assets and liabilities to change once they have been submitted for processing (unless the processing fails—see (d) below);
- (d) Assets and liabilities that are collateralised with securities will be settled on a securities transfer or similar system (for example, delivery versus payment), so that if the transfer of securities fails, the processing of the related receivable or payable for which the securities are collateral will also fail (and vice versa);
- (e) Any transactions that fail, as outlined in (d), will be re-entered for processing until they are settled;
- (f) Settlement is carried out through the same settlement institution (for example, a settlement bank, a central bank or a central securities depository); and
- (g) An intraday credit facility is in place that will provide sufficient overdraft amounts to enable the processing of payments at the settlement date for each of the parties, and it is virtually certain that the intraday credit facility will be honoured if called upon.

AG64. The Standard does not provide special treatment for so-called “synthetic instruments,” which are groups of separate financial instruments acquired and held to emulate the characteristics of another instrument. For example, a floating rate long-term debt combined with an interest rate swap that involves receiving floating payments and making fixed payments synthesises a fixed rate long-term debt. Each of the individual financial instruments that together constitute a “synthetic instrument” represents a contractual right or obligation with its own terms and conditions and each may be transferred or settled separately. Each financial instrument is exposed to risks that may differ from the risks to which other financial instruments are exposed. Accordingly, when one financial instrument in a “synthetic instrument” is an asset and another is a liability, they are not offset and presented in an entity’s statement of financial position on a net basis unless they meet the criteria for offsetting in paragraph 47.

## Appendix B

### Members' Shares in Co-operative Entities and Similar Instruments

*This Appendix is an integral part of PBE IPSAS 28.*

#### Introduction

- B1. Co-operatives and other similar entities are formed by groups of persons to meet common economic or social needs. National laws typically define a co-operative as a society endeavouring to promote its members' economic advancement by way of a joint business operation (the principle of self-help). Co-operatives may be for-profit entities or public benefit entities. Members' interests in a co-operative are often characterised as members' shares, units or the like, and are referred to below as "members' shares." This Appendix applies to financial instruments issued to members of co-operative entities that evidence the members' ownership interest in the entity and does not apply to financial instruments that will or may be settled in the entity's own equity instruments.
- B2. PBE IPSAS 28 establishes principles for the classification of financial instruments as financial liabilities or net assets/equity. In particular, those principles apply to the classification of puttable instruments that allow the holder to put those instruments to the issuer for cash or another financial instrument. The application of those principles to members' shares in co-operative entities and similar instruments is difficult. This guidance is provided to illustrate the application of the principles in PBE IPSAS 28 to members' shares and similar instruments that have certain features, and the circumstances in which those features affect the classification as liabilities or net assets/equity.
- B3. Many financial instruments, including members' shares, have characteristics of equity instruments, including voting rights and rights to participate in dividend or similar distributions. Some financial instruments give the holder the right to request redemption for cash or another financial asset, but may include or be subject to limits on whether the financial instruments will be redeemed. The following paragraphs outline how those redemption terms should be evaluated in determining whether the financial instruments should be classified as liabilities or net assets/equity.

#### Application of PBE Standards to Members' Shares in Co-operative Entities and Similar Instruments

- B4. The contractual right of the holder of a financial instrument (including members' shares in co-operative entities) to request redemption does not, in itself, require that financial instrument to be classified as a financial liability. Rather, the entity must consider all of the terms and conditions of the financial instrument in determining its classification as a financial liability or an equity instrument. Those terms and conditions include relevant local laws, regulations and the entity's governing charter in effect at the date of classification, but not expected future amendments to those laws, regulations or charter.
- B5. Members' shares that would be classified as equity instruments if the members did not have a right to request redemption are equity instruments if either of the conditions described in paragraphs B6 and B7 is present or the members' shares have all the features and meet the conditions in paragraphs 15 and 16 or paragraphs 17 and 18 of PBE IPSAS 28. Demand deposits, including current accounts, deposit accounts and similar contracts that arise when members act as customers are financial liabilities of the entity.
- B6. Members' shares are equity instruments if the entity has an unconditional right to refuse redemption of the members' shares.
- B7. Local law, regulation or the entity's governing charter can impose various types of prohibitions on the redemption of members' shares, e.g., unconditional prohibitions or prohibitions based on liquidity criteria. If redemption is unconditionally prohibited by local law, regulation or the entity's governing charter, members' shares are equity instruments. However, provisions in local law, regulation or the entity's governing charter that prohibit redemption only if conditions—such as liquidity constraints—are met (or are not met) do not result in members' shares being equity instruments.
- B8. An unconditional prohibition may be absolute, in that all redemptions are prohibited. An unconditional prohibition may be partial, in that it prohibits redemption of members' shares if redemption would cause the number of members' shares or amount of paid-in capital from members' shares to fall below a specified level. Members' shares in excess of the prohibition against redemption are liabilities, unless the entity has the unconditional right to refuse redemption as described in paragraph B6 or the members' shares have all

the features and meet the conditions in paragraphs 15 and 16 or paragraphs 17 and 18 of PBE IPSAS 28. In some cases, the number of shares or the amount of paid-in capital subject to a redemption prohibition may change from time to time. Such a change in the redemption prohibition leads to a transfer between financial liabilities and net assets/equity.

- B9. At initial recognition, the entity shall measure its financial liability for redemption at fair value. In the case of members' shares with a redemption feature, the entity measures the fair value of the financial liability for redemption at no less than the maximum amount payable under the redemption provisions of its governing charter or applicable law discounted from the first date that the amount could be required to be paid (see example 3).
- B10. As required by paragraph 40 of PBE IPSAS 28, distributions to holders of equity instruments are recognised directly in net assets/equity, net of any income tax benefits. Interest, dividends or similar distributions and other returns relating to financial instruments classified as financial liabilities are expenses, regardless of whether those amounts paid are legally characterised as dividends or similar distributions, interest or otherwise.
- B11. When a change in the redemption prohibition leads to a transfer between financial liabilities and net assets/equity, the entity shall disclose separately the amount, timing and reason for the transfer.
- B12. The following examples illustrate the application of the preceding paragraphs.

### **Illustrative Examples**

The examples do not constitute an exhaustive list; other fact patterns are possible. Each example assumes that there are no conditions other than those set out in the facts of the example that would require the financial instrument to be classified as a financial liability and that the financial instrument does not have all the features or does not meet the conditions in paragraph 15 and 16 or paragraphs 17 and 18 of PBE IPSAS 28.

#### *Unconditional Right to Refuse Redemption (paragraph B6)*

##### **Example 1**

##### *Facts*

- B13. The entity's charter states that redemptions are made at the sole discretion of the entity. The charter does not provide further elaboration or limitation on that discretion. In its history, the entity has never refused to redeem members' shares, although the governing board has the right to do so.

##### *Classification*

- B14. The entity has the unconditional right to refuse redemption and the members' shares are equity instruments. PBE IPSAS 28 establishes principles for classification that are based on the terms of the financial instrument and notes that a history of, or intention to make, discretionary payments does not trigger liability classification. Paragraph AG50 of PBE IPSAS 28 states:

When preference shares are non-redeemable, the appropriate classification is determined by the other rights that attach to them. Classification is based on an assessment of the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. When distributions to holders of the preference shares, whether cumulative or non-cumulative, are at the discretion of the issuer, the shares are equity instruments. The classification of a preference share as an equity instrument or a financial liability is not affected by, for example:

- (a) A history of making distributions;
- (b) An intention to make distributions in the future;
- (c) A possible negative impact on the price of ordinary shares of the issuer if distributions are not made (because of restrictions on paying dividends on the ordinary shares if dividends are not paid on the preference shares);
- (d) The amount of the issuer's reserves;
- (e) An issuer's expectation of a surplus or deficit for a period; or
- (f) An ability or inability of the issuer to influence the amount of its surplus or deficit for the period.

**Example 2***Facts*

- B15. The entity's charter states that redemptions are made at the sole discretion of the entity. However, the charter further states that approval of a redemption request is automatic unless the entity is unable to make payments without violating local regulations regarding liquidity or reserves.

*Classification*

- B16. The entity does not have the unconditional right to refuse redemption and the members' shares are classified as a financial liability. The restrictions described above are based on the entity's ability to settle its liability. They restrict redemptions only if the liquidity or reserve requirements are not met and then only until such time as they are met. Hence, they do not, under the principles established in PBE IPSAS 28, result in the classification of the financial instrument as equity instruments. Paragraph AG49 of PBE IPSAS 28 states:

Preference shares may be issued with various rights. In determining whether a preference share is a financial liability or an equity instrument, an issuer assesses the particular rights attaching to the share to determine whether it exhibits the fundamental characteristic of a financial liability. For example, a preference share that provides for redemption on a specific date or at the option of the holder contains a financial liability because the issuer has an obligation to transfer financial assets to the holder of the share. *The potential inability of an issuer to satisfy an obligation to redeem a preference share when contractually required to do so, whether because of a lack of funds, a statutory restriction or insufficient surpluses or reserves, does not negate the obligation.* [Emphasis added]

*Prohibitions against Redemption (paragraphs B7 and B8)***Example 3***Facts*

- B17. A co-operative entity has issued shares to its members at different dates and for different amounts in the past as follows:

- (a) January 1, 20X1 100,000 shares at CU10 each (CU1,000,000);
- (b) January 1, 20X2 100,000 shares at CU20 each (a further CU2,000,000, so that the total for shares issued is CU3,000,000).

Shares are redeemable on demand at the amount for which they were issued.

- B18. The entity's charter states that cumulative redemptions cannot exceed 20 percent of the highest number of its members' shares ever outstanding. At December 31, 20X2 the entity has 200,000 of outstanding shares, which is the highest number of members' shares ever outstanding and no shares have been redeemed in the past. On January 1, 20X3 the entity amends its governing charter and increases the permitted level of cumulative redemptions to 25 percent of the highest number of its members' shares ever outstanding.

*Classification*Before the Governing Charter is Amended

- B19. Members' shares in excess of the prohibition against redemption are financial liabilities. The co-operative entity measures this financial liability at fair value at initial recognition. Because these shares are redeemable on demand, the co-operative entity measures the fair value of such financial liabilities in accordance with paragraph 68 of PBE IPSAS 41 *Financial Instruments*, which states: "The fair value of a financial liability with a demand feature (e.g., a demand deposit) is not less than the amount payable on demand ..." Accordingly, the co-operative entity classifies as financial liabilities the maximum amount payable on demand under the redemption provisions.
- B20. On January 1, 20X1 the maximum amount payable under the redemption provisions is 20,000 shares at CU10 each and accordingly the entity classifies CU200,000 as financial liability and CU800,000 as equity instruments. However, on January 1, 20X2 because of the new issue of shares at CU20, the maximum amount payable under the redemption provisions increases to 40,000 shares at CU20 each. The issue of additional shares at CU20 creates a new liability that is measured on initial recognition at fair value. The liability after these shares have been issued is 20 percent of the total shares in issue (200,000), measured at CU20, or CU800,000. This requires recognition of an additional liability of CU600,000. In this example no gain or loss is recognised. Accordingly the entity now classifies CU800,000 as financial liabilities and



CU2,200,000 as equity instruments. This example assumes these amounts are not changed between January 1, 20X1 and December 31, 20X2.

After the Governing Charter is Amended

- B21. Following the change in its governing charter the co-operative entity can now be required to redeem a maximum of 25 percent of its outstanding shares or a maximum of 50,000 shares at CU20 each. Accordingly, on January 1, 20X3 the co-operative entity classifies as financial liabilities an amount of CU1,000,000 being the maximum amount payable on demand under the redemption provisions, as determined in accordance with paragraph 68 of PBE IPSAS 41. It therefore transfers on January 1, 20X3 from net assets/equity to financial liabilities an amount of CU200,000, leaving CU2,000,000 classified as equity instruments. In this example the entity does not recognise a gain or loss on the transfer.

**Example 4**

*Facts*

- B22. Local law governing the operations of co-operatives, or the terms of the entity's governing charter, prohibit an entity from redeeming members' shares if, by redeeming them, it would reduce paid-in capital from members' shares below 75 percent of the highest amount of paid-in capital from members' shares. The highest amount for a particular co-operative is CU1,000,000. At the end of the reporting period the balance of paid-in capital is CU900,000.

*Classification*

- B23. In this case, CU750,000 would be classified as equity instruments and CU150,000 would be classified as financial liabilities. In addition to the paragraphs already cited, paragraph 22(b) of PBE IPSAS 28 states in part:

... a financial instrument that gives the holder the right to put it back to the issuer for cash or another financial asset (a "puttable instrument") is a financial liability, except for those instruments classified as equity instruments in accordance with paragraphs 15 and 16 or paragraphs 17 and 18. The financial instrument is a financial liability even when the amount of cash or other financial assets is determined on the basis of an index or other item that has the potential to increase or decrease. The existence of an option for the holder to put the instrument back to the issuer for cash or another financial asset means that the puttable instrument meets the definition of a financial liability, except for those instruments classified as equity instruments in accordance with paragraphs 15 and 16 or paragraphs 17 and 18.

- B24. The redemption prohibition described in this example is different from the restrictions described in paragraphs 23 and AG49 of PBE IPSAS 28. Those restrictions are limitations on the ability of the entity to pay the amount due on a financial liability, i.e., they prevent payment of the liability only if specified conditions are met. In contrast, this example describes an unconditional prohibition on redemptions beyond a specified amount, regardless of the entity's ability to redeem members' shares (e.g., given its cash resources, surpluses or distributable reserves). In effect, the prohibition against redemption prevents the entity from incurring any financial liability to redeem more than a specified amount of paid-in capital. Therefore, the portion of shares subject to the redemption prohibition is not a financial liability. While each member's shares may be redeemable individually, a portion of the total shares outstanding is not redeemable in any circumstances other than liquidation of the entity.

**Example 5**

*Facts*

- B25. The facts of this example are as stated in example 4. In addition, at the end of the reporting period, liquidity requirements imposed in the local jurisdiction prevent the entity from redeeming any members' shares unless its holdings of cash and short-term investments are greater than a specified amount. The effect of these liquidity requirements at the end of the reporting period is that the entity cannot pay more than CU50,000 to redeem the members' shares.

*Classification*

- B26. As in example 4, the entity classifies CU750,000 as equity instruments and CU150,000 as a financial liability. This is because the amount classified as a liability is based on the entity's unconditional right to refuse redemption and not on conditional restrictions that prevent redemption only if liquidity or other conditions are not met and then only until such time as they are met. The provisions of paragraphs 23 and AG49 of PBE IPSAS 28 apply in this case.

**Example 6***Facts*

- B27. The entity's governing charter prohibits it from redeeming members' shares, except to the extent of proceeds received from the issue of additional members' shares to new or existing members during the preceding three years. Proceeds from issuing members' shares must be applied to redeem shares for which members have requested redemption. During the three preceding years, the proceeds from issuing members' shares have been CU12,000 and no member's shares have been redeemed.

*Classification*

- B28. The entity classifies CU12,000 of the members' shares as financial liabilities. Consistently with the conclusions described in example 4, members' shares subject to an unconditional prohibition against redemption are not financial liabilities. Such an unconditional prohibition applies to an amount equal to the proceeds of shares issued before the preceding three years, and accordingly, this amount is classified as equity instruments. However, an amount equal to the proceeds from any shares issued in the preceding three years is not subject to an unconditional prohibition on redemption. Accordingly, proceeds from the issue of members' shares in the preceding three years give rise to financial liabilities until they are no longer available for redemption of members' shares. As a result the entity has a financial liability equal to the proceeds of shares issued during the three preceding years, net of any redemptions during that period.

**Example 7***Facts*

- B29. The entity is a co-operative bank. Local law governing the operations of co-operative banks state that at least 50 percent of the entity's total "outstanding liabilities" (a term defined in the regulations to include members' share accounts) has to be in the form of members' paid-in capital. The effect of the regulation is that if all of a co-operative's outstanding liabilities are in the form of members' shares, it is able to redeem them all. On December 31, 20X1 the entity has total outstanding liabilities of CU200,000, of which CU125,000 represent members' share accounts. The terms of the members' share accounts permit the holder to redeem them on demand and there are no limitations on redemption in the entity's charter.

*Classification*

- B30. In this example members' shares are classified as financial liabilities. The redemption prohibition is similar to the restrictions described in paragraphs 23 and AG49 of PBE IPSAS 28. The restriction is a conditional limitation on the ability of the entity to pay the amount due on a financial liability, i.e., they prevent payment of the liability only if specified conditions are met. More specifically, the entity could be required to redeem the entire amount of members' shares (CU125,000) if it repaid all of its other liabilities (CU75,000). Consequently, the prohibition against redemption does not prevent the entity from incurring a financial liability to redeem more than a specified number of members' shares or amount of paid-in capital. It allows the entity only to defer redemption until a condition is met, i.e., the repayment of other liabilities. Members' shares in this example are not subject to an unconditional prohibition against redemption and are therefore classified as financial liabilities.

## Basis for Conclusions on PBE IPSAS 28

*This Basis for Conclusions accompanies, but is not part of, PBE IPSAS 28.*

- BC1. The New Zealand Accounting Standards Board (NZASB) has modified PBE IPSAS 28 *Financial Instruments: Presentation* for application by Tier 1 and Tier 2 public benefit entities. Where applicable, disclosure concessions have been identified for Tier 2 entities and the language generalised for use by public benefit entities. The NZASB considered that the requirements of IPSAS 28 are generally appropriate for application by public benefit entities.
- BC2. The NZASB decided that the IPSASB's Basis for Conclusions on IPSAS 28 should be included in PBE IPSAS 28 as it included information that would be useful for entities applying PBE IPSAS 28.

### Financial Guarantee Contracts

- BC3. The NZASB noted that both NZ IFRSs and IPSASs permit, in limited circumstances, an entity to elect to account for financial guarantee contracts as insurance contracts. The NZASB also noted that the circumstances in which this is permitted differ slightly between the two suites of standards. The NZASB considered that entities transitioning from NZ IFRSs to PBE Standards should be required to continue their existing treatment in respect of financial guarantee contracts in existence at the time of transition. Apart from this modification, the NZASB considered that PBE IPSAS 28 and PBE IPSAS 29<sup>3</sup> should apply to financial guarantee contracts subsequently entered into by entities that have transitioned from NZ IFRSs and to the financial guarantee contracts of all other entities.

### 2015 Omnibus Amendments to PBE Standards

- BC4. In the IASB's *Annual Improvements to IFRSs Cycle 2009-2011* the IASB amended IAS 32 *Financial Instruments: Presentation* to clarify the tax effect of distributions to holders of equity instruments. The IPSASB made equivalent amendments to IPSAS 28 as there was no public sector specific reason for not adopting the amendments. The NZASB made these amendments as part of the 2015 Omnibus Amendments to PBE Standards.

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<sup>3</sup> PBE IFRS 9 *Financial Instruments* was issued in January 2017. PBE IFRS 9 was superseded by PBE IPSAS 41 *Financial Instruments* issued in March 2019. Both PBE IFRS 9 and PBE IPSAS 41 carried forward this aspect of the scope of PBE IPSAS 29.

## Illustrative Examples

*These examples accompany, but are not part of, PBE IPSAS 28.*

### Accounting for Contracts on Equity Instruments of an Entity

- IE1. The following examples illustrate the application of paragraphs 13–32 and PBE IPSAS 41 *Financial Instruments* to the accounting for contracts on an entity's own equity instruments. In these examples, monetary amounts are denominated in "currency units" (CU).

#### *Example 1: Forward to Buy Shares*

- IE2. This example illustrates the journal entries for forward purchase contracts on an entity's own shares that will be settled (a) net in cash, (b) net in shares, or (c) by delivering cash in exchange for shares. It also discusses the effect of settlement options (see (d) below). To simplify the illustration, it is assumed that no dividends are paid on the underlying shares (i.e., the "carry return" is zero) so that the present value of the forward price equals the spot price when the fair value of the forward contract is zero. The fair value of the forward has been computed as the difference between the market share price and the present value of the fixed forward price.

#### **Assumptions:**

Contract date	February 1, 20X2
Maturity date	January 31, 20X3
Market price per share on February, 1 20X2	CU100
Market price per share on December, 31 20X2	CU110
Market price per share on January, 31 20X3	CU106
Fixed forward price to be paid on January, 31 20X3	CU104
Present value of forward price on February, 1 20X2	CU100
Number of shares under forward contract	1,000
Fair value of forward on February, 1 20X2	CU0
Fair value of forward on December, 31 20X2	CU6,300
Fair value of forward on January, 31 20X3	CU2,000

#### **(a) Cash for Cash ("Net Cash Settlement")**

- IE3. In this subsection, the forward purchase contract on the entity's own shares will be settled net in cash, i.e., there is no receipt or delivery of the entity's own shares upon settlement of the forward contract.

On February 1, 20X2, Entity A enters into a contract with Entity B to receive the fair value of 1,000 of Entity A's own outstanding ordinary shares as of January 31, 20X3 in exchange for a payment of CU104,000 in cash (i.e., CU104 per share) on January 31, 20X3. The contract will be settled net in cash. Entity A records the following journal entries:

#### **February 1, 20X2**

The price per share when the contract is agreed on February 1, 20X2 is CU100. The initial fair value of the forward contract on February 1, 20X2 is zero.

*No entry is required because the fair value of the derivative is zero and no cash is paid or received.*

#### **December 31, 20X2**

On December 31, 20X2, the market price per share has increased to CU110 and, as a result, the fair value of the forward contract has increased to CU6,300.

Dr	Forward asset	CU6,300	
	Cr	Gain	CU6,300

*To record the increase in the fair value of the forward contract.*

**January 31, 20X3**

On January 31, 20X3, the market price per share has decreased to CU106. The fair value of the forward contract is CU2,000  $[(CU106 \times 1,000) - CU104,000]$ .

On the same day, the contract is settled net in cash. Entity A has an obligation to deliver CU104,000 to Entity B and Entity B has an obligation to deliver CU106,000  $(CU106 \times 1,000)$  to Entity A, so Entity B pays the net amount of CU2,000 to Entity A.

Dr	Loss	CU4,300	
	Cr	Forward asset	CU4,300

*To record the decrease in the fair value of the forward contract (i.e.,  $CU4,300 = CU6,300 - CU2,000$ ).*

Dr	Cash	CU2,000	
	Cr	Forward asset	CU2,000

*To record the settlement of the forward contract.*

**(b) Shares for Shares (“Net Share Settlement”)**

- IE4. Assume the same facts as in (a) except that settlement will be made net in shares instead of net in cash. Entity A’s journal entries are the same as those shown in (a) above, except for recording the settlement of the forward contract, as follows:

**January 31, 20X3**

The contract is settled net in shares. Entity A has an obligation to deliver CU104,000  $(CU104 \times 1,000)$  worth of its shares to Entity B and Entity B has an obligation to deliver CU106,000  $(CU106 \times 1,000)$  worth of shares to Entity A. Thus, Entity B delivers a net amount of CU2,000  $(CU106,000 - CU104,000)$  worth of shares to Entity A, i.e., 18.9 shares  $(CU2,000/CU106)$ .

Dr	Net assets/equity	CU2,000	
	Cr	Forward asset	CU2,000

*To record the settlement of the forward contract.*

**(c) Cash for Shares (“Gross Physical Settlement”)**

- IE5. Assume the same facts as in (a) except that settlement will be made by delivering a fixed amount of cash and receiving a fixed number of Entity A’s shares. Similarly to (a) and (b) above, the price per share that Entity A will pay in one year is fixed at CU104. Accordingly, Entity A has an obligation to pay CU104,000 in cash to Entity B  $(CU104 \times 1,000)$  and Entity B has an obligation to deliver 1,000 of Entity A’s outstanding shares to Entity A in one year. Entity A records the following journal entries

**February 1, 20X2**

Dr	Net assets/equity	CU100,000	
	Cr	Liability	CU100,000

*To record the obligation to deliver CU104,000 in one year at its present value of CU100,000 discounted using an appropriate interest rate (see PBE IPSAS 41, paragraph AG115).*

**December 31, 20X2**

Dr	Interest expense	CU3,660	
	Cr	Liability	CU3,660

*To accrue interest in accordance with the effective interest method on the liability for the share redemption amount.*

**January 31, 20X3**

Dr	Interest expense	CU340	
	Cr	Liability	CU340

*To accrue interest in accordance with the effective interest method on the liability for the share redemption amount.*

Entity A delivers CU104,000 in cash to Entity B and Entity B delivers 1,000 of Entity A’s shares to Entity A.

Dr	Liability	CU104,000	
	Cr	Cash	CU104,000

*To record the settlement of the obligation to redeem Entity A's own shares for cash.*

#### (d) Settlement Options

- IE6. The existence of settlement options (such as net in cash, net in shares, or by an exchange of cash and shares) has the result that the forward repurchase contract is a financial asset or a financial liability. If one of the settlement alternatives is to exchange cash for shares ((c) above), Entity A recognises a liability for the obligation to deliver cash, as illustrated in (c) above. Otherwise, Entity A accounts for the forward contract as a derivative.

#### *Example 2: Forward to Sell Shares*

- IE7. This example illustrates the journal entries for forward sale contracts on an entity's own shares that will be settled (a) net in cash, (b) net in shares, or (c) by receiving cash in exchange for shares. It also discusses the effect of settlement options (see (d) below). To simplify the illustration, it is assumed that no dividends are paid on the underlying shares (i.e., the "carry return" is zero) so that the present value of the forward price equals the spot price when the fair value of the forward contract is zero. The fair value of the forward has been computed as the difference between the market share price and the present value of the fixed forward price.

#### **Assumptions:**

Contract date	February 1, 20X2
Maturity date	January 31, 20X3
Market price per share on February 1, 20X2	CU100
Market price per share on December 31, 20X2	CU110
Market price per share on January 31, 20X3	CU106
Fixed forward price to be paid on January 31, 20X3	CU104
Present value of forward price on February 1, 20X2	CU100
Number of shares under forward contract	1,000
Fair value of forward on February 1, 20X2	CU0
Fair value of forward on December 31, 20X2	(CU6,300)
Fair value of forward on January 31, 20X3	(CU2,000)

#### **(a) Cash for Cash ("Net Cash Settlement")**

- IE8. On February 1, 20X2, Entity A enters into a contract with Entity B to pay the fair value of 1,000 of Entity A's own outstanding ordinary shares as of January 31, 20X3 in exchange for CU104,000 in cash (i.e., CU104 per share) on January 31, 20X3. The contract will be settled net in cash. Entity A records the following journal entries:

#### **February 1, 20X2**

*No entry is required because the fair value of the derivative is zero and no cash is paid or received.*

#### **December 31, 20X2**

Dr	Loss	CU6,300	
	Cr	Forward liability	CU6,300

*To record the decrease in the fair value of the forward contract.*

#### **January 31, 20X3**

Dr	Forward liability	CU4,300	
	Cr	Gain	CU4,300

*To record the increase in the fair value of the forward contract (i.e.,  $CU4,300 = CU6,300 - CU2,000$ ).*

The contract is settled net in cash. Entity B has an obligation to deliver CU104,000 to Entity A, and Entity A has an obligation to deliver CU106,000 ( $\text{CU106} \times 1,000$ ) to Entity B. Thus, Entity A pays the net amount of CU2,000 to Entity B.

Dr	Forward liability	CU2,000	
	Cr Cash		CU2,000

*To record the settlement of the forward contract.*

#### (b) Shares for Shares (“Net Share Settlement”)

- IE9. Assume the same facts as in (a) except that settlement will be made net in shares instead of net in cash. Entity A’s journal entries are the same as those shown in (a), except:

##### January 31, 20X3

The contract is settled net in shares. Entity A has a right to receive CU104,000 ( $\text{CU104} \times 1,000$ ) worth of its shares and an obligation to deliver CU106,000 ( $\text{CU106} \times 1,000$ ) worth of its shares to Entity B. Thus, Entity A delivers a net amount of CU2,000 ( $\text{CU106,000} - \text{CU104,000}$ ) worth of its shares to Entity B, i.e., 18.9 shares ( $\text{CU2,000}/\text{CU106}$ ).

Dr	Forward liability	CU2,000	
	Cr Net assets/equity		CU2,000

*To record the settlement of the forward contract. The issue of the entity’s own shares is treated as a transaction in net assets/equity.*

#### (c) Shares for Cash (“Gross Physical Settlement”)

- IE10. Assume the same facts as in (a), except that settlement will be made by receiving a fixed amount of cash and delivering a fixed number of the entity’s own shares. Similarly to (a) and (b) above, the price per share that Entity A will pay in one year is fixed at CU104. Accordingly, Entity A has a right to receive CU104,000 in cash ( $\text{CU104} \times 1,000$ ) and an obligation to deliver 1,000 of its own shares in one year. Entity A records the following journal entries:

##### February 1, 20X2

*No entry is made on February 1. No cash is paid or received because the forward has an initial fair value of zero. A forward contract to deliver a fixed number of Entity A’s own shares in exchange for a fixed amount of cash or another financial asset meets the definition of an equity instrument because it cannot be settled otherwise than through the delivery of shares in exchange for cash.*

##### December 31, 20X2

*No entry is made on December 31, because no cash is paid or received and a contract to deliver a fixed number of Entity A’s own shares in exchange for a fixed amount of cash meets the definition of an equity instrument of the entity.*

##### January 31, 20X3

*On January 31, 20X3, Entity A receives CU104,000 in cash and delivers 1,000 shares.*

Dr	Cash	CU104,000	
	Cr Net assets/equity		CU104,000

*To record the settlement of the forward contract.*

#### (d) Settlement Options

- IE11. The existence of settlement options (such as net in cash, net in shares, or by an exchange of cash and shares) has the result that the forward contract is a financial asset or a financial liability. It does not meet the definition of an equity instrument because it can be settled otherwise than by Entity A repurchasing a fixed number of its own shares in exchange for paying a fixed amount of cash or another financial asset. Entity A recognises a derivative asset or liability, as illustrated in (a) and (b) above. The accounting entry to be made on settlement depends on how the contract is actually settled.

*Example 3: Purchased Call Option on Shares*

IE12. This example illustrates the journal entries for a purchased call option right on the entity's own shares that will be settled (a) net in cash, (b) net in shares, or (c) by delivering cash in exchange for the entity's own shares. It also discusses the effect of settlement options (see (d) below):

**Assumptions:**

Contract date	February 1, 20X2
Exercise date	January 31, 20X3
	(European terms, i.e., it can be exercised only at maturity)
Exercise right holder	Reporting entity (Entity A)
Market price per share on February 1, 20X2	CU100
Market price per share on December 31, 20X2	CU104
Market price per share on January 31, 20X3	CU104
Fixed exercise price to be paid on January 31, 20X3	CU102
Number of shares under option contract	1,000
Fair value of option on February 1, 20X2	CU5,000
Fair value of option on December 31, 20X2	CU3,000
Fair value of option on January 31, 20X3	CU2,000

**(a) Cash for Cash ("Net Cash Settlement")**

IE13. On February 1, 20X2, Entity A enters into a contract with Entity B that gives Entity B the obligation to deliver, and Entity A the right to receive the fair value of 1,000 of Entity A's own ordinary shares as of January 31, 20X3 in exchange for CU102,000 in cash (i.e., CU102 per share) on January 31, 20X3, if Entity A exercises that right. The contract will be settled net in cash. If Entity A does not exercise its right, no payment will be made. Entity A records the following journal entries:

**February 1, 20X2**

The price per share when the contract is agreed on February 1, 20X2 is CU100. The initial fair value of the option contract on February 1, 20X2 is CU5,000, which Entity A pays to Entity B in cash on that date. On that date, the option has no intrinsic value, only time value, because the exercise price of CU102 exceeds the market price per share of CU100 and it would therefore not be economic for Entity A to exercise the option. In other words, the call option is out of the money.

Dr	Call option asset	CU5,000	
	Cr	Cash	CU5,000

*To recognise the purchased call option.*

**December 31, 20X2**

On December 31, 20X2, the market price per share has increased to CU104. The fair value of the call option has decreased to CU3,000, of which CU2,000 is intrinsic value  $([CU104 - CU102] \times 1,000)$ , and CU1,000 is the remaining time value.

Dr	Loss	CU2,000	
	Cr	Call option asset	CU2,000

*To record the decrease in the fair value of the call option.*



**January 31, 20X3**

On January 31, 20X3, the market price per share is still CU104. The fair value of the call option has decreased to CU2,000, which is all intrinsic value  $[(CU104 - CU102) \times 1,000]$  because no time value remains.

Dr	Loss	CU1,000	
	Cr	Call option asset	CU1,000

*To record the decrease in the fair value of the call option.*

On the same day, Entity A exercises the call option and the contract is settled net in cash. Entity B has an obligation to deliver CU104,000  $(CU104 \times 1,000)$  to Entity A in exchange for CU102,000  $(CU102 \times 1,000)$  from Entity A, so Entity A receives a net amount of CU2,000.

Dr	Cash	CU2,000	
	Cr	Call option asset	CU2,000

*To record the settlement of the option contract.*

**(b) Shares for Shares ("Net Share Settlement")**

- IE14. Assume the same facts as in (a) except that settlement will be made net in shares instead of net in cash. Entity A's journal entries are the same as those shown in (a) except for recording the settlement of the option contract as follows:

**January 31, 20X3**

Entity A exercises the call option and the contract is settled net in shares. Entity B has an obligation to deliver CU104,000  $(CU104 \times 1,000)$  worth of Entity A's shares to Entity A in exchange for CU102,000  $(CU102 \times 1,000)$  worth of Entity A's shares. Thus, Entity B delivers the net amount of CU2,000 worth of shares to Entity A, i.e., 19.2 shares  $(CU2,000/CU104)$ .

Dr	Net assets/equity	CU2,000	
	Cr	Call option asset	CU2,000

*To record the settlement of the option contract. The settlement is accounted for as a treasury share transaction (i.e., no gain or loss).*

**(c) Cash for Shares ("Gross Physical Settlement")**

- IE15. Assume the same facts as in (a) except that settlement will be made by receiving a fixed number of shares and paying a fixed amount of cash, if Entity A exercises the option. Similarly to (a) and (b) above, the exercise price per share is fixed at CU102. Accordingly, Entity A has a right to receive 1,000 of Entity A's own outstanding shares in exchange for CU102,000  $(CU102 \times 1,000)$  in cash, if Entity A exercises its option. Entity A records the following journal entries:

**February 1, 20X2**

Dr	Net assets/equity	CU5,000	
	Cr	Cash	CU5,000

*To record the cash paid in exchange for the right to receive Entity A's own shares in one year for a fixed price. The premium paid is recognised in net assets/equity.*

**December 31, 20X2**

*No entry is made on December 31, because no cash is paid or received and a contract that gives a right to receive a fixed number of Entity A's own shares in exchange for a fixed amount of cash meets the definition of an equity instrument of the entity.*

**January 31, 20X3**

Entity A exercises the call option and the contract is settled gross. Entity B has an obligation to deliver 1,000 of Entity A's shares in exchange for CU102,000 in cash.

Dr	Net assets/equity	CU102,000	
	Cr	Cash	CU102,000

*To record the settlement of the option contract.*

**(d) Settlement Options**

- IE16. The existence of settlement options (such as net in cash, net in shares, or by an exchange of cash and shares) has the result that the call option is a financial asset. It does not meet the definition of an equity instrument because it can be settled otherwise than by Entity A repurchasing a fixed number of its own shares in exchange for paying a fixed amount of cash or another financial asset. Entity A recognises a derivative asset, as illustrated in (a) and (b) above. The accounting entry to be made on settlement depends on how the contract is actually settled.

*Example 4: Written Call Option on Shares*

- IE17. This example illustrates the journal entries for a written call option obligation on the entity's own shares that will be settled (a) net in cash, (b) net in shares, or (c) by delivering cash in exchange for shares. It also discusses the effect of settlement options (see (d) below).

**Assumptions:**

Contract date	February 1, 20X2
Exercise date	January 31, 20X3
	(European terms, i.e., it can be exercised only at maturity)
Exercise right holder	Counterparty (Entity B)
Market price per share on February 1, 20X2	CU100
Market price per share on December 31, 20X2	CU104
Market price per share on January 31, 20X3	CU104
Fixed exercise price to be paid on January 31, 20X3	CU102
Number of shares under option contract	1,000
Fair value of option on February 1, 20X2	CU5,000
Fair value of option on December 31, 20X2	CU3,000
Fair value of option on January 31, 20X3	CU2,000

**(a) Cash for Cash ("Net Cash Settlement")**

- IE18. Assume the same facts as in Example 3(a) above except that Entity A has written a call option on its own shares instead of having purchased a call option on them. Accordingly, on February 1, 20X2 Entity A enters into a contract with Entity B that gives Entity B the right to receive and Entity A the obligation to pay the fair value of 1,000 of Entity A's own ordinary shares as of January 31, 20X3 in exchange for CU102,000 in cash (i.e., CU102 per share) on January 31, 20X3, if Entity B exercises that right. The contract will be settled net in cash. If Entity B does not exercise its right, no payment will be made. Entity A records the following journal entries:

**February 1, 20X2**

Dr	Cash	CU5,000	
	Cr	Call option obligation	CU5,000

*To recognise the written call option.*

**December 31, 20X2**

Dr	Call option obligation	CU2,000	
	Cr	Gain	CU2,000

*To record the decrease in the fair value of the call option.*

**January 31, 20X3**

Dr	Call option obligation	CU1,000	
	Cr Gain		CU1,000

*To record the decrease in the fair value of the option.*

On the same day, Entity B exercises the call option and the contract is settled net in cash. Entity A has an obligation to deliver CU104,000 ( $\text{CU104} \times 1,000$ ) to Entity B in exchange for CU102,000 ( $\text{CU102} \times 1,000$ ) from Entity B, so Entity A pays a net amount of CU2,000.

Dr	Call option obligation	CU2,000	
	Cr Cash		CU2,000

*To record the settlement of the option contract.*

**(b) Shares for Shares (“Net Share Settlement”)**

- IE19. Assume the same facts as in (a) except that settlement will be made net in shares instead of net in cash. Entity A’s journal entries are the same as those shown in (a), except for recording the settlement of the option contract, as follows:

**December 31, 20X3**

Entity B exercises the call option and the contract is settled net in shares. Entity A has an obligation to deliver CU104,000 ( $\text{CU104} \times 1,000$ ) worth of Entity A’s shares to Entity B in exchange for CU102,000 ( $\text{CU102} \times 1,000$ ) worth of Entity A’s shares. Thus, Entity A delivers the net amount of CU2,000 worth of shares to Entity B, i.e., 19.2 shares ( $\text{CU2,000}/\text{CU104}$ ).

Dr	Call option obligation	CU2,000	
	Cr Net assets/equity		CU2,000

*To record the settlement of the option contract. The settlement is accounted for as a transaction in net assets/equity.*

**(c) Cash for Shares (“Gross Physical Settlement”)**

- IE20. Assume the same facts as in (a) except that settlement will be made by delivering a fixed number of shares and receiving a fixed amount of cash, if Entity B exercises the option. Similarly to (a) and (b) above, the exercise price per share is fixed at CU102. Accordingly, Entity B has a right to receive 1,000 of Entity A’s own outstanding shares in exchange for CU102,000 ( $\text{CU102} \times 1,000$ ) in cash, if Entity B exercises its option. Entity A records the following journal entries:

**February 1, 20X2**

Dr	Cash	CU5,000	
	Cr Net assets/equity		CU5,000

*To record the cash received in exchange for the obligation to deliver a fixed number of Entity A’s own shares in one year for a fixed price. The premium received is recognised in net assets/equity. Upon exercise, the call would result in the issue of a fixed number of shares in exchange for a fixed amount of cash.*

**December 31, 20X2**

*No entry is made on December 31 because no cash is paid or received and a contract to deliver a fixed number of Entity A’s own shares in exchange for a fixed amount of cash meets the definition of an equity instrument of the entity.*

**January 31, 20X3**

Entity B exercises the call option and the contract is settled gross. Entity A has an obligation to deliver 1,000 shares in exchange for CU102,000 in cash.

Dr	Cash	CU102,000	
	Cr Net assets/equity		CU102,000

*To record the settlement of the option contract.*

**(d) Settlement Options**

- IE21. The existence of settlement options (such as net in cash, net in shares, or by an exchange of cash and shares) has the result that the call option is a financial liability. It does not meet the definition of an equity instrument because it can be settled otherwise than by Entity A issuing a fixed number of its own shares in exchange for receiving a fixed amount of cash or another financial asset. Entity A recognises a derivative liability, as illustrated in (a) and (b) above. The accounting entry to be made on settlement depends on how the contract is actually settled.

*Example 5: Purchased Put Option on Shares*

- IE22. This example illustrates the journal entries for a purchased put option on the entity's own shares that will be settled (a) net in cash, (b) net in shares, or (c) by delivering cash in exchange for shares. It also discusses the effect of settlement options (see (d) below).

**Assumptions:**

Contract date	February 1, 20X2
Exercise date	January 31, 20X3
	(European terms, i.e. it can be exercised only at maturity)
Exercise right holder	Reporting entity (Entity A)
Market price per share on February 1, 20X2	CU100
Market price per share on December 31, 20X2	CU95
Market price per share on January 31, 20X3	CU95
Fixed exercise price to be paid on January 31, 20X3	CU98
Number of shares under option contract	1,000
Fair value of option on February 1, 20X2	CU5,000
Fair value of option on December 31, 20X2	CU4,000
Fair value of option on January 31, 20X3	CU3,000

**(a) Cash for Cash ("Net Cash Settlement")**

- IE23. On February 1, 20X2, Entity A enters into a contract with Entity B that gives Entity A the right to sell, and Entity B the obligation to buy the fair value of 1,000 of Entity A's own outstanding ordinary shares as of January 31, 20X3 at a strike price of CU98,000 (i.e., CU98 per share) on January 31, 20X3, if Entity A exercises that right. The contract will be settled net in cash. If Entity A does not exercise its right, no payment will be made. Entity A records the following journal entries:

**February, 1 20X2**

The price per share when the contract is agreed on February 1, 20X2 is CU100. The initial fair value of the option contract on February 1, 20X2 is CU5,000, which Entity A pays to Entity B in cash on that date. On that date, the option has no intrinsic value, only time value, because the exercise price of CU98 is less than the market price per share of CU100. Therefore it would not be economic for Entity A to exercise the option. In other words, the put option is out of the money.

Dr	Put option asset	CU5,000	
	Cr	Cash	CU5,000

*To recognise the purchased put option.*

**December 31, 20X2**

On December 31, 20X2 the market price per share has decreased to CU95. The fair value of the put option has decreased to CU4,000, of which CU3,000 is intrinsic value  $[(CU98 - CU95) \times 1,000]$  and CU1,000 is the remaining time value.

Dr	Loss	CU1,000	
	Cr	Put option asset	CU1,000

*To record the decrease in the fair value of the put option.*

**January 31, 20X3**

On January 31, 20X3 the market price per share is still CU95. The fair value of the put option has decreased to CU3,000, which is all intrinsic value  $[(CU98 - CU95) \times 1,000]$  because no time value remains.

Dr	Loss	CU1,000	
	Cr	Put option asset	CU1,000

*To record the decrease in the fair value of the option.*

On the same day, Entity A exercises the put option and the contract is settled net in cash. Entity has an obligation to deliver CU98,000 to Entity A and Entity A has an obligation to deliver CU95,000  $(CU95 \times 1,000)$  to Entity B, so Entity B pays the net amount of CU3,000 to Entity A.

Dr	Cash	CU3,000	
	Cr	Put option asset	CU3,000

*To record the settlement of the option contract.*

**(b) Shares for Shares ("Net Share Settlement")**

- IE24. Assume the same facts as in (a) except that settlement will be made net in shares instead of net in cash. Entity A's journal entries are the same as shown in (a), except:

**January 31, 20X3**

Entity A exercises the put option and the contract is settled net in shares. In effect, Entity B has an obligation to deliver CU98,000 worth of Entity A's shares to Entity A, and Entity A has an obligation to deliver CU95,000 worth of Entity A's shares  $(CU95 \times 1,000)$  to Entity B, so Entity B delivers the net amount of CU3,000 worth of shares to Entity A, i.e., 31.6 shares  $(CU3,000/CU95)$ .

Dr	Net assets/equity	CU3,000	
	Cr	Put option asset	CU3,000

*To record the settlement of the option contract.*

**(c) Cash for Shares ("Gross Physical Settlement")**

- IE25. Assume the same facts as in (a) except that settlement will be made by receiving a fixed amount of cash and delivering a fixed number of Entity A's shares, if Entity A exercises the option. Similarly to (a) and (b) above, the exercise price per share is fixed at CU98. Accordingly, Entity B has an obligation to pay CU98,000 in cash to Entity A  $(CU98 \times 1,000)$  in exchange for 1,000 of Entity A's outstanding shares, if Entity A exercises its option. Entity A records the following journal entries:

**February 1, 20X2**

Dr	Net assets/equity	CU5,000	
	Cr	Cash	CU5,000

*To record the cash received in exchange for the right to deliver Entity A's own shares in one year for a fixed price. The premium paid is recognised directly in net assets/equity. Upon exercise, it results in the issue of a fixed number of shares in exchange for a fixed price.*

**December 31, 20X2**

*No entry is made on December 31, because no cash is paid or received and a contract to deliver a fixed number of Entity A's own shares in exchange for a fixed amount of cash meets the definition of an equity instrument of Entity A.*

**January 31, 20X3**

Entity A exercises the put option and the contract is settled gross. Entity B has an obligation to deliver CU98,000 in cash to Entity A in exchange for 1,000 shares.

Dr	Cash	CU98,000	
	Cr	Net assets/equity	CU98,000

*To record the settlement of the option contract.*

**(d) Settlement Options**

- IE26. The existence of settlement options (such as net in cash, net in shares, or by an exchange of cash and shares) has the result that the put option is a financial asset. It does not meet the definition of an equity instrument because it can be settled otherwise than by Entity A issuing a fixed number of its own shares in exchange for receiving a fixed amount of cash or another financial asset. Entity A recognises a derivative asset, as illustrated in (a) and (b) above. The accounting entry to be made on settlement depends on how the contract is actually settled.

*Example 6: Written Put Option on Shares*

- IE27. This example illustrates the journal entries for a written put option on the entity's own shares that will be settled (a) net in cash, (b) net in shares, or (c) by delivering cash in exchange for shares. It also discusses the effect of settlement options (see (d) below).

**Assumptions:**

Contract date	February 1, 20X2
Exercise date	January 31, 20X3
	(European terms, i.e., it can be exercised only at maturity)
Exercise right holder	Counterparty (Entity B)
Market price per share on February 1, 20X2	CU100
Market price per share on December 31, 20X2	CU95
Market price per share on January 31, 20X3	CU95
Fixed exercise price to be paid on January 31, 20X3	CU98
Present value of exercise price on February 1, 20X2	CU95
Number of shares under option contract	1,000
Fair value of option on February 1, 20X2	CU5,000
Fair value of option on December 31, 20X2	CU4,000
Fair value of option on January 31, 20X3	CU3,000

**(a) Cash for Cash ("Net Cash Settlement")**

- IE28. Assume the same facts as in Example 5(a) above, except that Entity A has written a put option on its own shares instead of having purchased a put option on its own shares. Accordingly, on February 1, 20X2, Entity A enters into a contract with Entity B that gives Entity B the right to receive and Entity A the obligation to pay the fair value of 1,000 of Entity A's outstanding ordinary shares as of January 31, 20X3 in exchange for CU98,000 in cash (i.e., CU98 per share) on January 31, 20X3, if Entity B exercises that right. The contract will be settled net in cash. If Entity B does not exercise its right, no payment will be made. Entity A records the following journal entries:

**February 1, 20X2**

Dr	Cash	CU5,000	
	Cr	Put option liability	CU5,000

*To recognise the written put option.*

**December 31, 20X2**

Dr	Put option liability	CU1,000	
	Cr Gain		CU1,000

*To record the decrease in the fair value of the put option.*

**January 31, 20X3**

Dr	Put option liability	CU1,000	
	Cr Gain		CU1,000

*To record the decrease in the fair value of the put option.*

On the same day, Entity B exercises the put option and the contract is settled net in cash. Entity A has an obligation to deliver CU98,000 to Entity B, and Entity B has an obligation to deliver CU95,000 (CU95 × 1,000) to Entity A. Thus, Entity A pays the net amount of CU3,000 to Entity B.

Dr	Put option liability	CU3,000	
	Cr Cash		CU3,000

*To record the settlement of the option contract.*

**(b) Shares for Shares (“Net Share Settlement”)**

- IE29. Assume the same facts as in (a) except that settlement will be made net in shares instead of net in cash. Entity A’s journal entries are the same as those in (a), except for the following:

**January 31, 20X3**

Entity B exercises the put option and the contract is settled net in shares. In effect, Entity A has an obligation to deliver CU98,000 worth of shares to Entity B, and Entity B has an obligation to deliver CU95,000 worth of Entity A’s shares (CU95 × 1,000) to Entity A. Thus, Entity A delivers the net amount of CU3,000 worth of Entity A’s shares to Entity B, i.e., 31.6 shares (3,000/95).

Dr	Put option liability	CU3,000	
	Cr Net assets/equity		CU3,000

*To record the settlement of the option contract. The issue of Entity A’s own shares is accounted for as a transaction in net assets/equity.*

**(c) Cash for Shares (“Gross Physical Settlement”)**

- IE30. Assume the same facts as in (a) except that settlement will be made by delivering a fixed amount of cash and receiving a fixed number of shares, if Entity B exercises the option. Similarly to (a) and (b) above, the exercise price per share is fixed at CU98. Accordingly, Entity A has an obligation to pay CU98,000 in cash to Entity B (CU98 × 1,000) in exchange for 1,000 of Entity A’s outstanding shares, if Entity B exercises its option. Entity A records the following journal entries:

**February 1, 20X2**

Dr	Cash	CU5,000	
	Cr Net assets/equity		CU5,000

*To recognise the option premium received of CU5,000 in net assets/equity.*

Dr	Net assets/equity	CU95,000	
	Cr Liability		CU95,000

*To recognise the present value of the obligation to deliver CU98,000 in one year, i.e., CU95,000, as a liability.*

**December 31, 20X2**

Dr	Interest expense	CU2,750	
	Cr Liability		CU2,750

*To accrue interest in accordance with the effective interest method on the liability for the share redemption amount.*

**January 31, 20X3**

Dr	Interest expense	CU250	
	Cr Liability		CU250

*To accrue interest in accordance with the effective interest method on the liability for the share redemption amount.*

On the same day, Entity B exercises the put option and the contract is settled gross. Entity A has an obligation to deliver CU98,000 in cash to Entity B in exchange for CU95,000 worth of shares (CU95 × 1,000).

Dr	Liability	CU98,000	
	Cr Cash		CU98,000

*To record the settlement of the option contract.*

**(d) Settlement Options**

- IE31. The existence of settlement options (such as net in cash, net in shares, or by an exchange of cash and shares) has the result that the written put option is a financial liability. If one of the settlement alternatives is to exchange cash for shares ((c) above), Entity A recognises a liability for the obligation to deliver cash, as illustrated in (c) above. Otherwise, Entity A accounts for the put option as a derivative liability.

**Entities such as Mutual Funds and Co-operatives Whose Share Capital is not Net Assets/Equity**

*Example 7: Entities with No Net Assets/Equity*

- IE32. The following example illustrates a format of a statement of comprehensive revenue and expense and statement of financial position that may be used by entities such as mutual funds that do not have net assets/equity. Other formats are possible.

**Statement of Comprehensive Revenue and Expense for the year ended December 31, 20X1**

	<b>20X1</b>	<b>20X0</b>
	CU	CU
Revenue	2,956	1,718
Total Revenue	<u>2,956</u>	<u>1,718</u>
Expenses (classified by nature or function)	(644)	(614)
Finance costs		
— other finance costs	(47)	(47)
— distributions to unitholders	(50)	(50)
Total Expenses	<u>(741)</u>	<u>(711)</u>
Surplus for the year	<u>2,215</u>	<u>1,007</u>
Change in net assets/equity attributable to unitholders	<u>2,215</u>	<u>1,007</u>



**Statement of Financial Position at December 31, 20X1**

		<b>20X1</b>		<b>20X0</b>
	CU	CU	CU	CU
<b>ASSETS</b>				
Non-current assets (classified in accordance with PBE IPSAS 1)	91,374		78,484	
<b>Total non-current assets</b>		91,374		78,484
Current assets (classified in accordance with PBE IPSAS 1)	1,422		1,769	
<b>Total current assets</b>		1,422		1,769
<b>Total assets</b>		92,796		80,253
<b>LIABILITIES</b>				
Current liabilities (classified in accordance with PBE IPSAS 1)	647		66	
<b>Total current liabilities</b>		(647)		(66)
Non-current liabilities excluding net assets attributable to unitholders (classified in accordance with PBE IPSAS 1)	280		136	
		(280)		(136)
<b>Net assets/equity attributable to unitholders</b>		<u>91,869</u>		<u>80,051</u>

*Example 8: Entities with Some Net Assets/Equity*

IE33. The following example illustrates a format of a statement of comprehensive revenue and expense and statement of financial position that may be used by entities whose share capital is not net assets/equity because the entity has an obligation to repay the share capital on demand. Other formats are possible.

**Statement of Comprehensive Revenue and Expense for the year ended December 31, 20X1**

	<b>20X1</b>	<b>20X0</b>
	CU	CU
Revenue	472	498
<b>Total Revenue</b>	<u>472</u>	<u>498</u>
Expenses (classified by nature or function)	(367)	(396)
Finance costs		
— other finance costs	(4)	(4)
— distributions to members	(50)	(50)
<b>Total Expenses</b>	<u>(421)</u>	<u>(450)</u>
<b>Surplus for the year</b>	<u>51</u>	<u>48</u>
<b>Change in net assets/equity attributable to members</b>	<u>51</u>	<u>48</u>

**Statement of Financial Position at December 31, 20X1**

		<b>20X1</b>		<b>20X0</b>
	CU	CU	CU	CU
<b>ASSETS</b>				
Non-current assets (classified in accordance with PBE IPSAS 1)	908		830	
<b>Total non-current assets</b>		908		830
Current assets (classified in accordance with PBE IPSAS 1)	383		350	
<b>Total current assets</b>		383		350
<b>Total assets</b>		<u>1,291</u>		<u>1,180</u>
<b>LIABILITIES</b>				
Current liabilities (classified in accordance with PBE IPSAS 1)	372		338	
<b>Share capital repayable on demand</b>	202		161	
<b>Total current liabilities</b>		(574)		(499)
<b>Total assets less current liabilities</b>		<u>717</u>		<u>681</u>
Non-current liabilities (classified in accordance with PBE IPSAS 1)	187		196	
		(187)		(196)
<b>OTHER COMPONENTS OF NET ASSETS/EQUITY<sup>(a)</sup></b>				
Reserves, e.g., revaluation surplus, accumulated comprehensive revenue and expense, etc.	530		485	
		530		485
		<u>717</u>		<u>681</u>
<b>MEMORANDUM NOTE – Total members' interests</b>				
Share capital repayable on demand		202		161
Reserves		530		485
		<u>732</u>		<u>646</u>

(a) In this example, the entity has no obligation to deliver a share of its reserves to its members.

**Accounting for Compound Financial Instruments***Example 9: Separation of a Compound Financial Instrument on Initial Recognition*

- IE34. Paragraph 33 describes how the components of a compound financial instrument are separated by the entity on initial recognition. The following example illustrates how such a separation is made.
- IE35. An entity issues 2,000 convertible bonds at the start of year 1. The bonds have a three-year term, and are issued at par with a face value of CU1,000 per bond, giving total proceeds of CU2,000,000. Interest is payable annually in arrears at a nominal annual interest rate of 6 percent. Each bond is convertible at any time up to maturity into 250 ordinary shares. When the bonds are issued, the prevailing market interest rate for similar debt without conversion options is 9 percent.
- IE36. The liability component is measured first, and the difference between the proceeds of the bond issue and the fair value of the liability is assigned to the net assets/equity component. The present value of the liability component is calculated using a discount rate of 9 percent, the market interest rate for similar bonds having no conversion rights, as shown below.

	CU
Present value of the principal – CU2,000,000 payable at the end of three years	1,544,367
Present value of the interest – CU120,000 payable annually in arrears for three years	303,755
<b>Total liability component</b>	<u>1,848,122</u>
<b>Net assets/equity component (by deduction)</b>	<u>151,878</u>
<b>Proceeds of the bond issue</b>	<u>2,000,000</u>

*Example 10: Separation of a Compound Financial Instrument with Multiple Embedded Derivative Features*

- IE37. The following example illustrates the application of paragraph 36 to the separation of a compound financial instrument with multiple embedded derivative features into the liability and net assets/equity component.
- IE38. Assume that the proceeds received on the issue of a callable convertible bond are CU60. The value of a similar bond without a call or equity conversion option is CU57. Based on an option pricing model, it is determined that the value to the entity of the embedded call feature in a similar bond without an equity conversion option is CU2. In this case, the value allocated to the liability component under paragraph 36 is CU55 (CU57 – CU2) and the value allocated to the net assets/equity component is CU5 (CU60 – CU55).

*Example 11: Repurchase of a Convertible Instrument*

- IE39. The following example illustrates how an entity accounts for a repurchase of a convertible instrument. For simplicity, at inception, the face amount of the instrument is assumed to be equal to the aggregate carrying amount of the liability and the net assets/equity components in the financial statements, i.e., no original issue premium or discount exists. Also, for simplicity, tax considerations have been omitted from the example.
- IE40. On January 1, 20X0, Entity A issued a 10 percent convertible debenture with a face value of CU1,000 maturing on December 31, 20X9. The debenture is convertible into ordinary shares of Entity A at a conversion price of CU25 per share. Interest is payable half-yearly in cash. At the date of issue, Entity A could have issued non-convertible debt with a ten-year term bearing a coupon interest rate of 11 percent.
- IE41. In the financial statements of Entity A the carrying amount of the debenture was allocated on issue as follows:

	CU
<b>Liability component</b>	
Present value of 20 half-yearly interest payments of CU50, discounted at 11%	597
Present value of CU1,000 due in 10 years, discounted at 11%, compounded half-yearly	343
	<u>940</u>
<b>Net assets/equity component</b>	
(difference between CU1,000 total proceeds and CU940 allocated above)	60
<b>Total proceeds</b>	<u><u>1,000</u></u>

- IE42. On January 1, 20X5 the convertible debenture has a fair value of CU1,700.
- IE43. Entity A makes a tender offer to the holder of the debenture to repurchase the debenture for CU1,700, which the holder accepts. At the date of repurchase, Entity A could have issued non-convertible debt with a five-year term bearing a coupon interest rate of 8 percent.
- IE44. The repurchase price is allocated as follows:

	Carrying value	Fair value	Difference
	CU	CU	CU
<b>Liability component:</b>			
Present value of 10 remaining half-yearly interest payments of CU50, discounted at 11% and 8%, respectively	377	405	
Present value of CU1,000 due in 5 years, discounted at 11% and 8%, compounded half-yearly, respectively	585	676	
	962	1,081	(119)
<b>Net assets/equity component</b>	60	619 <sup>(a)</sup>	(559)
<b>Total</b>	1,022	1,700	(678)

(a) This amount represents the difference between the fair value amount allocated to the liability component and the repurchase price of CU1,700.

IE45. Entity A recognises the repurchase of the debenture as follows:

Dr	Liability component	CU962	
Dr	Debt settlement expense (surplus or deficit)	CU119	
	Cr Cash		CU1,081

*To recognise the repurchase of the liability component.*

Dr	Net assets/equity	CU619	
	Cr Cash		CU619

*To recognise the cash paid for the net assets/equity component.*

IE46. The net assets/equity component remains as net assets/equity, but may be transferred from one line item within net assets/equity to another.

*Example 12: Amendment of the Terms of a Convertible Instrument to Induce Early Conversion*

IE47. The following example illustrates how an entity accounts for the additional consideration paid when the terms of a convertible instrument are amended to induce early conversion.

IE48. On January 1, 20X0, Entity A issued a 10 percent convertible debenture with a face value of CU1,000 with the same terms as described in Example 9. On January 1, 20X1, to induce the holder to convert the convertible debenture promptly, Entity A reduces the conversion price to CU20 if the debenture is converted before March 1, 20X1 (i.e., within 60 days).

IE49. Assume the market price of Entity A's ordinary shares on the date the terms are amended is CU40 per share. The fair value of the incremental consideration paid by Entity A is calculated as follows:

**Number of ordinary shares to be issued to debenture holders under amended conversion terms:**

Face amount	CU1,000	
New conversion price	/CU20	per share
Number of ordinary shares to be issued on conversion	<u>50</u>	shares

*Number of ordinary shares to be issued to debenture holders under original conversion terms:*

Face amount	CU1,000	
Original conversion price	/CU25	per share
Number of ordinary shares to be issued on conversion	<u>40</u>	Shares
<i>Number of incremental ordinary shares issued upon conversion</i>	10	Shares

*Value of incremental ordinary shares issued upon conversion*

CU40 per share x 10 incremental shares	<u>CU400</u>
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IE50. The incremental consideration of CU400 is recognised as a loss in surplus or deficit.

**Comparison with IPSAS 28**

PBE IPSAS 28 *Financial Instruments: Presentation* is drawn from IPSAS 28 *Financial Instruments: Presentation*. PBE Standards require the presentation of a statement of comprehensive revenue and expense. IPSASs require the presentation of a statement of financial performance. Other than the impact of this difference, there are no significant differences between PBE IPSAS 28 and IPSAS 28.

## History of Amendments

PBE IPSAS 28 *Financial Instruments: Presentation* was issued in September 2014.

This table lists the pronouncements establishing and substantially amending PBE IPSAS 28 *Financial Instruments: Presentation*. The table is based on amendments issued as at 28 February 2025.

Pronouncements	Date issued	Early operative date	Mandatory date (annual financial statements ... on or after ...)
PBE IPSAS 28 <i>Financial Instruments: Presentation</i>	Sept 2014	Early application is permitted for not-for-profit public benefit entities	1 April 2015
2015 Omnibus Amendments to PBE Standards	July 2015	Early application is permitted	1 Jan 2016
PBE IPSAS 34 <i>Separate Financial Statements</i>	Jan 2017	Early application is permitted	1 Jan 2019
PBE IPSAS 35 <i>Consolidated Financial Statements</i>	Jan 2017	Early application is permitted	1 Jan 2019
PBE IPSAS 36 <i>Interests in Associates and Joint Ventures</i>	Jan 2017	Early application is permitted	1 Jan 2019
PBE IPSAS 37 <i>Joint Arrangements</i>	Jan 2017	Early application is permitted	1 Jan 2019
PBE IFRS 9 <i>Financial Instruments</i>	Jan 2017	Early application is permitted	1 Jan 2022 <sup>4</sup>
PBE IPSAS 39 <i>Employee Benefits</i>	May 2017	Early application is permitted	1 Jan 2019
PBE FRS 48 <i>Service Performance Reporting</i>	Nov 2017	Early application is permitted	1 Jan 2022 <sup>5</sup>
PBE IPSAS 41 <i>Financial Instruments</i>	Mar 2019	Early application is permitted	1 Jan 2022
PBE IFRS 17 <i>Insurance Contracts</i>	July 2019	Early application is permitted	1 Jan 2023 [NFP] <sup>6</sup> 1 Jan 2026 [PS] <sup>7</sup>
<i>Amendments to PBE IFRS 17</i>	Aug 2020	Early application is permitted	1 Jan 2023

<sup>4</sup> PBE IFRS 9 was subsequently withdrawn by PBE IPSAS 41. The amendments in Appendix D of PBE IFRS 9 were not compiled. *Effective Date of PBE IFRS 9*, issued in March 2019, deferred the effective date of PBE IFRS 9 from 1 January 2021 to 1 January 2022.

<sup>5</sup> *2020 Amendments to PBE FRS 48*, issued in August 2020, deferred the effective date of PBE FRS 48 from 1 January 2021 to 1 January 2022.

<sup>6</sup> When first issued in July 2019, PBE IFRS 17 applied only to not-for-profit PBEs. *Amendments to PBE IFRS 17*, issued in August 2020, deferred the effective date of PBE IFRS 17 for not-for-profit PBEs from 1 January 2022 to 1 January 2023.

<sup>7</sup> *Insurance Contracts in the Public Sector*, issued in June 2023, extended the scope of PBE IFRS 17 to include public sector PBEs. Public sector PBEs are required to apply PBE IFRS 17, as amended by *Insurance Contracts in the Public Sector*, for accounting periods beginning on or after 1 January 2026.

<b>Table of Amended Paragraphs in PBE IPSAS 28</b>		
<b>Paragraph affected</b>	<b>How affected</b>	<b>By ... [date]</b>
Paragraph 2	Amended	PBE IPSAS 41 [Mar 2019]
Paragraph 3	Amended	PBE IPSAS 35 and PBE IPSAS 37 [Jan 2017]
Paragraph 3(b)	Amended	PBE IPSAS 39 [May 2017]
Paragraph 3	Amended	PBE IPSAS 41 [Mar 2019]
Paragraph 3(c)	Amended	PBE IFRS 17 [Jul 2019]
Paragraph 3(c)	Amended	<i>Amendments to PBE IFRS 17</i> [Aug 2020]
Paragraph 3(d)	Deleted	PBE IFRS 17 [Jul 2019]
Paragraph 4	Amended	PBE IPSAS 41 [Mar 2019]
Paragraph 9	Amended	PBE IPSAS 41 [Mar 2019]
Paragraph 9	Amended	PBE IFRS 17 [Jul 2019]
Paragraph 10	Amended	PBE IPSAS 41 [Mar 2019]
Paragraph 14	Amended	PBE IPSAS 41 [Mar 2019]
Paragraph 28	Amended	PBE IPSAS 41 [Mar 2019]
Paragraph 36	Amended	PBE IPSAS 41 [Mar 2019]
Paragraph 38.1	Added	PBE IFRS 17 [Jul 2019]
Paragraph 38.1	Amended	<i>Amendments to PBE IFRS 17</i> [Aug 2020]
Paragraph 39	Amended	PBE FRS 48 [Nov 2017]
Paragraph 40	Amended	<i>2015 Omnibus Amendments to PBE Standards</i> [July 2015]
Paragraph 40.A	Added	<i>2015 Omnibus Amendments to PBE Standards</i> [July 2015]
Paragraph 42	Amended	<i>2015 Omnibus Amendments to PBE Standards</i> [July 2015]
Paragraph 44	Amended	<i>2015 Omnibus Amendments to PBE Standards</i> [July 2015]
Paragraph 47	Amended	PBE IPSAS 41 [Mar 2019]
Paragraph 48	Amended	PBE IPSAS 41 [Mar 2019]
Paragraph 62.2	Added	<i>2015 Omnibus Amendments to PBE Standards</i> [July 2015]
Paragraph 62.3	Added	PBE IPSAS 35 and PBE IPSAS 37 [Jan 2017]
Paragraph 62.4	Added	PBE IFRS 9 [Jan 2017]
Paragraph 62.4	Amended	PBE IPSAS 41 [Mar 2019]
Paragraph 62.5	Added	PBE IPSAS 39 [May 2017]
Paragraph 62.6	Added	PBE IPSAS 41 [Mar 2019]
Paragraph 62.7	Added	PBE IFRS 17 [Jul 2019]
Paragraph 62.7	Amended	<i>Amendments to PBE IFRS 17</i> [Aug 2020]
Paragraph AG2	Amended	PBE IPSAS 41 [Mar 2019]
Paragraph AG9	Amended	PBE IFRS 17 [Jul 2019]
Paragraph AG15	Amended	PBE IFRS 17 [Jul 2019]
Paragraph AG53	Amended	PBE IPSAS 35 [Jan 2017]
Paragraph AG53	Amended	PBE FRS 48 [Nov 2017]
Paragraph AG55	Amended	PBE IPSAS 41 [Mar 2019]
Paragraph AG61	Amended	PBE IFRS 17 [Jul 2019]
Paragraph AG63	Deleted	PBE IPSAS 41 [Mar 2019]

<b>Table of Amended Paragraphs in PBE IPSAS 28</b>		
<b>Paragraph affected</b>	<b>How affected</b>	<b>By ... [date]</b>
Paragraphs AG63–AG63F (and related headings)	Added	PBE IPSAS 41 [Mar 2019]
Paragraph B19	Amended	PBE IPSAS 41 [Mar 2019]
Paragraph B21	Amended	PBE IPSAS 41 [Mar 2019]