PROPOSED FINANCIAL REPORTING STANDARD	ED/FRS 32

Exposure Draft

Classification of Rights Issues
(proposed amendment to FRS 32)

Comments to be received by ***23 August 2009***

This exposure draft *Classification of Rights Issues* (proposed amendment to FRS 32) is issued by the Accounting Standards Council (ASC) for comment only and does not necessarily represent the views of ASC. The proposals may be modified in the light of the comments received before being issued as a Financial Reporting Standard (FRS).

Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, clearly explain the problem and provide a suggestion for alternative wording with supporting reasoning.

Comments should be submitted in writing, so as to be received by **23 August 2009** preferably by email to MOF_Feedback_ASC@mof.gov.sg or addressed to:

Accounting Standards Council
c/o Ministry of Finance
100 High Street #10-01
The Treasury
Singapore 179434

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Introduction

1 This exposure draft contains a proposal to amend FRS 32 *Financial Instruments: Presentation*. The purpose of the amendment is to clarify the classification of instruments that give the holders the right to acquire an entity's own equity instruments at a fixed price (rights issue) when that price is stated in a currency other than the entity's functional currency.

2 The proposed amendment specifies that a rights issue offered pro rata to all of an entity's existing shareholders on the exercise of which the entity will receive a fixed amount of cash for a fixed number of the entity's own equity instruments is classified as an equity instrument regardless of the currency in which the exercise price is denominated.

3 The proposed amendment is intended to clarify the circumstances in which the currency the entity will receive on the issue of an instrument does not affect its classification as a liability or an equity instrument.

Invitation to comment

The equivalent exposure draft has been issued in Singapore.

The Accounting Standards Council ("ASC") invites comments on the amendment proposed in this exposure draft, particularly on the questions set out below. Comments are most helpful if they:

(a) comment on the question as stated;

(b) indicate the paragraph or paragraphs to which they relate;

(c) contain a clear rationale; and

(d) if applicable, include an alternative ASC should consider.

ASC is not seeking comments on matters in FRS 32 other than those set out in this exposure draft.

Respondents should submit comments in writing so as to be received no later than 23 August 2009.

Question 1 – Specifying the characteristics of the rights issue

The proposed amendment applies to instruments (rights) to be offered pro rata to all existing owners of the same class of equity instruments and the exercise price to be a fixed amount of cash in any currency.

Do you agree with the proposal to limit the amendment to instruments with these characteristics? If not, why? Are there any other instruments that should be included and why?

Question 2 – Specifying the currency of the exercise price

The proposed amendment specifies that the fixed amount of cash the entity will receive can be denominated in any currency. If that currency is not the entity's functional or reporting currency, the proceeds it receives from the issue of its shares will vary depending on foreign exchange rates.

Do you agree with the proposal to permit an entity to classify rights with the characteristics set out above as equity instruments even when the exercise price is not fixed in its functional or reporting currency? If not, why?

Question 3 – Transition

The proposed change would be required to be applied retrospectively with early adoption permitted.

Is the requirement to apply the proposed change retrospectively appropriate? If not, what do you propose and why?

Proposed amendment to
FRS 32 *Financial Instruments: Presentation*

Paragraphs 11 and 16 are amended (new text is underlined and deleted text is struck through). Paragraph 97E is added.

Definitions

11 **The following terms are used in the Standard with the meaning specified:**

...

A *financial liability* is any liability that is:

(a) **...**

(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 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 to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Also f~~F~~or ~~this~~ these purposes the entity's own equity instruments ...**

16 When an issuer applies the definitions in paragraph 11 to determine whether a financial instrument is an equity instrument rather than a financial liability, the instrument is an equity instrument if, and only if, both conditions (a) and (b) below are met.

(a) ...

(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 to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Also, f~~F~~or ~~this~~ these purposes the issuer's own equity instruments do not include instruments that have all the features and meet the conditions described in paragraphs 16A and 16B or paragraphs 16C and 16D, or instruments that are contracts for the future receipt or delivery of the issuer's own equity instruments.

...

Effective date and transition

97E Paragraphs 11 and 16 were amended by *Classification of Rights Issues* issued in [month] 2009. An entity shall apply that amendment for annual periods beginning on or after [90 days after the amendment is issued]. Earlier application is permitted. If an entity applies the [draft] amendment for a period beginning before [date to be inserted after exposure], it shall disclose that fact.