



SAS Quadra 05. Bloco J. CFC
Brasília, Distrito Federal – Brazil
www.cpc.org.br

February 26, 2014

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: Outreach request – IAS 39 – Classification of a hybrid financial instrument

Dear Board Members,

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)¹ welcomes the opportunity to respond the Outreach request – IAS 39 – Classification of a hybrid financial instrument.

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

1. Summary of the issue

The submitter pointed out that different views exist about how the holder of certain types of financial instruments should analyse and account for those instruments. In particular, the different views exist in respect of how to identify the host contract and embedded derivatives of a hybrid financial instrument. The question arises of whether the host contract of such an instrument would be considered as an equity or as a debt instrument.

The hybrid financial instrument described in the submission has the following main terms and conditions:

- Maturity: 30 years
- Revolving maturity option every 30 years (at the option of the issuer)
- Early settlement option after 10 years from the date of issuance (at the option of the issuer)
- Interest payment stop option (at the option of the issuer).

The submitter explains that it is unclear how to identify the host contract and embedded derivatives of the hybrid financial instruments and identifies two possible views:

¹ The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), BMFBOVESPA (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).



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. View 1 - The host contract is an equity instrument
The host contract is identified as an equity instrument at first and then the residual component of the hybrid instrument (i.e. the early settlement option) is identified as an embedded derivative.

. View 2 – The host contract is a debt instrument
The host contract is identified as a debt instrument with the stated maturity of 30 years, after identifying embedded derivatives (i.e. the early settlement option, the revolving maturity option and the interest payment stop option).

2. Questions

I would very much appreciate your observations on the following aspects:

Q1. Is the type of hybrid financial instrument described in the submission typical for your jurisdiction? If yes, are you aware of any difficulties or challenges in your jurisdiction in identifying a host contract and embedded derivatives of such hybrid financial instruments by holders?

In Brazil it is not typical to have such type of instruments.

Q2. If you answered 'Yes' to Q1, what is the prevalent interpretation or approach to classification of such hybrid financial instruments by the holders of such instruments? In addition, if possible, could you please briefly describe the rationale for that prevalent interpretation/ treatment?

N/A

Q3. If you answered 'Yes' to Q1, to what extent do you observe diversity in practice in respect of the issue above?

N/A

If you have any questions about our comments, please contact us at operacoes@cpc.org.br.

Yours sincerely,

Idésio da Silva Coelho Júnior
Chair of International Affairs
Comitê de Pronunciamentos Contábeis (CPC)