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

RE: Outreach Request: Reclassification of a financial liability when the contractual terms have not changed (IAS 32 and IAS 39).

Dear Board Members,

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)¹ welcomes the opportunity to respond to the Outreach Request – **Reclassification of a financial liability when the contractual terms have not changed (IAS 32 and IAS 39).**

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

Background of the issue

The question of whether the classification of a financial liability from the perspective of the issuer should be reassessed when the terms and conditions of the instrument have not changed has been a topic of debate for many years. The debate stems from the potential conflicting guidance between IAS 32 and IAS 39. Looking solely to the guidance in IAS 32 may suggest reassessment after initial recognition is not permitted unless specifically required by IAS 32 whereas IAS 39 might suggest that reassessment would be required. It is clear that diversity in practice exists on whether reclassification is required, prohibited or whether it depends on facts and circumstances.

The purpose of this submission is to ask the IFRS Interpretations Committee (IFRSIC) whether reclassification is required or prohibited when circumstances giving rise to the initial classification change. If the IFRS IC believes that reclassification may be required

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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only in certain circumstances, it would be helpful to understand what these circumstances are.

For the purposes of this submission, we focus on instruments that are originally classified as a financial liability but would subsequently meet the definition of equity. However, we assume the same logic would apply for instruments originally classified as equity that subsequently meet the definition of a financial liability as defined by IAS 32. This submission does not consider changes to the contractual terms of the instrument, such as in a renegotiation or restructuring, because the accounting requirements are clear in these cases.

Our comments

We agree that the accounting guidance is not clear on whether an entity should reclassify an instrument if the circumstances giving rise to the initial classification of the instrument have changed as a result of an event or the passage of time. IAS 32 is silent on whether a re-assessment is required after initial recognition as paragraph 15 of IAS 32 only prescribes that an entity should classify the instrument, or its component parts, on initial recognition. It could be argued that an instrument should not be reclassified after inception.

IAS 32 also requires an entity to reclassify instruments in the scope of paragraph 32 where an entity has an obligation to purchase its own shares in the future. If the event does not occur (for example, the holder does not exercise the option), the issuer is required to reclassify the financial liability to equity.

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)