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Date: December 19th 2018
Re: Comment Letter on IASB Discussion Paper DP/ 'Financial Instruments with Characteristics of Equity'

Dear members of the IASB,

The Dutch Accounting Standard Board (DASB) appreciates the opportunity to respond to the IASB regarding the Discussion Paper *Financial Instruments with Characteristics of Equity.* We take this opportunity to respond to your requests relating to the questions included in the discussion paper and you can find the responses to these questions in the Appendix attached to this letter.

Since the capital structure is one of the most important objects in financial analysis, having a clear and solid standard that sets the classification of financial instruments with characteristics of equity is important. The biggest challenge lies in defining these instruments as either liabilities and/or equity. Interpretation should be expanded on this and developed further. Fundamental changes in standards are only acceptable when they solve severe and widespread problems or provide a significant improvement over existing standards. We believe that the model as proposed in the discussion paper is a fundamental change of the current principles of IAS 32 and are not a narrow scope amendment. Furthermore, the DP does not address all issues with the current standard (for example the lack of guidance on reclassifying instruments from debt to equity). A fundamentally different approach as proposed has far-reaching and possibly unintended consequences. We do not observe widespread problems in current practice nor significant improvement that would justify such far-reaching consequences.

Our general remark is that although current IFRS has shortcomings on the distinction between liabilities and equity most companies have no problems applying current IAS 32. Most companies are familiar with the fundamentals of IAS 32, and are able to predict how new instruments would affect their balance sheet.

Due to the vast range of different types of capital in practice, and the complex and sometimes unclear description of the new concepts within the proposal such as 'independent' and 'available economic resources' in the standard, we think that by replacing a well understood standard (with its shortcomings), with a new complex standard will prove to be challenging. This could also lead to an increase in future questions to IFRIC to interpret the meaning of these new concepts.

The Discussion Paper does not convince that the new presentation approach is both more simple to apply and renders more relevant information. Any new approach will lead to increased uncertainty and additional structuring possibilities. Therefore, any new approach should be well supported in the market. In absence of this support we believe more disclosure requirements have to be considered to overcome the issues identified in the current standard. In addition to some detailed changes, we think that any fundamental change should only be made when the benefits significantly outweigh the costs. We support limited changes or additional guidance to the current standard on:

1. puts on non-controlling interests,
2. clarifying fixed for fixed,
3. treating derivatives over own equity net, and
4. increased disclosure requirements on elements of equity with respect to their priority on liquidation, potential dilution effects and details on contractual terms and conditions.

Therefore, we conclude that the shortcomings are better addressed by specific amendments to the current approach instead of introducing an entirely new approach.

We agree with the detailed responses by EFRAG in their draft comment letter (included in appendix 2) to the questions posed in the discussion paper. We have also set out our detailed comments on the questions within the discussion paper in the appendix 1 to this letter.

Yours sincerely,

Prof. dr. P.A.M. Sampers
Chairman DASB

Appendix 1: Detailed comments to the questions of the DP

Appendix 2: Draft comment letter EFRAG

Appendix 1: Detailed comments to the questions of the DP

Question 1

Does this section describe the challenges identified and provide an explanation of their causes?

1. Do you agree with the description of challenges and their causes? Why or why not? Do you think there are other factors contributing to the challenges?

2. Do you agree that the challenges identified are important to users of the financial statements and are pervasive enough to require standard-setting activity? Why or why not?

Response to question 1(a)

1. We agree with the description of the challenges. However, we note that the discussion paper focuses on practical challenges (although it does highlight the conceptual challenges – it is not the area of focus). We agree that the challenges are important and that standard setting activity is warranted. Until such time where a solution can be developed that addresses the conceptual challenges identified, we support standard setting activity of a more limited scope.

1. We acknowledge it is difficult to address the conceptual challenges, in particular instruments settled in shares (inconsistent with Framework and IFRS 2)

Response to question 1(b)

1. We agree that the challenges are important and that standard setting activity is warranted. Until such time where a solution can be developed that addresses the conceptual challenges identified, we support standard setting activity of a more limited scope.

2. We believe that the best way forward would be to amend and clarify certain specific aspects of IAS 32, rather than to propose a new approach.

3. Although we can see the advantages in clarifying the rationale for the classification outcomes, our experience is that the principles in IAS 32 are generally well understood, and most of the application issues arise due to lack of guidance in specific areas. Proposing new conceptual principles without addressing application issues may give rise to new application challenges.

Question 2

The Board's preferred approach to classification would classify a claim as a liability if it contains:

1. an unavoidable obligation to transfer economic resources at a specified time other than at liquidation; and/or

2. an unavoidable obligation for an amount independent of the entity's available economic resources.

This is because, in the Board's view, information about both of these features is relevant to assessments of the entity's financial position and financial performance, as summarised in paragraph 2.50.

The Board's preliminary view is that information about other features of claims should be provided through presentation and disclosure.

Do you agree? Why, or why not?

Response to question 2:

1. We agree that the timing feature is a key consideration in the classification. We believe that timing not only provides users with information about liquidity but also solvency (i.e. the availability of cash to meet financial commitments as they fall due). Both liquidity and solvency are key needs of investors.

2. The amount feature does address another feature that is a key consideration in the classification, i.e. returns (or payoffs/risks & rewards of ownership).

3. However, we believe the amount criteria should focus on obligations arising during the life of the entity (not on liquidation). We don't believe that settlement only upon liquidation requires liability classification, regardless of whether the amount is or is not independent of the entity's resources. This is because all of the credit side of the balance sheet is settled at liquidation, and information about relative rankings and amounts can be covered by presentation and/or disclosure.

4. Additionally, principles relating to 'independent' and 'available economic resources' should be articulated.

5. The recommended approach above would achieve consistency with IAS 32 for irredeemable cumulative preference shares.

Question 3

The Board's preliminary view is that a non-derivative financial instrument should be classified as a financial liability if it contains:

1. an unavoidable contractual obligation to transfer cash or another financial asset at a specified time other than at liquidation; and/or

2. an unavoidable contractual obligation for an amount independent of the entity's available economic resources.

This will also be the case if the financial instrument has at least one settlement outcome that has the features of a non-derivative financial liability.

Do you agree? Why, or why not?

Response to question 3:

1. For references to obligations that arise only on liquidation date, refer to the response in Question 2. In addition, please note that if the recommended approach is followed as prescribed in the response in question 2 above, it limits the population subject to the 'amount test' and reduces the concerns laid out below.

2. We believe that generally definitions are not clearly articulated in the discussion paper, and applying it in practice is expected to raise a number of new challenges, such as:

    1. The term 'Timing of the test' is ambiguous as reference to frequency, what constitutes timing and amounts upon liquidation is not clear.

    2. The term 'Measurement approach' poses various scenario analysis and raises challenges of cost versus benefit.

    3. Independence also creates a challenge for what is deemed to be dependent on an entity's resources when assessing contingent events.

3. A potential solution could be to define the amount on a similar basis as the definition of equity in the Conceptual Framework as the residual amount.

4. We suggest that the current "fixed for fixed" criterion in IAS 32 can be clarified by providing guidance on the assessment of adjustments made to the settlement amount (i.e. standard inputs used to determine the value of a "fixed for fixed" forward or option on equity shares).

5. As previously noted, one application issue with IAS 32 that is expected to continue under the Board's preferred approach, is what constitutes an "obligation", or in other words – definition of entity vs. shareholders. We believe that this is an area where additional guidance would be helpful and therefore expansion of terms would create clarity.

Question 4

The Board's preliminary view is that the puttable exception would be required under the Board's preferred approach.

Do you agree? Why, or why not?

Response to question 4:

6. We agree, we do not have an alternative solution which would overcome the need for the puttable exception.

Question 5

The Board's preliminary view for classifying derivatives on own equity—other than derivatives that include an obligation to extinguish an entity's own equity instruments—are as follows:

1. a derivative on own equity would be classified in its entirety as an equity instrument, a financial asset or a financial liability; the individual legs of the exchange would not be separately classified; and

2. a derivative on own equity is classified as a financial asset or a financial liability if:

1. it is net-cash settled—the derivative requires the entity to deliver cash or another financial asset, and/or contains a right to receive cash for the net amount, at a specified time other than at liquidation; and/or

2. the net amount of the derivative is affected by a variable that is independent of the entity's available

economic resources.

Do you agree? Why, or why not?

Response to question 5:

1. We agree that the individual legs of asset / equity exchanges should not be separated. These derivatives should be classified on a “Net” basis regardless of the form of settlement.

2. While we acknowledge the liability/equity exchanges do get separated, we believe that is consistent with the “timing” criterion (i.e. there is a contractual obligation to transfer cash – equity is redeemed for cash where asset / equity exchanges do not involve the redemption of shares).

3. Separating all equity derivatives would seem a fundamental change beyond the objectives set out in the discussion paper and would also raise inconsistencies with other derivatives that have non-equity underlying such as interest rates, commodity index etc.

4. We believe it is appropriate that forward sales of own shares are not grossed up under the discussion paper.

5. We agree that “net share settlement” should result in equity classification, a change from IAS 32 today.

6. We do not believe that foreign currency should always be an independent variable. As an example many issuers in certain jurisdictions have no other alternative than to raise funds in a currency different from their functional currency, so viewing foreign currency as an independent variable would be unduly punitive.

7. While some of the guidance around which variables may or may not be independent is appropriate, we have significant concerns with the approach for contingencies (i.e. events that are outside the control of the issuer and the holder. We believe an appropriate approach would be to include the likelihood of the event occurring in the measurement of the outcome (see below).

8. We also believe that the approach for events that are within the control of the issuer should be clarified, such as down round provision, for example. Are the facts included within the disclosure paper in paragraphs 4.56 and 4.64 making it clear that down round provisions do not require liability classification?

Question 6

Do you agree with the Board’s preliminary views set out in paragraphs 5.48(a)–(b)? Why, or why not? Applying these preliminary views to a derivative that could result in the extinguishment of an entity’s own equity instruments, such as a written put option on own shares, would result in the accounting as described in paragraph 5.30 and as illustrated in paragraphs 5.33–5.34.

For financial instruments with alternative settlement outcomes that do not contain an unavoidable contractual obligation that has the feature(s) of a financial liability as described in paragraph 5.48(c), the Board considered possible ways to provide information about the alternative settlement outcomes as described in paragraphs 5.43–5.47.

1. Do you think the Board should seek to address the issue? Why, or why not?
2. If so what approach do you think would be most effective in providing the information, and why?

Response to question 6(a):

1. We agree with some of the clarifications provided for redemption obligations in paragraphs 5.48 (a) and (b) of the discussion paper. The discussion paper provides a clearer model for the accounting as compared to par. 23 of IAS 32. We do however, question the decision-usefulness of grossing up net share settled written puts similar to gross physically settled puts.
2. However, given the above facts, we do acknowledge that presenting all derivatives on a net basis may result in a more consistent approach for all derivatives.

Response to question 6(b)

3. We note that the approach suggested by the discussion paper requires to derecognize certain equity instruments that are still legally outstanding. We believe this should be addressed in the context of IAS 33 and it should be considered if the shares are no longer outstanding for earnings per share purposes.
4. The discussion paper provides a clearer model for compound instruments with multiple settlement alternatives, which is an area where currently no clear guidance exists.
    1. We agree that the results are appropriate in some circumstances such as for example, a mandatorily convertible bond with a cap and floor. (A non-derivative contractual obligation will be recognized for the obligation to issue a variable number of shares for a fixed amount, and equity for the residual – 2 net share settled derivatives).
    2. We believe that in other circumstances, the result may not always be appropriate, particularly where the contingency is remote, since the approach results in a non derivative liability that does not include any conditionality.
    3. We believe that for instruments with alternative settlement outcomes that are contingent on an uncertain future event beyond the control of the entity, a distinction should be made between events that are in the control of the holder and those that are beyond the control of both the entity and the holder.
5. The discussion paper includes a discussion about the challenges of embedded derivatives in equity instruments (paragraph 5.46). This may be an area where the Board could provide more guidance.
6. Finally, while we believe the approach for reverse convertible bonds set out in 5.48 (c) reflects the classification principles in the disclosure paper, we think an analysis should be performed in the context of economic compulsion (see response to Question 10).

Question 7

Do you agree with the Board's preliminary views stated in paragraphs 6.53–6.54? Why, or why not?

The Board also considered whether or not it should require separation of embedded derivatives from the host contract for the purposes of the presentation requirements as discussed in paragraphs 6.37–6.41. Which alternative in paragraph 6.38 do you think strikes the right balance between the benefits of providing useful information and the costs of application, and why?

Response question 7:

1. We believe that separate presentation of the liabilities on the balance sheet provides useful information, and alleviates some of the concerns with the liability classification of these instruments. We also note that no presentation requirements need to be developed as stated in paragraph 6.5 as other IFRS standards such as specifically IFRS 7 provide sufficient guidance on liquidity.
2. We also agree that presenting income and expenses on these liabilities in Other Comprehensive Income (OCI) is appropriate as described within paragraph 6.43. While it expands the use of OCI, it allows a better depiction in profit or loss of the return the entity produces to satisfy its claims, and thus results in the statement of profit or loss providing more relevant information and more faithful representation of the entity's financial performance for the period.
3. We also agree that the amounts should not be recycled, even though these amounts will not be reversed at settlement (unlike the credit risk component of liabilities under the fair value option).
4. However, we do not agree with the articulation of the criterion in 6.34 (d) with regards to partly independent derivatives. We believe that the hurdle of "imposed by an external factor", or "not practically possible" is too high a hurdle and ambiguous and should be expanded on.

Question 8

The Board's preliminary view is that it would be useful to users of financial statements assessing the distribution of returns among equity instruments to expand the attribution of income and expenses to some equity instruments other than ordinary shares.

Do you agree? Why, or why not?

The Board's preliminary view is that the attribution for non-derivative equity instruments should be based on the existing requirements of IAS 33.

Do you agree? Why, or why not?

The Board did not form a preliminary view in relation to the attribution approach for derivative equity instruments. However, the Board considered various approaches, including:

1. a full fair value approach (paragraphs 6.74–6.78);
2. the average-of-period approach (paragraphs 6.79–6.82);
3. the end-of-period approach (paragraphs 6.83–6.86); and
4. not requiring attribution, but using disclosure as introduced in paragraphs 6.87–6.90 and developed in paragraphs 7.13–7.25.

Which approach do you think would best balance the costs and benefits of improving information provided to users of financial statements?

Response question 8:

1. We agree that it will be useful to users to expand the attribution of income and expenses to some equity instruments as it will result in comparability. We also agree that IAS 33 should continue to be the model for attributing income to non-derivative equity instruments.
2. Similar to the board we did not form a view in relation to which attribution approach would be best.
3. For equity derivatives, we do not believe that any of the models proposed by the Board provides a satisfactory answer from a cost / benefit approach.
4. As an alternative approach, we suggest further extending the principles in IAS 33 – e.g., showing attribution of income assuming all derivatives were converted/exercised into the underlying number of shares they represent.
5. We would also support additional disclosures (refer to answer on question 9) to address user needs .

Question 9

The Board's preliminary view is that providing the following information in the notes to the financial statements would be useful to users of financial instruments:

1. information about the priority of financial liabilities and equity instruments on liquidation (see paragraphs 7.7–7.8). Entities could choose to present financial liabilities and equity instruments in order of priority, either on the statement of financial position, or in the notes (see paragraphs 6.8–6.9).
2. information about potential dilution of ordinary shares. These disclosures would include potential dilution for all potential issuance of ordinary shares (see paragraphs 7.21–7.22).
3. information about terms and conditions should be provided for both financial liabilities and equity instruments in the notes to the financial statements (see paragraphs 7.26–7.29).

Do you agree with the Board's preliminary view? Why, or why not?

How would you improve the Board's suggestions in order to provide useful information to users of financial statements that will overcome the challenges identified in paragraphs 7.10 and 7.29?

Are there other challenges that you think the Board should consider when developing its preliminary views on disclosures?

Response question 9:

1. We agree that additional disclosures about the priority of liabilities and equity is relevant to users of the financial statements, however we acknowledge the practical implementation challenges particularly in a group set up. The Board may consider a Hypothetical Liquidation at Book Value model at the reporting date.

2. We agree that additional information about the potential dilution of ordinary shares is warranted. We believe that the example in the discussion paper, paragraph 7.23 is useful. However, we would suggest adding disclosures about the minimum number of potential ordinary shares as well.

3. We agree with the Board on the challenges in providing contractual terms and conditions disclosures. The aggregation issue is difficult to solve, as oversimplifying is potentially misleading. One potential solution would be to provide a link in the financial statements to any offering documents that contain the contractual terms and conditions for issued instruments.

4. Overall, we believe the IASB should explore a technology solution.

Question 10

Do you agree with the Board's preliminary view that:

1. economic incentives that might influence the issuer's decision to exercise its rights should not be considered when classifying a financial instrument as a financial liability or an equity instrument?

2. the requirements in paragraph 20 of IAS 32 for indirect obligations should be retained?

Why, or why not?

Response question 10(a):

3. We agree with the DP's proposal to clarify that economic incentives that might influence the issuer's decision to exercise its rights should not be considered when classifying a financial instrument as a financial liability or equity instrument. This is because we consider that considering economic incentives for classification purposes may raise more questions than answers.

Response question 10(b):

4. We agree with retaining and improving the indirect obligations requirements in paragraph 20(b) of IAS 32 may alleviate some of the issues related to economic compulsion (to consider for example whether an entity is legally prohibited from exercising one of the settlement alternatives). Accordingly, we agree with retaining the requirements and suggests improvements to the current requirements.

Question 11

The Board's preliminary view is that an entity shall apply the Board's preferred approach to the contractual terms of a financial instrument consistently with the existing scope of IAS 32.

Do you agree? Why, or why not?

Response question 11:

1. We generally agree retaining the broad approach in paragraph 15 of IAS 32, which focuses on the substance of the contractual arrangement in a financial instrument. However, contractual rights and

obligations should be considered in the context of the law. The contractual rights and obligations are inseparable from the legal requirements, and the legal context should therefore be included.

Appendix 2

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Re: Draft Comment Letter on IASB Discussion Paper DP/ '*Financial Instruments with Characteristics of Equity'*

Dear members of the Technical Expert Group,

The Dutch Accounting Standard Board (DASB) appreciates the opportunity to respond to your draft comment letter to the IASB regarding the Discussion Paper *Financial Instruments with Characteristics of Equity*. We take this opportunity to respond to your requests relating to the questions posed to constituents within this letter and you can find the responses to these questions in the Appendix attached to this letter.

We agree with the contents within your draft comment letter to the IFRS foundation. We agree that an impact analysis is of utmost importance to fully comprehend the application and implementation of the new standard, in light of the capital structure of entities issuing financial instruments for financing. We would support the EFRAG taking a firmer stance or using stronger language in stating there is no support for the new FICE model.

Since the capital structure is one of the most important objects in financial analysis, having a clear and solid standard that sets the classification of financial instruments with characteristics of equity is important. The biggest challenge lies in defining these instruments as either liabilities and/or equity. Interpretation should be expanded on this and developed further. Fundamental changes in standards are only acceptable when they solve severe and widespread problems or provide a significant improvement over existing standards. We believe that the model as proposed in the discussion paper is a fundamental change of the current principles of IAS 32 and are not a narrow scope amendment. Furthermore, the DP does not address all issues with the current standard (for example the lack of guidance on reclassifying instruments from debt to equity). A fundamentally different approach as proposed has far-reaching and possibly unintended consequences. We do not observe widespread problems in current practice nor significant improvements that would justify such far reaching consequences.

Our general remark is that although current IFRS has shortcomings on the distinction between liabilities and equity, most companies have no problems applying current IAS 32. Most companies are familiar with the fundamentals of IAS 32, and are able to predict how new instruments would affect their balance sheet.

Due to the vast range of different types of capital in practice, and the complex and sometimes unclear description of the new concepts within the proposal such as ‘independent’ and ‘available economic resources’ in the standard, we think that by replacing a well understood standard (with its shortcomings), with a new complex standard will prove to be challenging.

The IASB Discussion Paper does not convince that the new presentation approach are both more simple to apply and renders more relevant information. Any new approach will lead to increased uncertainty and additional structuring possibilities. Therefore any new approach should be well supported in the market. In absence of this support we believe more disclosure requirements have to be considered to overcome the issues identified in the current standard. In addition to some detailed changes, we think that any fundamental change should only be made when the benefits significantly outweigh the costs. We support limited changes or additional guidance to the current standard on:

1. puts on non-controlling interests,
2. clarifying fixed for fixed,
3. treating derivatives over own equity net, and
4. increased disclosure requirements on elements of equity with respect to their priority on liquidation, potential dilution effects and details on contractual terms and conditions.

Therefore, we conclude that the shortcomings are better addressed by specific amendments to the current approach instead of introducing an entirely new approach.

Our detail comments on the questions to constituents within the draft comment letter to the EFRAG are set out in the appendix to this letter.

Yours sincerely,

Prof. dr. P.A.M. Sampers
Chairman DASB

Appendix 1: Detailed response to each question

Appendix 1

Question to Constituents

21 Are constituents aware of any other challenges with IAS 32 that have not been identified by EFRAG and the IASB?

Response to question

No, we are not aware of any other challenges within IAS 32 apart from those already identified.

Questions to Constituents

41 In paragraph 33 EFRAG agrees that information provided in the financial statements about claims on an entity should help users to assess the entity's liquidity and solvency. These information needs are also identified in the Conceptual Framework for Financial Reporting. The DP suggests providing information on both these factors by considering both 'timing' and 'amount' when distinguishing equity from a liability. EFRAG has considered whether it provides the most useful information to consider both these dimensions when distinguishing equity and liabilities. Do you think that information about both liquidity and solvency should be provided through the classifications of claims on an entity? If so, do you agree with using both the 'timing' and the 'amount' features when distinguishing equity from a financial liability from equity? If not, how should the distinction be made?

42 The IASB decided that, while the objective of the FICE project is to respond to challenges in distinguishing financial liabilities from equity instruments when applying IAS 32, any potential solution should limit unnecessary changes to classification outcomes that are already well understood. Considering the IASB's preferred approach described in the DP, do you expect significant classification changes? If so, please describe the type(s) and extent of instruments affected, the existing classification in accordance with IAS 32 and why the classification could or would changes in accordance with the IASB's preferred approach.

Response to question

Paragraph 41

We agree that the terms 'independent' and 'available economic resources'must be considered as a key feature. We agree that both solvency and liquidity provides crucial information regarding an entity and is of utmost importance and relevance for investors.

The amount feature does address another feature that is a key consideration in the classification, i.e. returns (or payoffs/risks & rewards of ownership). However, we believe the amount criteria should only focus on obligations arising during the life of the entity and not on those arising only at liquidation. We do not believe that settlement only upon liquidation requires liability classification, regardless of whether the amount is or is not independent of the entity's resources. This is because all of the issued instruments of the balance sheet are settled at liquidation, and information about relative rankings and amounts can be covered by presentation and/or disclosure.

We therefore suggest the articulation of the principles included within the discussion paper to classify 'available economic resources' and 'independent'.

Above approach would achieve consistency with IAS 32 for irredeemable cumulative preference shares. However, for this approach to be operational, we believe the word "obligation" needs to be defined in more detail.

Paragraph 42

Significant classification and presentation changes (impacted by the subsequent change in classification) for some financial instruments are expected. Some of these outcomes to the changes relating to classification and measurement compared to IAS 32 are summarised below:

1. Financial instruments with obligations for fixed cumulative returns, such as cumulative perpetual preference shares, would be classified as financial liabilities. However, when applying the existing rules within IAS 32, some of these obligations, for which an entity has an unconditional right to defer cash payment indefinitely, are classified as equity instruments.

2. On the contrary, to above, non-cumulative preference shares that pay discretionary dividends with an obligation to pay a fixed amount at liquidation would under the proposal be treated as a compound instrument where the liability component is the obligation to pay a fixed amount of cash at liquidation and the equity component reflects the discretionary dividends which differs from current practice.

Question to Constituents

73 What are the most common non-derivative financial instruments with characteristics of equity in your jurisdiction (e.g. perpetual bonds, reverse convertible bonds, callable shares with discretionary dividend, non-cumulative and cumulative preference shares, etc.)?

74 Do you consider that it is relevant to classify financial instruments that are only settled on liquidation (e.g. cumulative preference shares) as financial liabilities?

Response to question

Paragraph 73

Within the Dutch market the most common non-derivative financial instruments with characteristics of equity are perpetual bonds with discretionary coupons. Other instruments used are shareholder loans in many forms, callable shares with discretionary dividends and cumulative and non-cumulative preference shares. This list is not exhaustive.

Paragraph 74

No, we do not believe that settlement only upon liquidation requires liability classification, regardless of whether the amount is or is not independent of the entity's resources. This is due to the fact that all of the credit side of the balance sheet is settled at liquidation, and information about relative rankings and amounts can be covered by presentation and/or disclosure. We are of the opinion that the terms 'independent' and 'available economic resources' should focus on the life of the entity.

Questions to Constituents

86 To what extent is the 'puttable instruments' exception in paragraph 16A-B used in your jurisdiction?

87 To what extent is the 'obligations arising on liquidation' exception in paragraph 16C-16D used in your jurisdiction?

88 What are the application challenges that arise with these two exceptions?

Response to question

Within Dutch (European) market, entities currently do apply the requirements of IAS 32. ‘Puttable instruments’ are mainly issued within the Asset Management industry (eg investment funds) and instruments that relate to the exceptions in paragraph 16C-16D are non-redeemable cumulative preference shares within the Private Equity industry. The issuance of these type of instruments are common practice within the industry for structured deals.

However, if the Board decides to classify obligations arising only upon liquidation as equity, the exception for date-certain liquidations in 16C and 16D would no longer be needed as the life of the entity will be considered and not only the date of liquidation. Therefore, the application challenges relating to the terms ‘on liquidation’ or rather the timing will be avoided.

Questions to Constituents

112 Considering the arguments provided in paragraph 105 above, do you consider that accounting for all derivatives on own equity as derivatives assets or derivatives liabilities under the scope of IFRS 9 together with disclosures on the maturity of any redemption amount under IFRS 7 would be a simpler approach and still provide relevant information to users of financial statements?

Response to question

Yes, we agree that the individual legs of assets and equity exchanges are not separated but the resulting derivatives from these transactions are presented and disclosed on a net basis regardless of the settlement options. We agree that this will be a simpler approach and provide relevant information to investors.

Questions to Constituents

206 To what extent are contingent convertible bonds (CoCo’s) and written puts on NCI used by the entities in your jurisdiction?

207 What types of entities are using them the most?

Response to question

The issue of contingent convertible bonds is common practice within the Dutch (European) market and are the used especially within banks that do not have the sufficient levels of capital.

Written puts on NCI are common practice within corporate groups especially in relation to business combinations.

Question to Constituents

387 To what extent is the IFRIC 2 interpretation being used by the entities in your jurisdiction?

Response to question

Member cooperatives generally are declining within the Dutch (European) market. Interest within membership cooperatives have become a specialized and niche industry mainly focusing on food enterprises and other resources for entities to raise flexible funding.