

Wayne Upton  
Chairman  
IFRS Interpretations Committee  
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25 September 2013

Dear Mr Upton

**Tentative Agenda Decision - IAS 32 *Financial Instruments: Presentation*: Classification of a financial instrument that is mandatorily convertible into a variable number of shares (subject to a cap and a floor) but gives the issuer the option to settle by delivering the maximum (fixed) number of shares**

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the July IFRIC Update of the tentative decision not to take onto the Committee's agenda a request for clarification of the classification as equity or as a liability of a financial instrument that bears interest in cash, is mandatorily convertible into a variable number of shares (subject to a cap and floor) on a stated maturity date and gives the issuer an option to settle at any time before maturity for cash equal to all interest that would have been payable until maturity and the maximum number of shares that would have been delivered on maturity.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda and that the Committee's tentative conclusion that, subject to a judgement on whether the issuer's early settlement option is substantive, the instrument may be considered a 'non-derivative' that can be classified as equity is a valid application of IAS 32.

However, we note that an alternative view exists that was not considered by the Committee in developing the tentative agenda decision. Under this view, although the instrument as a whole is not a derivative, the right for the issuer to redeem the instrument is, and therefore it is subject to the 'fixed-for-fixed' criterion in paragraph 11(b)(ii). Applying this analysis to the instrument that the Committee considered results in a conclusion that this criterion is not met because the issuer has the option to deliver a *fixed* number of equity instruments to the holder in exchange for the issuer giving up its obligation to deliver a *variable* number of equity instruments. Under this view the instrument is not an equity instrument.

We believe the Committee should consider this alternative school of thought before finalising its decision.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0)20 7007 0884.

Yours sincerely

A handwritten signature in black ink, appearing to read 'V Poole', with a stylized flourish at the end.

Veronica Poole  
Global IFRS Leader