Grupo Latinoamericano
de Emisores de Normas
de Información Financiera

Group of Latin American
Accounting Standard Setters

Brasília, 27 March 2024

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London

RE: Exposure Draft IASB/ED/2023/5 – *Financial Instruments with Characteristics of Equity – Proposed amendments to IAS 32, IFRS 7 and IAS 1*

Dear Board Members

The "Group of Latin American Accounting Standard Setters"[1] – GLASS welcomes the opportunity to comment on Exposure Draft IASB/ED/2023/5 – *Financial Instruments with Characteristics of Equity – Proposed amendments to IAS 32, IFRS 7 and IAS 1* (the "ED").

Due process

The discussions regarding the ED were held within a specified Technical Working Group (TWG) created in December 2023. All country-members had the opportunity to appoint at least one member to participate in this TWG. Each standard setter represented in the TWG undertook different tasks in their respective countries (e.g. surveys, internal working groups). All results were summarized, and this summary was the platform for the TWG discussion process.

The TWG discussed the different points of view included in the summary during several conference calls. In those calls the TWG developed a final document on the basis of the agreed-upon responses and the technical points of view of its members. Finally, the TWG document was submitted to and approved by the GLASS Board.

Overall Comments

First of all, we would like to mention to the Board that this ED has had greater approval than the amendments proposed in the Discussion Paper *Financial Instruments with Characteristics of Equity* published in June 2018. In general, the results demonstrate that the proposed clarifications to classification requirements in IAS 32 and the disclosure of information about financial liabilities and equity instruments provide useful information to users.

In general, GLASS agrees with the proposed amendments to clarify the issues identified to improve their understanding. However, we have some concerns about some aspects, such as the effects of relevant laws or regulation and the classification of perpetual instruments for which, although no changes are proposed, the arguments presented in the Basis for Conclusions generate some uncertainties.

Specific comments

Attached please find our specific responses to the questions presented in the ED.

Contact

If you have any questions about our comments, please contact glenif@glenif.org.

Sincerely,

José Luiz Ribeiro de Carvalho
Chairman Group of Latin American Accounting Standard Setters (GLASS)

[1] The overall objective of the Group of Latin American Accounting Standard Setters (GLASS) is to present technical contributions with respect to all Exposure Drafts issued by the IASB. Therefore, GLASS aims to have a single regional voice before the IASB. GLASS is constituted by: Argentina (Board), Bolivia, Brazil (Chairman), Chile (Board), Colombia (Vice Chairman), Costa Rica (Board), Dominican Republic, Ecuador, Guatemala, Honduras, Mexico (Board), Panama, Paraguay, Peru (Board), Uruguay (Board) and Venezuela (Board).

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GLENIF Comment Letter on the Exposure Draft IASB/ED/2023/5 –
Financial Instruments with Characteristics of Equity
Propose amendments to IAS 32, IFRS 7 and IAS 1.

Question 1—The effects of relevant laws or regulations (paragraphs 15A and AG24A–AG24B of IAS 32)

The IASB proposes to clarify that:

(a) only contractual rights and obligations that are enforceable by laws or regulations and are in addition to those created by relevant laws or regulations are considered in classifying a financial instrument or its component parts (paragraph 15A); and

(b) a contractual right or obligation that is not solely created by laws or regulations, but is in addition to a right or obligation created by relevant laws or regulations shall be considered in its entirety in classifying the financial instrument or its component parts (paragraph AG24B).

Paragraphs BC12–BC30 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

GLASS agrees with the subparagraph (b) proposal; however, with regard to subparagraph (a) of the question, GLASS considered that, while there might be concerns about certain rights and obligations arising from laws and regulations when classifying a financial instrument or its components as a financial asset or liability or an equity instrument, the addition of paragraph 15A gave rise to different interpretations and concerns, such as:

a) Paragraph 15A subparagraph (a) establishes that when classifying a financial instrument, an entity shall consider ***only*** contractual rights and obligations that are enforceable by laws or regulations ***and*** are in addition to those created by relevant laws or regulations; in other words, if both requirements are not met, those contractual rights and obligations are not considered in the classification. We suggest clarifying if that was the intention.

b) For some, paragraph 15A subparagraph (b), by stating that an entity "shall not consider any right or obligation created by relevant laws or regulations that would arise regardless of whether the right or obligation is included in the contractual arrangement", may be interpreted as suggesting that a right or obligation created by relevant laws or regulations should not be considered under any circumstances. We suggest clarifying whether this interpretation is correct.

c) GLASS suggests clarifying whether the intention is to establish that rights and obligations provided for in laws or regulations are not considered in the financial instrument classification whether or not they are included in the contract, even if they are enforceable rights or obligations because they are established by law; for example, mandatory repayments or minimum dividend payments. If that is the intention, we do not agree, because we believe that rights and obligations set forth in laws or regulations may not necessarily be included in the contract, but they can influence the classification.

Considering the above, we suggest that the intention of paragraph 15A be clarified and, above all, that it be more precise in the way it is presented, because, as can be seen, different concerns have arisen due to the various interpretations of that paragraph.

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Question 2—Settlement in an entity's own equity instruments (paragraphs 16, 22, 22B–22D, AG27A and AG29B of IAS 32)

The IASB proposes to clarify when the fixed-for-fixed condition in paragraph 16(b)(ii) of IAS 32 is met by specifying that the amount of consideration to be exchanged for each of an entity's own equity instruments is required to be denominated in the entity's functional currency, and either:

(a) fixed (will not vary under any circumstances); or

(b) variable solely because of:

(i) preservation adjustments that require the entity to preserve the relative economic interests of future shareholders to an equal or lesser extent than those of current shareholders; and/or

(ii) passage-of-time adjustments that are predetermined, vary with the passage of time only, and have the effect of fixing on initial recognition the present value of the amount of consideration exchanged for each of the entity's own equity instruments (paragraphs 22B–22C).

The IASB also proposes to clarify that if a derivative gives one party a choice of settlement between two or more classes of an entity's own equity instruments, the entity considers whether the fixed-for-fixed condition is met for each class of its own equity instruments that may be delivered on settlement. Such a derivative is an equity instrument only if all the settlement alternatives meet the fixed-for-fixed condition (paragraph AG27A(b)).

The IASB further proposes to clarify that a contract that will or may be settled by the exchange of a fixed number of one class of an entity's own non-derivative equity instruments for a fixed number of another class of its own non-derivative equity instruments is an equity instrument (paragraph 22D).

Paragraphs BC31–BC61 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

In general, GLASS agrees with the requirements for defining when the fixed-for-fixed condition is met; however, the following comments were received:

Functional currency

The ED establishes that the amount of consideration must be denominated in the entity's functional currency, except as established in paragraph 16(b)(ii), referring to cases where derivative instruments are offered on a proportionate basis to existing shareholders, and the currency does not matter to be classified as an equity instrument:

a) According to BC42, if the amount of consideration is not denominated in the entity's functional currency, is not fixed because the amount of consideration will vary due to changes in the foreign currency exchange rate, thereby exposing the entity to foreign currency risk, excepting options or warrants which that are offered on a pro rata basis to existing shareholders (16(b)(ii)) in which case any currency es accepted. Further explanation is suggested for maintaining the exception, because BC43 does not explain its inclusion.

b) We suggest clarifying that, if the instrument is denominated in a foreign currency but the consideration is settled in the same functional currency at the exchange rate of the settlement date, although the

consideration is denominated in the same functional currency, it would be subject to exchange rate fluctuations and exchange rate risk and would therefore not meet the fixed-for-fixed condition. If this is correct, the clarification needs to be made to avoid differences in its interpretation.

c) We suggest clarifying that, if the contracts establish a fixed conversion exchange rate, the fixed-for-fixed condition is met.

It should be noted that in several Latin American countries it is common to issue financial instruments in a currency other than the functional currency; consequently, this requirement may result in few instruments being classified as equity on the date of initial application, and reclassifications of instruments would have to be made.

Instruments indexed to a variable such as inflation

In paragraph BC57, the IASB concludes that derivatives on its own equity for which the strike price is indexed to a variable such as inflation are not considered a time adjustment or preservation adjustment and, therefore, the fixed-for-fixed condition is not met.

In this regard, we suggest reconsidering the above-mentioned conclusion, because we believe this could be a preservation adjustment, taking into account that IFRS 9 provides an analysis of Instrument A in paragraph B4.1.13 and explains that linking payments of principal and interest on the principal amount outstanding to an unleveraged inflation index resets the time value of money to a current level.

Additionally, as a complement to the previous suggestion, in the analysis GLASS recommends considering the approach of the financial statements of an entity whose functional currency is that of a hyperinflationary economy and are prepared under IAS 29, *Financial Reporting in Hyperinflationary Economies*, where its financial information is expressed in constant currency at the end of the period or year being presented. In this case, equity instruments must be restated for inflation. The application or non-application of IAS 29 should not lead to a different accounting treatment, which reinforces the reconsideration suggested in the previous paragraph.

Question 3—Obligations to purchase an entity's own equity instruments (paragraphs 23 and AG27B–AG27D of IAS 32)

The IASB proposes to clarify that:

(a) the requirements in IAS 32 for contracts containing an obligation for an entity to purchase its own equity instruments also apply to contracts that will be settled by delivering a variable number of another class of the entity's own equity instruments (paragraph 23).

(b) on initial recognition of the obligation to redeem an entity's own equity instruments, if the entity does not yet have access to the rights and returns associated with ownership of the equity instruments to which the obligation relates, those equity instruments would continue to be recognised. The initial amount of the financial liability would, therefore, be removed from a component of equity other than non-controlling interests or issued share capital (paragraph AG27B).

(c) an entity is required to use the same approach for initial and subsequent measurement of the financial liability—measure the liability at the present value of the redemption amount and ignore the probability and estimated timing of the counterparty exercising that redemption right (paragraph 23).

(d) any gains or losses on remeasurement of the financial liability are recognised in profit or loss (paragraph 23).

Question 3—Obligations to purchase an entity’s own equity instruments (paragraphs 23 and AG27B–AG27D of IAS 32)
(e) if a contract containing an obligation for an entity to purchase its own equity instruments expires without delivery: (i) the carrying amount of the financial liability would be removed from financial liabilities and included in the same component of equity as that from which it was removed on initial recognition of the financial liability. (ii) any gains or losses previously recognised from remeasuring the financial liability would not be reversed in profit or loss. However, the entity may transfer the cumulative amount of those gains or losses from retained earnings to another component of equity (paragraph AG27C). (f) written put options and forward purchase contracts on an entity’s own equity instruments that are gross physically settled—consideration is exchanged for own equity instruments—are required to be presented on a gross basis (paragraph AG27D). Paragraphs BC62–BC93 of the Basis for Conclusions explain the IASB’s rationale for these proposals. Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

GLASS agrees with the proposals made.

Question 4—Contingent settlement provisions (paragraphs 11, 25, 25A, 31, 32A, AG28 and AG37 of IAS 32)
The IASB proposes to clarify that: (a) some financial instruments with contingent settlement provisions are compound financial instruments with liability and equity components (paragraphs 25 and 32A); (b) the initial and subsequent measurement of the financial liability (or liability component of a compound financial instrument) arising from a contingent settlement provision would not take into account the probability and estimated timing of occurrence or non-occurrence of the contingent event (paragraph 25A); (c) payments at the issuer’s discretion are recognised in equity even if the equity component of a compound financial instrument has an initial carrying amount of zero (paragraphs 32A and AG37); (d) the term ‘liquidation’ refers to the process that begins after an entity has permanently ceased its operations (paragraph 11); and (e) the assessment of whether a contractual term is ‘not genuine’ in accordance with paragraph 25(a) of IAS 32 requires judgement based on the specific facts and circumstances and is not based solely on the probability or likelihood of the contingent event occurring (paragraph AG28). Paragraphs BC94–BC115 of the Basis for Conclusions explain the IASB’s rationale for these proposals.

Question 4—Contingent settlement provisions (paragraphs 11, 25, 25A, 31, 32A, AG28 and AG37 of IAS 32)

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why

GLENIF agrees with the clarifications in subparagraphs (a) to (c) of this question. With regard to subparagraphs (d) and (e), the following is suggested:

Term "liquidation"

(a) We understand that the permanent cessation of operations is a point of no return, and if so, we agree; However, the cessation of operations is sometimes not sufficient because there may be an incomplete or reversible liquidation.

In this regard, it is suggested to specify elements to consider the closure as imminent or permanent, such as, that it has been authorized in a shareholder meeting, in such a way that there is no possibility that it is reversible, or it results from a court order or the entity has reached the end of the term for which it was created.

(b) The term liquidation is used in paragraph 25(b) to consider an instrument with contingent settlement provisions as an equity instrument when it is required for payment only in the event of liquidation of the issuer.

In relation to the above, some members were uncertain as to what was meant by "issuer"; whether this includes the parent company and the subsidiaries (which are eventually liquidated) or not, because this has sometimes influenced its classification as a liability or equity instrument.

Genuine clause

Paragraph AG28 introduces new guidance on how to assess whether a liquidation provision is *genuine*, considering the specific facts and circumstances and is not based solely on the likelihood of the contingent event occurring. GLASS agrees; nevertheless, we suggest making more emphasis regarding the analysis of the nature of the event, for example, "assessing whether a contingent settlement provision is not genuine requires judgement about the nature of the contingent event, based on the specific facts and circumstances", and some members suggest adding an analysis as to whether it has a substantive commercial purpose.

Question 5—Shareholder discretion (paragraphs AG28A–AG28C of IAS 32)

The IASB proposes:

(a) to clarify that whether an entity has an unconditional right to avoid delivering cash or another financial asset (or otherwise to settle a financial instrument in such a way that it would be a financial liability) depends on the facts and circumstances in which shareholder discretion arises. Judgement is required to assess whether shareholder decisions are treated as entity decisions (paragraph AG28A).

(b) to describe the factors an entity is required to consider in making that assessment, namely whether:

Question 5—Shareholder discretion (paragraphs AG28A–AG28C of IAS 32)

(i) a shareholder decision would be routine in nature—made in the ordinary course of the entity's business activities;

(ii) a shareholder decision relates to an action that would be proposed or a transaction that would be initiated by the entity's management;

(iii) different classes of shareholders would benefit differently from a shareholder decision; and

(iv) the exercise of a shareholder decision-making right would enable a shareholder to require the entity to redeem (or pay a return on) its shares in cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability) (paragraph AG28A(a)–(d)).

(c) to provide guidance on applying those factors (paragraph AG28B).

Paragraphs BC116–BC125 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

GLASS agrees with the proposals made.

Question 6—Reclassification of financial liabilities and equity instruments (paragraphs 32B–32D and AG35A of IAS 32)

The IASB proposes:

(a) to add a general requirement that prohibits the reclassification of a financial instrument after initial recognition, unless paragraph 16E of IAS 32 applies or the substance of the contractual arrangement changes because of a change in circumstances external to the contractual arrangement (paragraphs 32B–32C).

(b) to specify that if the substance of the contractual arrangement changes because of a change in circumstances external to the contractual arrangement, an entity would:

(i) reclassify the instrument prospectively from the date when that change in circumstances occurred.

(ii) measure a financial liability reclassified from equity at the fair value of that financial liability at the date of reclassification. Any difference between the carrying amount of the equity instrument and the fair value of the financial liability at the date of reclassification would be recognised in equity.

(iii) measure an equity instrument reclassified from a financial liability at the carrying amount of the financial liability at the date of reclassification. No gain or loss would be recognised on reclassification (paragraph 32D).

(c) provide examples of changes in circumstances external to the contractual arrangement requiring reclassification (paragraph AG35A).

Paragraphs BC126–BC164 of the Basis for Conclusions explain the IASB's rationale for these proposals.

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Question 6—Reclassification of financial liabilities and equity instruments (paragraphs 32B–32D and AG35A of IAS 32)
Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why. Would the proposal to reclassify the instrument prospectively from the date when a change in circumstances occurred give rise to any practical difficulties? If so, please describe those practical difficulties and the circumstances in which they would arise.

GLASS agrees with the proposals made.

Regarding whether the proposal to reclassify the instrument prospectively from the date when a change in circumstances occurred give rise to any practical difficulties, we did not receive any feedback.

Question 7—Disclosure (paragraphs 1, 3, 12E, 17A, 20, 30A–30J and B5A–B5L of IFRS 7)
The IASB proposes: (a) to expand the objective of IFRS 7 to enable users of financial statements to understand how an entity is financed and what its ownership structure is, including potential dilution to the ownership structure from financial instruments issued at the reporting date (paragraph 1). (b) to delete the reference to derivatives that meet the definition of an equity instrument in IAS 32 from paragraph 3(a) of IFRS 7. (c) to move paragraphs 80A and 136A from IAS 1 to IFRS 7. These paragraphs set out requirements for disclosures relating to financial instruments classified as equity in accordance with paragraphs 16A–16B and/or paragraphs 16C–16D of IAS 32 (paragraphs 12E and 30I). The IASB also proposes to expand paragraph 80A to cover reclassifications if there are changes in the substance of the contractual arrangement from a change in circumstances external to the contractual arrangement. (d) to amend paragraph 20(a)(i) of IFRS 7 to require an entity to disclose gains or losses on financial liabilities containing contractual obligations to pay amounts based on the entity's performance or changes in its net assets, separately from gains or losses on other financial liabilities in each reporting period. (e) to include disclosure requirements for compound financial instruments in IFRS 7 (paragraph 17A). The IASB proposes to require an entity to disclose information about: (a) the nature and priority of claims against the entity on liquidation arising from financial liabilities and equity instruments (paragraphs 30A–30B); (b) the terms and conditions of financial instruments with both financial liability and equity characteristics (paragraphs 30C–30E and B5B–B5H); (c) terms and conditions that become, or stop being, effective with the passage of time (paragraph 30F); (d) the potential dilution of ordinary shares (paragraphs 30G–30H and B5I–B5L); and (e) instruments that include obligations to purchase the entity's own equity instruments (paragraph 30J).

Question 7—Disclosure (paragraphs 1, 3, 12E, 17A, 20, 30A–30J and B5A–B5L of IFRS 7)
Paragraphs BC170–BC245 of the Basis for Conclusions explain the IASB's rationale for these proposals. Do you agree with the proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why

GLASS agrees with the proposals made.

Question 8—Presentation of amounts attributable to ordinary shareholders (paragraphs 54, 81B and 107–108 of IAS 1)
The IASB proposes to amend IAS 1 to require an entity to provide additional information about amounts attributable to ordinary shareholders. The proposed amendments are that: (a) the statement of financial position shows issued share capital and reserves attributable to ordinary shareholders of the parent separately from issued share capital and reserves attributable to other owners of the parent (paragraph 54); (b) the statement of comprehensive income shows an allocation of profit or loss and other comprehensive income attributable to owners of the parent between ordinary shareholders and other owners of the parent (paragraph 81B); (c) the components of equity reconciled in the statement of changes in equity include each class of ordinary share capital and each class of other contributed equity (paragraph 108); and (d) dividend amounts relating to ordinary shareholders are presented separately from amounts relating to other owners of the entity (paragraph 107). Paragraphs BC246–BC256 of the Basis for Conclusions explain the IASB's rationale for these proposals. Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why. Would the proposed requirement to allocate issued share capital and reserves between ordinary shareholders and other owners of the parent give rise to any practical difficulties in determining the required amounts? If so, please describe the possible difficulties and specify areas in which further guidance would be helpful.

GLASS disagrees with the proposals for separate presentation of amounts attributable to ordinary shareholders in the basic financial statements, because we do not believe the usefulness that could be generated by such separation would justify the cost of making the modifications to the financial statements. In addition, we believe that such a presentation would not preclude presentation in the notes to explain the items affected, and we believe it would be sufficient to make the requirement through a specific note to the financial statements.

In addition, for some members there are elements that are not clear and could be generate different presentation, such as: (i) whether we use the definition of ordinary shares in IAS 33; and (ii) if the methodology and techniques vary according to the instrument, it could lead to divergence in practice and practical difficulties in separation.

Question 9—Transition (paragraphs 97U–97Z of IAS 32)

The IASB proposes to require an entity to apply the proposed amendments retrospectively with the restatement of comparative information (a fully retrospective approach). However, to minimise costs, the IASB proposes not to require the restatement of information for more than one comparative period, even if the entity chooses or is required to present more than one comparative period in its financial statements.

For an entity already applying IFRS Accounting Standards, the IASB proposes:

(a) to require the entity to treat the fair value at the transition date as the amortised cost of the financial liability at that date if it is impracticable (as defined in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors) for the entity to apply the effective interest method in IFRS 9 Financial Instruments retrospectively (paragraph 97X);

(b) not to require the entity to separate the liability and equity components if the liability component of a compound financial instrument with a contingent settlement provision was no longer outstanding at the date of initial application (paragraph 97W);

(c) to require the entity to disclose, in the reporting period that includes the date of initial application of the amendments, the nature and amount of any changes in classification resulting from initial application of the amendments (paragraph 97Z);

(d) to provide transition relief from the quantitative disclosures in paragraph 28(f) of IAS 8 (paragraph 97Y); and

(e) no specific transition requirements in relation to IAS 34 Interim Financial Reporting for interim financial statements issued within the annual period in which the entity first applies the amendments.

For first-time adopters, the IASB proposes to provide no additional transition requirements. Paragraphs BC262–BC270 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Would the proposal to apply the proposed amendments retrospectively give rise to any other cases in which hindsight would be necessary? If so, please describe those cases and the circumstances in which the need for hindsight would arise.

In general, GLASS agrees with transition requirements; however, we have the following recommendations:

Retrospective application

Paragraph 97U indicates that an entity shall apply these amendments retrospectively in accordance with IAS 8 for annual periods beginning on or after [date to be determined], except as specified in paragraphs 97V and 97Z.

We suggest clarifying whether the entity will apply these modifications retrospectively only to:

a) instruments existing on the transition date, i.e. at the beginning of the comparative year, and therefore there is no need to adjust instruments that the institution has already cancelled before that date, or

b) instruments existing on the initial application date, i.e. at the beginning of the first year of adoption of the amendments, so if it had been cancelled before that date or if it had been issued and cancelled in the comparative year, will not require retroactive adjustment, as in the transition requirements of other recently issued standards.

Question 10—Disclosure requirements for eligible subsidiaries (paragraphs 54, 61A–61E and 124 of [IFRS XX])
The IASB proposes amendments to the draft Accounting Standard [IFRS XX Subsidiaries without Public Accountability: Disclosures], which will be issued before the proposals in the Exposure Draft are finalised. [IFRS XX] will permit eligible subsidiaries to apply the recognition, measurement and presentation requirements in IFRS Accounting Standards with reduced disclosures. The IASB's proposals select appropriate disclosure requirements from those proposed for IFRS 7, based on the IASB's agreed principles for reducing disclosures. Paragraphs BC257–BC261 explain the IASB's rationale for the selected disclosures. Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why, taking into consideration the reduced disclosure principles described in BC258.

GLASS agrees with amendments to the draft Accounting Standard, [IFRS XX *Subsidiaries without Public Accountability: Disclosures.*

ADDITIONAL COMMENTS REGARDING PERPETUAL INSTRUMENTS

In addition to the ED questions, we suggest clarifying the classification of perpetual instruments, because we have observed that the classification provided in IAS 32 and IFRS 7 has generated uncertainties:

a) Paragraph AG6 of IAS 32 states that a perpetual debt instrument (such as a perpetual bond, debenture or capital note) is a financial liability for the issuer; however, in BC165 of the proposed amendments to IAS 32, it is mentioned that in accordance with IAS 32, entities classify these instruments as equity instruments and the conclusion is that the proposal is to maintain this classification.

b) Appendix B to IFRS 7, paragraph B5D(b) mentions a perpetual instrument as an example of an equity instrument with debt-like characteristics.

We understand that, according to a perpetual instrument's characteristics, it could be either of the aforementioned classifications, but it is not clear for some. We suggest clarifying the classification requirements and amending paragraph AG6 to mention that perpetual instruments could also be classified as equity instrument or as a compound instrument, depending on their characteristics; additionally, we recommend including another example in the Application Guidance where it is classified as an equity or as compound financial instrument.

The mentioned above, is due to the fact that it is an instrument regularly issued by banks for its benefits in terms of its minimum capital requirements, and doubts have arisen about its classification for accounting purposes.

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