Straight away

An amendment to IAS 32: Classification of rights issues

What is the issue?

On 8 October 2009, the IASB issued an amendment that allows rights issues to be classified as equity when the price is denominated in a currency other than the entity's functional currency. A rights issue is used as a means of capital-raising whereby an entity issues a right, option or warrant on a pro rata basis to all existing shareholders of a class of equity to acquire a fixed number of additional shares at a fixed strike price (usually less than the market value of the shares on that date). The strike price of the right is denominated in currencies other than the issuer's functional currency when the entity is listed in more than one jurisdiction and is required to do so by law or regulation. Unfortunately, a fixed strike price in a non-functional currency would normally fail the 'fixed for fixed' requirement in IAS 32 to be treated as an equity instrument. However, the amendment has created an exception to the 'fixed for fixed' requirement whereby such rights issues are now classified as equity.

Which entities are impacted by the amendment?

All entities that engage in rights issues with their shareholders that are denominated in a currency other than the entity's functional currency.

What is the overarching change?

Rights issues are now required to be classified as equity if they are issued for a fixed amount of cash regardless of the currency in which the exercise price is denominated, provided they are offered on a pro rata basis to all owners of the same class of equity.

What are some of the specific impacts of the amendment?

- Entities will no longer classify rights issues, for which the exercise price is denominated in a foreign currency, as derivative liabilities with fair value changes being recorded in profit or loss. Rather, entities will be able to classify these rights in equity with no re-measurement. The accounting is therefore less complex, and there is less volatility in profit or loss.

- The scope of the amendment is narrow and does not extend to foreign-currency-denominated convertible bonds. For these instruments, the embedded option to acquire the issuer's equity will continue to be accounted for as a derivative liability with fair value changes recorded in profit or loss.

When does the amendment apply?

The amendment is effective for annual periods beginning on or after 1 February 2010 and should be applied retrospectively. Early adoption is permitted.

Want more information?

Talk to your regular PwC contact about the impact on your company.

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