

03 April 2024

International Accounting Standards Board  
Columbus Building  
7 Westferry Circus  
Canary Wharf  
London E14 4HD  
United Kingdom

Dear Sir,

**COMMENTS ON THE INTERNATIONAL ACCOUNTING STANDARDS BOARD'S EXPOSURE DRAFT ED/2023/5**

We would like to take this opportunity to comment on Exposure Draft (ED) ED/2023/5 *Financial Instruments with Characteristics of Equity (Proposed Amendments to IAS 32, IFRS 7 and IAS 1)* issued by the International Accounting Standards Board (IASB).

2. We welcome IASB's proposed amendments to classification requirements in IAS 32 as they add clarity to the existing requirements. We agree that the amendments reduce diversity in practice regarding classification, thereby improving comparability and understandability of financial statements.

3. However, we are of the view that only considering those contractual rights and obligations that are enforceable by law and not considering any rights or obligations created by relevant laws or regulations could lead to differences in classification of instruments with similar economic substance.

4. Taking the example in the *Basis of Conclusions* of ordinary shares with statutory minimum dividends of 10% and the contractual term requiring the entity to pay dividends equalling at least 15% of an entity's profit each year. In this case, the entity would consider its obligation to

pay dividends equalling at least 15% of its profit in its entirety. Paragraph 15A(b) of the proposed Amendments seems to imply that without the contractual term of 15%, the statutory obligation to pay dividends of 10% would not be recognised as a financial liability. We seek the IASB's clarification if this interpretation of the proposed Amendments is correct, and if so, whether this would undermine the principle of substance over form.

5. We noted that the IASB are aware of the inconsistency between different standards. As explained in the *Basis of Conclusions*, the *Conceptual Framework* and IFRS standards such as IFRS 15 *Revenue from Contracts with Customers* and IFRS 17 *Insurance Contracts* require an entity to consider contractual terms as well as rights and obligations imposed by laws and regulations, whether explicit or implicit. This appears inconsistent with IFRS standards relating to financial instruments such as IFRS 9 *Financial Instruments* in which only contractual cash flows are considered when classifying financial assets. IASB decided to not include all laws and regulations as it would go beyond clarifying the classification requirements in IAS 32, resulting in a fundamental change to the classification requirements and blurring the line between financial liabilities and other type of liabilities.

6. While the proposed addition of Paragraph 15A(b) to IAS 32 in the Exposure Draft states 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, it provides no guidance on how to account for such statutory obligations.

7. We observe that in practice, an entity would apply IAS 32 to account for contractual obligations, including statutory obligations that are included in the terms of the instrument, and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to account for any statutory obligations that are not included in the terms of the instruments. Hence, statutory

obligations that are not income taxes within the scope of IAS 12 *Income Taxes* are generally being considered and accounted for in practice under IAS 37. IASB could consider providing guidance to clarify if and how an entity should account for statutory obligations.

8. We hope that our comments will contribute to the IASB's further deliberation on this ED. Should you require any clarifications, please contact the Secretariat, Advisory Committee on Accounting Standards for Statutory Boards. Thank you.

Yours sincerely

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SECRETARIAT  
ADVISORY COMMITTEE ON ACCOUNTING STANDARDS FOR  
STATUTORY BOARDS  
for ACCOUNTANT-GENERAL