



The header features the EFRAG logo (European Financial Reporting Advisory Group) on the left. To its right is a navigation menu with links for 'About Us', 'Projects', 'Meetings', 'PAAinE', and 'Enc'. Below the navigation menu is an RSS-Feed icon and a 'Restricted Area' login field with 'login:' and 'password:' labels and input boxes.

## 28-1-2008 | European Discussion Paper on Equity and Liabilities

*EFRAG has today published a Discussion Paper “Distinguishing between Liabilities and Equity” on behalf of the Pro-active Accounting Activities in Europe (PAAinE). The paper was developed by the German standard-setter.*



Financing and investing are two core aspects of economic activity of an entity. Companies raise capital and invest the funds received. As the types of investments differ, so does the capital.

Accountants have become accustomed to having just one dividing line within the credits of a balance sheet, referring to one class of capital as 'equity' and calling the other 'debt' or 'liabilities.' The consequences of this split reach far beyond labelling and affect measurement, classification of the servicing costs and consolidation techniques. But what are the factors that drive classification of capital as equity or debt?

In November 2007, FASB published a Preliminary Views document “Financial Instruments with Characteristics of Equity”. That paper discusses three possible approaches to distinguishing between liabilities and equity. The IASB will issue that document as an IASB discussion paper in the first quarter of 2008. The IASB paper will amongst other things compare and contrast the three ‘FASB approaches’ with a fourth approach: the existing IFRS approach, which is set out in IAS 32 *Financial Instruments: Presentation*.

The PAAinE paper, which was developed by the German Standard-Setter, presents a fifth possible approach: the so-called loss absorption approach. The paper has been prepared to stimulate and contribute to the ongoing debate on the subject. It has been issued jointly by EFRAG and the standard-setters of Denmark, France, Germany, Italy, and the UK.

The comment period for the PAAinE Discussion Paper is six months and ends on 28 July 2008. Printed copies will be available in a limited number upon request.

PAAinE is an initiative of EFRAG and the European National Standard Setters, who have agreed to pool some of their resources and work together more closely so that Europe as a whole can participate more effectively in the global accounting debate. The objective of the initiative is to stimulate debate on important items on the IASB agenda at an early stage in the standard-setting process before the IASB formally issues its proposals. The initiative has the joint ambitions of representing a European point of view and exercising greater influence on the standard-setting process.

Document : [PAAinE\\_DP Equity-Liabilities.pdf](#)

Linked Project : [click here](#)

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