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INSIGHTS

ACCOUNTING & TECHNOLOGY

IAS 32 and IFRS 7: financial instruments in Cambodia

How CIFRS IAS 32 and IFRS 7 classify debt vs equity, account for convertible notes and shareholder loans, apply offsetting, and disclose credit, liquidity and market risk — with the Cambodian financing and withholding-tax angle.



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HOW SHOULD A CAMBODIAN COMPANY PRESENT AND DISCLOSE ITS LOANS, CONVERTIBLE NOTES AND SHAREHOLDER ADVANCES UNDER IAS 32 AND IFRS 7?

IAS 32 classifies a financial instrument as a financial liability or equity according to its contractual substance: an obligation to deliver cash or another financial asset is a liability, while a residual interest with no such obligation is equity. A convertible note with a fixed number of shares is normally split into a liability component and an equity conversion component at issuance, with transaction costs allocated and the liability accreted to its redemption amount. IFRS 7 requires disclosure of the significance of financial instruments, the nature and extent of credit, liquidity and market risk, collateral, covenant breaches and offsetting. CIFRS for SMEs Section 11 covers financial instruments with a simpler measurement and disclosure model; confirm the edition.

IN SHORT

- The liability/equity classification follows the contractual obligation, not the label: a 'loan' can be equity, and a 'preference share' can be a liability.
- A fixed-for-fixed convertible note is split into a liability and an equity component; a variable-share conversion is usually a liability or derivative.
- Offsetting requires a legally enforceable right and the intention to settle net or simultaneously; netting a bank loan against cash is not permitted just because both are with the same bank.
- IFRS 7 requires credit, liquidity and market risk disclosures, including maturity analysis, collateral and covenant breaches.
- In Cambodia, shareholder loans, convertible notes and bank covenants also raise withholding tax, MOC and related-party questions that the accounting classification does not settle.

Debt versus equity: the contractual substance

IAS 32 classifies a financial instrument as a financial liability, a financial asset or an equity instrument according to its contractual terms. A financial liability is a contractual obligation to deliver cash or another financial asset, to exchange financial assets or liabilities on potentially unfavourable terms, or a contract that will or may be settled in the entity's own equity instruments in a way that is not a fixed-for-fixed exchange. An equity instrument is a contract that evidences a residual interest in the assets of the entity after deducting all liabilities.

The label is not decisive. A shareholder loan with a fixed repayment date and interest is a liability, even if the shareholder is also an owner. A preference share with a mandatory redemption or a fixed dividend may be a liability. A puttable instrument may be classified as equity only if the specific IAS 32 conditions are met. The analysis should be done at inception and revisited when the terms change.

A contract that requires the entity to deliver a fixed number of its own shares for a fixed amount of cash is an equity instrument. A contract with a variable number of shares, a variable amount of cash or a net-share settlement may be a financial liability or a derivative. This fixed-for-fixed test is central to convertible notes and SAFEs.

LIABILITY OR EQUITY: THE QUESTIONS TO ASK

Feature	Liability	Equity
Cash settlement	Mandatory cash payment	No obligation to deliver cash
Redemption	Mandatory or investor-controlled redemption	Residual interest
Dividend	Fixed or mandatory return	Discretionary dividend
Conversion	Variable number of shares or variable cash	Fixed number of shares for fixed cash
Priority	Ranking ahead of shareholders	Ranking after liabilities

Convertible notes and compound instruments

A convertible note with a fixed number of shares is a compound financial instrument. IAS 32 requires the entity to split it into a liability component and an equity component at issuance. The liability is measured first at the fair value of a similar liability without the conversion feature; the equity component is the residual of the proceeds after the liability, and the transaction costs are allocated to both components.

The liability component is subsequently measured at amortised cost using the effective interest method, so the interest expense includes the accretion of the discount. When the note converts, the liability is extinguished and the equity component is transferred to share capital and share premium; no gain or loss is recognised on the conversion of the equity component. When the note is settled in cash or is extinguished before conversion, the difference between the carrying amount and the consideration is recognised in profit or loss.

A variable-share conversion, a conversion price that resets with a future financing, or a conversion into a variable amount of cash often fails the fixed-for-fixed test. The conversion feature is then a financial liability or a derivative measured at fair value through profit or loss. A SAFE with a variable conversion price should be analysed on its terms, not assumed to be equity because it is called a SAFE.

A convertible note is not one instrument for accounting

Split the liability and equity components at issuance, allocate the transaction costs and accrete the liability. The conversion is not a gain or loss for the equity component; the cash settlement is.

Offsetting and presentation

IAS 32 permits offsetting a financial asset and a financial liability only when the entity has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. A legal right of set-off in a bankruptcy or a master netting agreement may not be enough if the entity does not intend to settle net in the normal course.

A bank loan and a cash balance with the same bank are not offset merely because the bank could set them off on default. A related-party receivable and payable are not offset merely because the same shareholder owes both. The presentation should show the gross asset and the gross liability unless the IAS 32 conditions are met.

The offsetting disclosure under IFRS 7 is separate from the presentation: the entity discloses the financial assets and liabilities that are subject to enforceable master netting arrangements or similar agreements, even if they are not offset in the statement of financial position.

IFRS 7: what the notes must explain

IFRS 7 requires disclosure of the significance of financial instruments for the entity's financial position and performance, and the nature and extent of the risks arising from financial instruments. The disclosures cover the categories of financial assets and liabilities, their carrying amounts and fair values, the credit risk, the liquidity risk and the market risk, including sensitivity analysis.

The liquidity risk disclosure includes a maturity analysis for financial liabilities, showing the remaining contractual maturities. The credit risk disclosure includes the maximum exposure, the collateral held, the age of past-due amounts and the concentration of risk. A covenant breach or a default on a loan is disclosed, together with the carrying amount and the terms. A company that omits a covenant breach because the bank has not called the loan is not meeting IFRS 7.

The market risk disclosure includes a sensitivity analysis for each type of market risk, showing how profit or loss and equity would be affected by a reasonably possible change in the relevant risk variable. The method and the assumptions should be disclosed. A generic statement that the company is exposed to interest-rate risk, without a sensitivity, is not enough.

CIFRS for SMEs Section 11

CIFRS for SMEs Section 11 Financial Instruments covers the recognition, measurement and disclosure of financial instruments with a simpler model than full IFRS 9 and IFRS 7. The 2025 edition removes the option to apply IAS 39 and updates the disclosure requirements, including the age of financial assets and the maturity analysis of financial liabilities.

The National Accounting Council's adoption determines the edition in Cambodia. Confirm the edition with the auditor before relying on a paragraph number, and apply the classification, measurement and disclosure consistently. The SME standard is simpler, but the debt/equity distinction and the offsetting principle remain.

Cambodian financing and tax

Cambodian companies commonly use shareholder loans, bank loans with covenants, convertible notes and SAFEs. The accounting classification determines the presentation and the interest expense, but the tax treatment is separate. Interest paid to a resident or non-resident lender, dividends and conversion payments can raise withholding tax and treaty questions; the rates and the treaty position should be confirmed with the GDT and the lender.

A conversion of a note into shares also requires the MOC share issuance, the share register update and the shareholder approvals. The conversion price, the number of shares and the foreign-ownership position should be checked before completion. A foreign lender may also need to consider the foreign loan registration or reporting position; confirm the current requirements.

The auditor will test the classification, the split, the effective interest rate, the covenant compliance and the disclosures. Under CISA, ISA 540 applies to the fair value of the conversion feature, ISA 550 applies to related-party loans, and the going-concern assessment considers the loan covenants and the maturity profile.

- Loan agreements, conversion terms and shareholder resolutions.
- The liability/equity split and the effective interest calculation.

- Covenant compliance and any waiver or breach.
- Withholding tax, treaty position and MOC share issuance.
- IFRS 7 maturity, credit and market risk disclosures.

Key facts

How this article is checked

Figures were verified against the sources listed below in November 2026 and are re-checked each January or when the rule changes. Written by Liv Bonito, Co-founder & Managing Director. General information, not advice on your situation: for that, talk to a partner.

QUESTIONS

Questions people ask

Is a shareholder loan always a financial liability?

Usually yes, if it contains an obligation to repay cash or another financial asset. It can be equity only in limited circumstances where the terms give it the substance of a residual interest and the IAS 32 conditions are met. The label 'loan' is not decisive.

How is a convertible note split under IAS 32?

The liability component is measured first at the fair value of a similar liability without the conversion feature. The equity component is the residual of the proceeds after the liability, and the transaction costs are allocated to both. The liability is then measured at amortised cost using the effective interest method.

Can a company offset a bank loan against its cash at the same bank?

Only if it has a legally enforceable right to set off and intends to settle net or simultaneously. A right of set-off on default is not enough. The gross asset and liability are presented unless the IAS 32 conditions are met.

What must be disclosed if a loan covenant is breached?

IFRS 7 requires disclosure of the breach, the carrying amount of the loan, the terms and whether the breach was waived or the loan was renegotiated. The loan may also need to be classified as current under IAS 1 if the lender can demand repayment.

SOURCES

Where the rules come from

01 IAS 32 Financial Instruments: Presentation (https://www.ifrs.org/issued-standards/list-of-standards/ias-32-financial-instruments-presentation/) — IFRS Foundation

02 IFRS 7 Financial Instruments: Disclosures (https://www.ifrs.org/issued-standards/list-of-standards/ifrs-7-financial-instruments-disclosures/) — IFRS Foundation

03 IFRS for SMEs Accounting Standard, Section 11 Financial Instruments (https://www.ifrs.org/issued-standards/ifrs-for-smes/) — IFRS Foundation

04 IFRS 9 Financial Instruments (https://www.ifrs.org/issued-standards/list-of-standards/ifrs-9-financial-instruments/) — IFRS Foundation

05 Law on Taxation (Royal Kram NS/RKM/0523/004, 16 May 2023): withholding on interest and dividends (https://www.tax.gov.kh) — Kingdom of Cambodia / General Department of Taxation