IMF Committee on Balance of Payments Statistics

BPM6/2008 SNA Update

Joint Financial and Payments Systems Task Team (FITT)

Inter-secretariat Working Group on National Accounts

FOR PUBLIC CONSULTATION

F.16 Subscription Rights

F.6 Subscription Rights[1]

The sixth edition of the Balance of Payments and International Investment Position Manual *(*BPM6*) and the* System of National Accounts 2008 *(*2008 SNA*) remain silent on the classification of stock subscription rights. At the same time, contradictory guidance on the subject exists between the* "Handbook on National Accounting: Financial Production, Flows and Stocks in the System of National Accounts"*, which prescribes a classification of the rights under financial derivatives, and the* "Handbook on Securities Statistics"*, which on the contrary requires a classification as equity. This Guidance Note looks into the two alternatives and recommends that the updated manuals explicitly require the classification of subscriptions rights as equity.*

SECTION I: THE ISSUE

BACKGROUND

1. **Subscription rights (SRs) are the rights corporate shareholders have to participate in the acquisition of shares newly issued by the corporation in order to raise additional funds.** SRs are designed to offset any potential dilution effect in the value of the stake of current shareholders resulting from the terms of issuance: by exercising the rights, the investor maintains their percentage of ownership in the corporation buying a proportionate number of shares of the issuance.

2. **We call "issuance of SRs" to the market and corporate practice of separating those particular rights from the original shares when a new equity issuance is announced,** in order for them to be transferable and thus allow the shareholders to obtain a cash compensation for the share dilution by selling them in case they do not want to subscribe the additional capital. This Guidance Note (GN) discusses the treatment in national accounts and balance of payments/international investment position of this detachment of SRs from the original shares.[2]

3. **As a consequence of the separation of rights, each original share gets split into two distinct assets, the ex-right share, and the SR,** which usually receives a separate ISIN code**.** The sum of the values of the ex-right share and the SR is equal at inception to the value of the original share, each individual value representing thereafter the market perception of the rights remaining in the separate individual assets. The value of the SRs at inception corresponds to the dilution in the value of the original individual shares caused by the terms of issuance of the new capital should the SRs not be exercised.[3]

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[1] Prepared by Barend DeBeer (South African Reserve Bank), Celestino Girón (European Central Bank), and Paula Menezes (Banco de Portugal).

[2] This GN does not deal with other corporate instruments that might also entail the right to acquire corporate shares and/or changes in the corporate share structure: warrants, employee stock options and bonus shares. However, analogies and differences between those cases and SRs are discussed below to contribute to clarify the nature of SRs.

[3] The theoretical value at inception of a subscription right is $s = r(o - n)/(1 + r)$, where ***o*** is the value of the existing shares, *n* is the issuance price of the new shares and *r* is the ratio of new shares issued per existing share. This corresponds to the dilution in the value *o* resulting from the issuance of new shares under the terms given by *n* and *r*. For a classic discussion on the derivation of the formula and possible alternatives see for instance S. H. Archer

(Continued)

4. **Both the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)* and the *System of National Accounts 2008 (2008 SNA)* are silent in respect to the classification of the SRs** once they have been detached from the original share. At the same time, the "*Handbook on National Accounting: Financial Production, Flows and Stocks in the System of National Accounts*" (paragraph 4.205) indicates that they are to be treated as financial derivatives as they are a "special kind of warrant". On the contrary, the "*Handbook on Securities Statistics*" (paragraph 6.45) explicitly requires them to be treated as equity as they "represent a claim on the residual value of the corporation".

5. **This note looks into these two alternative treatments (financial derivatives or equity),** discusses their pros and cons, clarifies the accounting treatment in each case and proposes a single treatment for the update of the manuals.

ISSUES FOR DISCUSSION

Option 1: Equity

6. **According to the *2008 SNA* paragraph 11.81, "equity and investment fund shares have the distinguishing feature that the holders own a residual claim on the assets of the institutional unit that issued the instrument. Equity represents the owner's funds in the institutional unit."** (underlining by GN authors).

7. **The reasoning behind classifying SRs as equity is based on the interpretation of equity as the residual value (the corporate value) and the implications that the split of the original shares into ex-rights shares and SRs has on it.** The corporate value would be seen as the (market) value of accumulated and future earnings, and equity as the accounting representation thereof. The separation of SRs doesn't have as such an effect on the total earnings expected to be distributed,[4] and the value of total equity liabilities should then remain unaffected by the split.

8. **For total equity to remain unchanged after the SRs issuance, both ex-right shares and SRs have to be classified as equity.** SRs would contain the value diluted from the existing shares, which added to the diluted shares would sum up to the original total corporate value before the separation of the rights. An alternative classification of the rights in an instrument category other than equity would result in a reduction in the corporate value as reflected in national accounts.

9. **Moreover, the main purpose of the SRs is to ensure shareholders have the right to maintain their percentage ownership in the company and therefore the maintenance of a claim on the assets of the corporation.**

10. **Under this interpretation, the issuance of SRs would be analogous to the issuance of bonus shares** (*2008 SNA,* paragraph 11.89 and *BPM6,* paragraph 11.29), whereby the shareholders end up with the same equity stake at market value, but with a different number of shares and share classes in

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"The Theoretical Value of a Stock Right: a Comment" in The Journal of Finance, Sep., 1956, Vol. 11, No. 3 (Sep., 1956), pp. 363–366.

[4] As opposed to the announcement of the new issuance, which might have an impact on expected cash-flows depending on the market reception of the issuance terms.

their portfolio (in the case discussed here, the shareholders end up with a new mix of ex-right shares and SRs). No issuance transaction needs to be recorded upon right separation, as for bonus shares, and only in case a shareholder sells rights to a third party, a transaction would be booked to reflect the change in ownership of equity (as for bonus shares).

11. **An alternative line of reasoning that leads to a similar conclusion consists of making an analogy between the issuance of SRs and stripped securities.** In the latter case, the economic rights of a given debt security—that is, the future fixed cash flows—are transformed into several separate assets corresponding to each of the cash flows. In the case of issuance of SRs, the corporate ownership rights get stripped into separate assets corresponding to separate shareholder rights. As in the case of stripped securities, the economic substance of the individual stripped assets would be the same as that of the original asset and would be classified under the same instrument category.

Option 2: Financial Derivatives

12. **Under this alternative view, SRs would be considered as meeting the standard definition of financial derivatives** as assets which are “linked to a specific financial instrument” and whose value “derives from the price of the underlying item” (*2008 SNA*, paragraph 11.111).

13. **In particular, SRs would be seen as call options, the SRs holders having the right to buy the new shares, but not the obligation to do it, and the premium would correspond to the dilution value at inception, and the strike price to the issuance price for the new shares.** More specifically, given that exercising the rights leads to the creation of new liabilities and to dilution effects (as opposed to standard options), they could be considered akin to (detachable) warrants (*BPM6*, paragraph 5.87). Warrants are issued by the corporation itself and are not standardized, similar as SRs, but have a much longer maturity (SRs have around 15 to 60 days maturity, as opposed to 5 years or more for warrants).

14. **The rights can also be seen as similar to employee stock options (ESO), both having similarities with the standard options’ cash flow mechanics.** Moreover, they both give rise to newly issued shares, cause dilution effects, and can be considered as having a purpose other than risk trading (*BPM6*, paragraph 5.96). While the dilution effect in ESO corresponds to compensation of employees, here it would correspond to a corporate earnings distribution transaction. ESO are classified separately from financial derivatives but given their similarities with options they are grouped together with derivatives under the category “financial derivatives and employee stock options”.

15. **Furthermore, under this approach SRs would <u>not</u> be considered as meeting the fundamental characteristic of equity of “acknowledging claims on the residual value of a corporation” (*2008 SNA*, paragraph 11.83) before the rights are exercised.** Moreover, the holders of SRs cannot exercise other standard rights of shareholders—they do not have rights to income in the form of dividends and they cannot participate in general meetings nor have voting rights—and the SRs have an expiration date, as opposed to proper equity. Their similarities with bonus shares would also be limited, as an investor has to pay to subscribe to new shares in the case of a SRs offer.

SECTION II: OUTCOMES

Option 1 is recommended:

16. **A majority of FITT members support that SRs be included within equity liabilities of the issuing corporation (Option 1).** It is understood that failure to do so would hamper the interpretability of equity as the market value of the corporate own funds for the reasons detailed in paragraphs 6 to 10.

17. **According to this majority view, SRs issuance (separation of the subscription rights from the rest of the share rights) does not change the residual value of the corporation, and the resulting detached assets represent part of such residual value.** SRs cover the dilution caused to the existing shares by the terms of the new equity issuance that gives rise to the rights separation, which together with the value of the ex-right shares make up the total corporate value (*unchanged* upon SRs issuance), the "equity" is supposed to reflect.

18. **It is noted that the SRs are not meant to trade financial risks "to other entities who are more willing, or better suited, to take or manage these risks, typically, but not always, without trading in a primary asset or commodity", as financial derivatives are (*2008 SNA*, paragraph 11.112).** They are instead, intended to compensate for the dilution in the value held by the existing shareholders caused by the entry of new shareholders in the corporate capital structure, thus ensuring the maintenance of the shareholder rights.

19. **Moreover, emphasis is put on the fact that the cash flow structure and value determinants of SRs do not correspond to those of standard financial derivatives.** A financial derivative is a newly created asset whose cash flows are linked to the value of an existing asset, the "underlying", such creation having no direct effect on the price of the underlying itself. However, here the value of two assets, the ex-right share and the SRs, are jointly determined and linked to one another by the determinants of the corporate value, which is now split across the two assets in accordance with the terms of exchange of old and new shares and the issuance price.[5] If the SR is seen as a financial derivative,[6] its issuance, as opposed to that of standard derivatives, entails a loss of value of the underlying (i.e., has a dilution effect at inception) that is not common in financial derivatives.

20. **The FITT takes note of the existence of other instruments that lack some key derivative features but are nevertheless classified under financial derivatives (or under the broader category "financial derivatives and employee stock options") in the current standards; however, the economic substance of SRs cannot be easily considered similar to that of that other instruments.** ESO and warrants belong to that group of instruments, having dilution effects that stems from being *counterparts of non-financial uses (payments/ expenditures):* salaries in the case of ESO (leading to liabilities that, as opposed to SRs, are usually not tradable), and (implicitly) interest charges in the case of

[5] The value of the right would be given by the equation for *s* in footnote 3, *o* now denoting the joint price of the right and the ex-right share (the corporate value per existing share), and the price of the ex-right share would be given by $e=o-s$. Note that for interpreting the equation as a joint restriction on the prices of the ex-share and the SR, and not as a mere arithmetical relationship between two summands and the sum, it is crucial the evidence of the dilution effect caused by the SR emission, which dos not exist in standard derivatives.

[6] Given the intertwined relationship between the right and the ex-right share, it would be equally acceptable to consider the ex-right share as the derivative and the SR as the underlying.

warrants (before detachment, warrants are typically attached to bond issuance in exchange of a lower interest rate).[7] In a similar fashion, SRs could in principle be argued to be the counterpart of a payment as well, but such payment could only correspond to the distribution of earnings. However, such distribution could not be considered as "notionally paid out of the current period's operating surplus" (*2008 SNA*, paragraph 7.131), for the dilution created by SRs affects all earnings, and could then not be classified as "dividends"[8] (one FITT member, however, indicates this as a preferred treatment from a methodological point of view).

21. **Booking dividends as counterpart of the issuance of financial derivatives is not the only conceivable mechanical recording possibility within the rejected Option 2, but other booking alternatives also entail flows of difficult interpretability.** For instance, following a similar line of reasoning to that above and considering that the dilution effect corresponds to the distribution of earnings in excess of their current operational profit, the payment associated to the issuance of SRs could be considered a *superdividend*. However, this would imply recording equity redemption transactions by the value of the SRs at inception (the initial dilution value and the superdividend value), followed by issuance transactions a few days later by the funds raised plus the value of the SRs, including any holding gains between the issuance of SRs and the issuance of new capital (see Annex II for a detailed description of the flows associated with this and other approaches); these bookings would be at odds with the economic substance from the corporate perspective, which only sees the issuance of equity by the issuance price/funds raised at the moment of capital issuance only, in line with the treatment in securities issues statistics. A third transaction-based recording option for the emergence of the SRs as financial derivatives would consist in considering them as transfers of economic value to the shareholders not related to the distribution of earnings (i.e., as either current or capital transfers); this approach would entail acknowledging new categories of transfers from corporations to households, and result in total transactions in equity issuance being equal to the market value of the newly issued shares (see Annex II for the details), rather than to the funds raised as in securities issues statistics.

22. **The emergence of SRs could alternatively be booked as other flows in financial derivatives,[9]** offsetting the dilution of the ex-right shares, which would also be reflected as other flows (one FITT member supports this recording). To preserve the transaction value of the new equity equal to the funds raised, the disappearance of SRs would also have to be booked as other flows as well; this alternative would allegedly be seen as a statistical artefact as it would result in claims with no cash-flow from debtor to creditor attached whose value never changes via transactions, including when they

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[7] It is noted that warrants are usually issued with a strike price higher than the current price, as opposed to SRs, which makes the dilution effect usually only a factor of future price developments and not intrinsic to the issuance of the liability. Furthermore, warrants can also be issued independently of any other instrument in exchange of a cash-payment (premium), which yields no dilution effect at inception.

[8] Also note the following example where a treatment of SRs as dividends would lead to two transactions that have the same economic effects being treated in completely different ways: (i) a sole shareholder sells all the equity of a (non-FDI) corporation (value 100) to a third party; and (ii) the same corporation issues new shares 1:1 with a issuance price 0, in order for the sole shareholder to sell the SRs (thus with value 100) to a third party. In both cases the old shareholder will change his/her equity holdings for cash; however in the first case only a financial transaction would be booked, while in the second case an income flow would be recorded affecting the shareholder net lending/net borrowing by 100. This would constitute an incentive for governments to engineer privatizations of publicly controlled corporations through SRs with low issuance price.

[9] Either at the time of SR issuance or when and if the SR are traded with a third party.

emerge at inception and when they are redeemed at the time of the new capital issuance. The disappearance of SRs could also be booked as a transaction against equity, similarly as in the case of SRs being considered the distribution of earnings or other transfers, which combined with the recording of the appearance of SRs as other flows would again result in total transactions in equity issuance equal to the market value of the newly issued shares, and not to the funds raised (Annex II).

23. **The recommendation to include SRs within equity would have the following consequences for the booking of flows in national accounts and balance of payments/international investment position** (see Annex I): (i) when the subscription right is issued (i.e., separated from the share for separate trading) no flow is recorded; (ii) the purchase of a subscription right by a third party is booked as transactions in equity between the old shareholder and the buyer, compensated with cash payments; (iii) the value of subscriptions rights and ex-right shares experience holding gains and losses between the moment of issuance of the rights and the moment of issuance of new capital, all booked as holding gains and losses in existing equity; and (iv) the issuance of new capital is recorded by the cash provided, issued by the corporation and acquired by those holding and exercising the SRs. Similar to standard shares, SRs can be quoted or unquoted.

24. **One FITT member expressed support for Option 2, financial derivatives,** on the grounds of the SRs similarities with financial derivatives, in particular with warrants as explained above, the emergence of them to be treated as other flows. Another FITT member also saw Option 2 as superior in theoretical terms (with the issuance of the derivative being considered as an income payment in this case), but agreed on supporting Option 1 on the basis of its easier practical implementation due to the short time elapsing between SR issuance and corresponding equity issuance.[10]

Questions for Discussion:

1. *Do you agree with the classification and treatment of subscription rights as equity (Option 1)?*
2. *If not, and Option 2 is preferred, what would be the counterpart of the flow of creation of the new financial derivative? (non-financial transaction—dividend or transfer, transaction in equity, or other flows in equity) How would the extinction of the financial derivative be recorded (transactions or other flows, with counterpart in equity)?*
3. *Do you have any other views on the treatment of SRs?*

[10] A few members of the AEG and the BPTT have expressed their preference for one of the two options during the review of the GN in preparation of the public consultation: three indicated support for Option 1 (equity) and one for Option 2 (financial derivatives).

Annex I. Example of Recording Under Option 1 [11] (Subscription Rights Are Equity)

Corporate value before the SRs offer; *10*

IPO terms (dilution by 0.5):

Ratio capital increase; *1:1*

New capital raised; *9*

SRs are sold to new investors; no change in corporate value occurs between issuance of SRs and capital issuance

Highlights of the accounting entries:

- No transaction is booked at inception
- Only transactions in equity between investors are booked; the decline in the equity portfolio of the old shareholder is a transaction
- Issuance of capital is valued by 9, the funds raised

		Old shareholder				New shareholder				Corporation			
Stocks before new offering		0	**F2**	**B90**	10	9.5	**F2**	**B90**	9.5	0	**F2**	**B90**	0
		10	**F5**			0	**F5**			10	**FX**	**F5**	10
		0	**F7**			0	**F7**					**F7**	0
Issuance of subscription rights	***Transactions***		*F2*	*B9*	*0*		*F2*	*B9*	*0*		*F2*	*B9*	*0*
			F5				*F5*				*FX*	*F5*	
			F7				*F7*					*F7*	
	Other flows		*F2*	*B102/103*	*0*		*F2*	*B102/103*	*0*		*F2*	*B102/103*	*0*
			F5				*F5*				*FX*	*F5*	
			F7				*F7*					*F7*	
Subscription rights are sold	***Transactions***	*0.5*	*F2*	*B9*	*0*	*-0.5*	*F2*	*B9*	*0*		*F2*	*B9*	*0*
		-0.5	*F5*			*0.5*	*F5*				*FX*	*F5*	
			F7				*F7*					*F7*	
	Other flows		*F2*	*B102/103*	*0*		*F2*	*B102/103*	*0*		*F2*	*B102/103*	*0*
			F5				*F5*				*FX*	*F5*	
			F7				*F7*					*F7*	
Issuance of shares	***Transactions***		*F2*	*B9*	*0*	*-9*	*F2*	*B9*	*0*	*9*	*F2*	*B9*	*0*
			F5			*9*	*F5*				*FX*	*F5*	*9*
			F7				*F7*					*F7*	
	Other flows		*F2*	*B102/103*	*0*		*F2*	*B102/103*	*0*		*F2*	*B102/103*	*0*
			F5				*F5*				*FX*	*F5*	
			F7				*F7*					*F7*	
Stocks after issuance		0.5	**F2**	**B90**	10	0	**F2**	**B90**	9.5	9	**F2**	**B90**	0
		9.5	**F5**			9.5	**F5**			10	**FX**	**F5**	19
		0	**F7**			0	**F7**			0		**F7**	0

[11] F2 Currency and deposits; F5 Equity; F7 Financial derivatives. Assets/changes in assets are shown on the left-hand side of the T-accounts; liabilities/changes in liabilities are shown on the right-hand side of the T-accounts.

Annex II. Examples of Recording Under Option 2 [12] (Subscription Rights Are Financial Derivatives)

Corporate value before the SRs offer; *10*

IPO terms (dilution by 0.5):

Ratio capital increase; *1:1*

New capital raised; *9*

SRs are sold to new investors; no change in corporate value occurs between issuance of SRs and capital issuance

Sub-option 2.1: The Financial Derivative is the Counterpart of a Payment (Dividends, Current or Capital Transfers)

Highlights of the accounting entries:

- Net lending/ net borrowing of the old shareholder and the corporation is affected by the dilution value
- The decline in the equity portfolio of the old shareholder is a devaluation
- Issuance of capital is valued by 9.5 (funds raised plus dilution value)

		Old shareholder				New shareholder				Corporation			
Stocks before new offering		0	**F2**	**B90**	10	9.5	**F2**	**B90**	9.5	0	**F2**	**B90**	0
		10	**F5**			0	**F5**			10	**FX**	**F5**	10
		0	**F7**			0	**F7**					**F7**	0
Issuance of subscription rights	***Transactions***		***F2***	***B9***	*0.5*		***F2***	***B9***	*0*		***F2***	***B9***	*-0.5*
			F5				***F5***				***FX***	***F5***	
		0.5	***F7***				***F7***					***F7***	*0.5*
	Other flows		***F2***	***B102/103***	*-0.5*		***F2***	***B102/103***	*0*		***F2***	***B102/103***	*0.5*
		-0.5	***F5***				***F5***				***FX***	***F5***	*-0.5*
			F7				***F7***					***F7***	
Subscription rights are sold	***Transactions***	*0.5*	***F2***	***B9***	*0*	*-0.5*	***F2***	***B9***	*0*		***F2***	***B9***	*0*
			F5				***F5***				***FX***	***F5***	
		-0.5	***F7***			*0.5*	***F7***					***F7***	
	Other flows		***F2***	***B102/103***	*0*		***F2***	***B102/103***	*0*		***F2***	***B102/103***	*0*
			F5				***F5***				***FX***	***F5***	
			F7				***F7***					***F7***	
Issuance of shares	***Transactions***		***F2***	***B9***	*0*	*-9*	***F2***	***B9***	*0*	*9*	***F2***	***B9***	*0*
			F5			*9.5*	***F5***				***FX***	***F5***	*9.5*
			F7			*-0.5*	***F7***					***F7***	*-0.5*
	Other flows		***F2***	***B102/103***	*0*		***F2***	***B102/103***	*0*		***F2***	***B102/103***	*0*
			F5				***F5***				***FX***	***F5***	
			F7				***F7***					***F7***	
Stocks after issuance		0.5	**F2**	**B90**	10	0	**F2**	**B90**	9.5	9	**F2**	**B90**	0
		9.5	**F5**			9.5	**F5**			10	**FX**	**F5**	19
		0	**F7**			0	**F7**			0		**F7**	0

[12] F2 Currency and deposits; F5 Equity; F7 Financial derivatives. Assets/changes in assets are shown on the left-hand side of the T-accounts; liabilities/changes in liabilities are shown on the right-hand side of the T-accounts.

Sub-option 2.2: The Financial Derivative is the Counterpart of Equity Withdrawals

Highlights of the accounting entries:

- The decline in the equity portfolio of the old shareholder is a transaction
- Issuance of capital is valued by 9.5 (funds raised plus dilution value), but, combined with the equity withdrawals of -0.5 (dilution value) at SRs inception, a total equity issuance of 9 (funds raised) is booked

		Old shareholder				New shareholder				Corporation			
Stocks before new offering		0	**F2**	**B90**	10	9.5	**F2**	**B90**	9.5	0	**F2**	**B90**	0
		10	**F5**			0	**F5**			10	**FX**	**F5**	10
		0	**F7**			0	**F7**					**F7**	0
		Old shareholder				*New shareholder*				*Corporation*			
Issuance of subscription rights	***Transactions***		***F2***	***B9***	*0*		***F2***	***B9***	*0*		***F2***	***B9***	*0*
		-0.5	***F5***				***F5***				***FX***	***F5***	*-0.5*
		0.5	***F7***				***F7***					***F7***	*0.5*
		Old shareholder				*New shareholder*				*Corporation*			
	Other flows		***F2***	***B102/103***	*0*		***F2***	***B102/103***	*0*		***F2***	***B102/103***	*0*
			F5				***F5***				***FX***	***F5***	
			F7				***F7***					***F7***	
		Old shareholder				*New shareholder*				*Corporation*			
Subscription rights are sold	***Transactions***	*0.5*	***F2***	***B9***	*0*	*-0.5*	***F2***	***B9***	*0*		***F2***	***B9***	*0*
			F5				***F5***				***FX***	***F5***	
		-0.5	***F7***			*0.5*	***F7***					***F7***	
		Old shareholder				*New shareholder*				*Corporation*			
	Other flows		***F2***	***B102/103***	*0*		***F2***	***B102/103***	*0*		***F2***	***B102/103***	*0*
			F5				***F5***				***FX***	***F5***	
			F7				***F7***					***F7***	
		Old shareholder				*New shareholder*				*Corporation*			
Issuance of shares	***Transactions***		***F2***	***B9***	*0*	*-9*	***F2***	***B9***	*0*	*9*	***F2***	***B9***	*0*
			F5			*9.5*	***F5***				***FX***	***F5***	*9.5*
			F7			*-0.5*	***F7***					***F7***	*-0.5*
		Old shareholder				*New shareholder*				*Corporation*			
	Other flows		***F2***	***B102/103***	*0*		***F2***	***B102/103***	*0*		***F2***	***B102/103***	*0*
			F5				***F5***				***FX***	***F5***	
			F7				***F7***					***F7***	
		Old shareholder				New shareholder				Corporation			
Stocks after issuance		0.5	**F2**	**B90**	10	0	**F2**	**B90**	9.5	9	**F2**	**B90**	0
		9.5	**F5**			9.5	**F5**			10	**FX**	**F5**	19
		0	**F7**			0	**F7**			0		**F7**	0

Sub-Option 2.3: Financial Derivative Changes in Value are Booked as Other Flows

Highlights of the accounting entries:

- The decline in the equity portfolio of the old shareholder is a devaluation
- Issuance of capital is valued by 9, the funds raised

		Old shareholder				New shareholder				Corporation			
Stock before new offering		0	**F2**	**B90**	10	9.5	**F2**	**B90**	9.5	0	**F2**	**B90**	0
		10	**F5**			0	**F5**			10	**FX**	**F5**	10
		0	**F7**			0	**F7**					**F7**	0
		Old shareholder				*New shareholder*				*Corporation*			
Issuance of subscription rights	***Transactions***		***F2***	***B9***	*0*		***F2***	***B9***	*0*		***F2***	***B9***	*0*
			F5				***F5***				***FX***	***F5***	
			F7				***F7***					***F7***	
		Old shareholder				*New shareholder*				*Corporation*			
	Other flows		***F2***	***B102/103***	*0*		***F2***	***B102/103***	*0*		***F2***	***B102/103***	*0*
		-0.5	***F5***				***F5***				***FX***	***F5***	*-0.5*
		0.5	***F7***				***F7***					***F7***	*0.5*
		Old shareholder				*New shareholder*				*Corporation*			
Subscription rights are sold	***Transactions***	*0.5*	***F2***	***B9***	*0*	*-0.5*	***F2***	***B9***	*0*		***F2***	***B9***	*0*
			F5				***F5***				***FX***	***F5***	
		-0.5	***F7***			*0.5*	***F7***					***F7***	
		Old shareholder				*New shareholder*				*Corporation*			
	Other flows		***F2***	***B102/103***	*0*		***F2***	***B102/103***	*0*		***F2***	***B102/103***	*0*
			F5				***F5***				***FX***	***F5***	
			F7				***F7***					***F7***	
		Old shareholder				*New shareholder*				*Corporation*			
Issuance of shares	***Transactions***		***F2***	***B9***	*0*	*-9*	***F2***	***B9***	*0*	*9*	***F2***	***B9***	*0*
			F5			*9*	***F5***				***FX***	***F5***	*9*
			F7				***F7***					***F7***	
		Old shareholder				*New shareholder*				*Corporation*			
	Other flows		***F2***	***B102/103***	*0*		***F2***	***B102/103***	*0*		***F2***	***B102/103***	*0*
			F5			*0.5*	***F5***				***FX***	***F5***	*0.5*
			F7			*-0.5*	***F7***					***F7***	*-0.5*
		Old shareholder				New shareholder				Corporation			
Stocks after issuance		0.5	**F2**	**B90**	10	0	**F2**	**B90**	9.5	9	**F2**	**B90**	0
		9.5	**F5**			9.5	**F5**			10	**FX**	**F5**	19
		0	**F7**			0	**F7**			0		**F7**	0

Sub-option 2.4: Financial Derivative Created as Other Flows; Extinction as Transaction Against Equity

Highlights of the accounting entries:

- The decline in the equity portfolio of the old shareholder is a devaluation
- Issuance of capital is valued by 9.5 (funds raised plus dilution value)

	Old shareholder				New shareholder				Corporation			
Stock before new offering	0	F2	B90	10	9.5	F2	B90	9.5	0	F2	B90	0
	10	F5			0	F5			10	FX	F5	10
	0	F7			0	F7					F7	0

Issuance of subscription rights	*Old shareholder*				*New shareholder*				*Corporation*			
Transactions		*F2*	*B9*	*0*		*F2*	*B9*	*0*		*F2*	*B9*	*0*
		F5				*F5*				*FX*	*F5*	
		F7				*F7*					*F7*	
Other flows		*F2*	*B102/103*	*0*		*F2*	*B102/103*	*0*		*F2*	*B102/103*	*0*
	-0.5	*F5*				*F5*				*FX*	*F5*	*-0.5*
	0.5	*F7*				*F7*					*F7*	*0.5*

Subscription rights are sold	*Old shareholder*				*New shareholder*				*Corporation*			
Transactions	*0.5*	*F2*	*B9*	*0*	*-0.5*	*F2*	*B9*	*0*		*F2*	*B9*	*0*
		F5				*F5*				*FX*	*F5*	
	-0.5	*F7*			*0.5*	*F7*					*F7*	
Other flows		*F2*	*B102/103*	*0*		*F2*	*B102/103*	*0*		*F2*	*B102/103*	*0*
		F5				*F5*				*FX*	*F5*	
		F7				*F7*					*F7*	

Issuance of shares	*Old shareholder*				*New shareholder*				*Corporation*			
Transactions		*F2*	*B9*	*0*	*-9*	*F2*	*B9*	*0*	*9*	*F2*	*B9*	*0*
		F5			*9.5*	*F5*				*FX*	*F5*	*9.5*
		F7			*-0.5*	*F7*					*F7*	*-0.5*
Other flows		*F2*	*B102/103*	*0*		*F2*	*B102/103*	*0*		*F2*	*B102/103*	*0*
		F5				*F5*				*FX*	*F5*	
		F7				*F7*					*F7*	

	Old shareholder				New shareholder				Corporation			
Stock after issuance	0.5	F2	B90	10	0	F2	B90	9.5	9	F2	B90	0
	9.5	F5			9.5	F5			10	FX	F5	19
	0	F7			0	F7			0		F7	0