



**IFRS<sup>®</sup>**

Accounting

November 2023

# **Exposure Draft**

IFRS<sup>®</sup> Accounting Standard

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## **Financial Instruments with Characteristics of Equity** Proposed amendments to IAS 32, IFRS 7 and IAS 1

Comments to be received by 29 March 2024

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**Proposed amendments to IAS 32, IFRS 7  
and IAS 1**

Comments to be received by 29 March 2024

Exposure Draft IASB/ED/2023/5 is published by the International Accounting Standards Board (IASB) for comment only. Comments need to be received by **29 March 2024** and should be submitted by email to [commentletters@ifrs.org](mailto:commentletters@ifrs.org) or online at <https://www.ifrs.org/projects/open-for-comment/>.

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## Introduction

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### Why is the IASB publishing this Exposure Draft?

- IN1 IAS 32 *Financial Instruments: Presentation* sets out requirements for classifying and presenting financial instruments as financial liabilities or equity instruments in the financial statements of the entity that issues those instruments.
- IN2 For many financial instruments, application of the requirements in IAS 32 generally results in classification outcomes that provide useful information to users of financial statements and entities apply the requirements without any major difficulty. Overall, feedback from stakeholders and other research indicates that IAS 32 works well for most financial instruments. Therefore, the International Accounting Standards Board (IASB) decided it is unnecessary to change the Standard fundamentally.
- IN3 However, financial innovation, market forces and changes to financial sector regulations have resulted in a growing number of complex financial instruments with both financial liability and equity characteristics. This situation poses challenges for entities applying IAS 32 and has resulted in diversity in practice regarding classification. That diversity reduces the comparability and understandability of financial statements, making it difficult for users of financial statements to assess the effects of financial instruments on the issuer's financial position and performance.
- IN4 The IASB published a Discussion Paper *Financial Instruments with Characteristics of Equity* in June 2018, to respond to the challenges in applying IAS 32. The Discussion Paper sets out the IASB's preferred classification approach to articulate more clearly the principles for classifying financial instruments as financial liabilities or equity instruments, and to improve the consistency, completeness and clarity of the classification requirements in IAS 32. After considering feedback on the Discussion Paper, the IASB decided not to pursue the proposed classification approach. Instead, the IASB decided to focus on clarifying the classification requirements in IAS 32, including their underlying principles, to address known practice issues that arise in applying IAS 32.
- IN5 In developing the proposals in this Exposure Draft, the IASB's intention was that classification outcomes be changed only if there is enough evidence that such a change would provide more useful information to users of financial statements.
- IN6 The Exposure Draft also sets out proposals to improve the presentation and disclosure of information about financial liabilities and equity instruments. The IASB has developed these proposals in response to calls from users of financial statements for better information about the characteristics of financial liabilities and equity instruments that are not captured by classification alone, and about the amounts attributable to ordinary shareholders of an entity.

## Summary of the proposals in the Exposure Draft

- IN7 The IASB proposes amendments to IAS 32 to clarify:
- (a) the effects of relevant laws or regulations (such as statutory or regulatory requirements applicable to a financial instrument) on the classification of financial instruments;
  - (b) the ‘fixed-for-fixed’ condition in paragraph 16(b)(ii) of IAS 32 for classifying a derivative that will or may be settled in an issuer’s own equity instruments;
  - (c) the requirements in paragraph 23 of IAS 32 for classifying financial instruments containing an obligation for an entity to purchase its own equity instruments;
  - (d) the requirements in paragraphs 25 and 28 of IAS 32 for classifying financial instruments with contingent settlement provisions;
  - (e) the effect of shareholder discretion on the classification of financial instruments; and
  - (f) the circumstances in which a financial instrument (or a component of it) is reclassified as a financial liability or an equity instrument after initial recognition.
- IN8 The IASB proposes amendments to the objective and scope of IFRS 7 *Financial Instruments: Disclosures* and other amendments to the Standard to improve the information disclosed about:
- (a) the nature and priority of claims against an entity arising from financial liabilities and equity instruments within the scope of IAS 32;
  - (b) the terms and conditions of financial instruments, including those with both financial liability and equity characteristics;
  - (c) compound financial instruments;
  - (d) the potential dilution of ordinary shares;
  - (e) reclassifications of financial liabilities and equity instruments;
  - (f) instruments containing obligations to purchase an entity’s own equity instruments; and
  - (g) financial liabilities containing contractual obligations to pay amounts based on an entity’s performance or changes in the entity’s net assets.
- IN9 The IASB also proposes amendments to IAS 1 *Presentation of Financial Statements* to require an entity to present additional information about amounts attributable to ordinary shareholders. These proposed amendments affect an entity’s statement of financial position, statement(s) of financial performance and statement of changes in equity.

**Next steps**

- IN10 The IASB will consider comment letters and other feedback from its consultations on the Exposure Draft and will then decide whether to issue amendments to IAS 32, IFRS 7 and IAS 1.



## Invitation to comment

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The IASB invites comments on the proposals in the Exposure Draft *Financial Instruments with Characteristics of Equity*, particularly on the questions set out below. Comments are most helpful if they:

- (a) respond to the questions as stated;
- (b) indicate the specific paragraph(s) to which they relate;
- (c) contain a clear rationale;
- (d) identify any wording in a particular proposal that is unclear or would be difficult to translate; and
- (e) include any alternative the IASB should consider, if applicable.

The IASB is requesting comments only on matters addressed in this Exposure Draft.

Respondents need not answer all the questions in this invitation to comment.

## Questions for respondents—Classification

### The effects of relevant laws or regulations

The definitions of a financial asset and a financial liability in paragraph 11 of IAS 32 refer to contractual rights and contractual obligations. However, issues arise in practice about whether and how laws or regulations (such as statutory or regulatory requirements) applicable to a financial instrument affect the classification of the instrument.

The IASB proposes to clarify that only those contractual rights and obligations that are enforceable by law and are in addition to those created by relevant laws or regulations are considered in the classification of a financial instrument (or its component parts) as a financial liability, financial asset or equity instrument. If a right or obligation is created by relevant laws or regulations, and would arise regardless of whether it is included in the contractual arrangement, an entity would not consider that right or obligation in classifying the instrument (or its component parts) as a financial liability, financial asset or equity instrument.

**Question 1—The effects of relevant laws or regulations (paragraphs 15A and AG24A–AG24B of IAS 32)**

The IASB proposes to clarify that:

- (a) only contractual rights and obligations that are enforceable by laws or regulations and are in addition to those created by relevant laws or regulations are considered in classifying a financial instrument or its component parts (paragraph 15A); and
- (b) a contractual right or obligation that is not solely created by laws or regulations, but is in addition to a right or obligation created by relevant laws or regulations shall be considered in its entirety in classifying the financial instrument or its component parts (paragraph AG24B).

Paragraphs BC12–BC30 of the Basis for Conclusions explain the IASB’s rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

**Settlement in an entity’s own equity instruments**

For a derivative to be classified as an equity instrument, paragraph 16(b)(ii) of IAS 32 requires it to be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of the issuer’s own equity instruments. This requirement is sometimes referred to as the ‘fixed-for-fixed’ condition. Practice issues arise about whether—to meet the fixed-for-fixed condition—any variation in the amount of consideration to be exchanged, or in the number of an entity’s own equity instruments to be delivered, is permitted.

IAS 32 does not specifically include requirements for share-for-share exchanges—contracts that will or may be settled by the exchange of a fixed number of one class of an entity’s own non-derivative equity instruments for a fixed number of another class of its own non-derivative equity instruments. Practice issues arise about how to classify these contracts.

**Question 2—Settlement in an entity's own equity instruments (paragraphs 16, 22, 22B–22D, AG27A and AG29B of IAS 32)**

The IASB proposes to clarify when the fixed-for-fixed condition in paragraph 16(b)(ii) of IAS 32 is met by specifying that the amount of consideration to be exchanged for each of an entity's own equity instruments is required to be denominated in the entity's functional currency, and either:

- (a) fixed (will not vary under any circumstances); or
- (b) variable solely because of:
  - (i) preservation adjustments that require the entity to preserve the relative economic interests of future shareholders to an equal or lesser extent than those of current shareholders; and/or
  - (ii) passage-of-time adjustments that are predetermined, vary with the passage of time only, and have the effect of fixing on initial recognition the present value of the amount of consideration exchanged for each of the entity's own equity instruments (paragraphs 22B–22C).

The IASB also proposes to clarify that if a derivative gives one party a choice of settlement between two or more classes of an entity's own equity instruments, the entity considers whether the fixed-for-fixed condition is met for each class of its own equity instruments that may be delivered on settlement. Such a derivative is an equity instrument only if all the settlement alternatives meet the fixed-for-fixed condition (paragraph AG27A(b)).

The IASB further proposes to clarify that a contract that will or may be settled by the exchange of a fixed number of one class of an entity's own non-derivative equity instruments for a fixed number of another class of its own non-derivative equity instruments is an equity instrument (paragraph 22D).

Paragraphs BC31–BC61 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

**Obligations to purchase an entity's own equity instruments**

Paragraph 23 of IAS 32 sets out requirements for contracts containing an obligation for an entity to purchase its own equity instruments. Examples of such contracts include a forward contract to purchase the entity's own shares and a written put option that gives the holder the right to require the entity to purchase its own shares. Practice issues arise relating to the application of these requirements.

IAS 32 requires an entity to recognise a financial liability at the present value of the redemption amount. This amount is removed from equity and included in financial liabilities. The IASB proposes to clarify which component of equity this amount is removed from and how to measure the financial liability at the present value of the redemption amount.

The IASB also proposes to clarify how an entity would apply the requirements if a contract containing an obligation for the entity to purchase its own equity instruments expired without delivery.

**Question 3—Obligations to purchase an entity's own equity instruments (paragraphs 23 and AG27B–AG27D of IAS 32)**

The IASB proposes to clarify that:

- (a) the requirements in IAS 32 for contracts containing an obligation for an entity to purchase its own equity instruments also apply to contracts that will be settled by delivering a variable number of another class of the entity's own equity instruments (paragraph 23).
- (b) on initial recognition of the obligation to redeem an entity's own equity instruments, if the entity does not yet have access to the rights and returns associated with ownership of the equity instruments to which the obligation relates, those equity instruments would continue to be recognised. The initial amount of the financial liability would, therefore, be removed from a component of equity other than non-controlling interests or issued share capital (paragraph AG27B).
- (c) an entity is required to use the same approach for initial and subsequent measurement of the financial liability—measure the liability at the present value of the redemption amount and ignore the probability and estimated timing of the counterparty exercising that redemption right (paragraph 23).
- (d) any gains or losses on remeasurement of the financial liability are recognised in profit or loss (paragraph 23).
- (e) if a contract containing an obligation for an entity to purchase its own equity instruments expires without delivery:
  - (i) the carrying amount of the financial liability would be removed from financial liabilities and included in the same component of equity as that from which it was removed on initial recognition of the financial liability.
  - (ii) any gains or losses previously recognised from remeasuring the financial liability would not be reversed in profit or loss. However, the entity may transfer the cumulative amount of those gains or losses from retained earnings to another component of equity (paragraph AG27C).
- (f) written put options and forward purchase contracts on an entity's own equity instruments that are gross physically settled—consideration is exchanged for own equity instruments—are required to be presented on a gross basis (paragraph AG27D).

Paragraphs BC62–BC93 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

### Contingent settlement provisions

Paragraph 25 of IAS 32 sets out requirements for classifying financial instruments with contingent settlement provisions, such as an instrument that requires settlement in cash upon the occurrence of an uncertain future event beyond the control of both the issuer and the holder of the instrument. The IASB proposes amendments to IAS 32 to resolve practice issues relating to these requirements.

One such practice issue is whether to classify a financial instrument with a contingent settlement provision as a financial liability in its entirety, even if it is a compound financial instrument with both a liability component and an equity component.

Another practice issue is whether to reflect in the measurement of a financial liability (or liability component) arising from a contingent settlement provision the probability and estimated timing of occurrence of the contingent event on and after initial recognition. Other practice issues relate to the assessment of 'not genuine' in paragraph 25(a) of IAS 32 and the meaning of the term 'liquidation' in paragraph 25(b) of IAS 32.

<p><b>Question 4—Contingent settlement provisions (paragraphs 11, 25, 25A, 31, 32A, AG28 and AG37 of IAS 32)</b></p>
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<p>The IASB proposes to clarify that:</p>
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| <ul style="list-style-type: none"> <li>(a) some financial instruments with contingent settlement provisions are compound financial instruments with liability and equity components (paragraphs 25 and 32A);</li> <li>(b) the initial and subsequent measurement of the financial liability (or liability component of a compound financial instrument) arising from a contingent settlement provision would not take into account the probability and estimated timing of occurrence or non-occurrence of the contingent event (paragraph 25A);</li> <li>(c) payments at the issuer's discretion are recognised in equity even if the equity component of a compound financial instrument has an initial carrying amount of zero (paragraphs 32A and AG37);</li> <li>(d) the term 'liquidation' refers to the process that begins after an entity has permanently ceased its operations (paragraph 11); and</li> <li>(e) the assessment of whether a contractual term is 'not genuine' in accordance with paragraph 25(a) of IAS 32 requires judgement based on the specific facts and circumstances and is not based solely on the probability or likelihood of the contingent event occurring (paragraph AG28).</li> </ul> |
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<p>Paragraphs BC94–BC115 of the Basis for Conclusions explain the IASB's rationale for these proposals.</p>
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<p>Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.</p>
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**Shareholder discretion**

In applying paragraph 19 of IAS 32 to classify a financial instrument as a financial liability or an equity instrument, an entity considers whether it has an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation. In some cases, the settlement is at the discretion of the entity's shareholders. For example, an entity might issue preference shares that require the entity to pay coupons, which are subject to ordinary shareholders' approval. In such cases, practice issues arise about whether to treat a shareholder decision as an entity decision and how shareholder decision-making rights affect whether the entity has an unconditional right to avoid delivering cash or another financial asset (or to settle the instrument in such a way that it would be a financial liability).

The Exposure Draft sets out factors an entity would be required to consider in assessing whether shareholder decisions are treated as entity decisions.

**Question 5—Shareholder discretion (paragraphs AG28A–AG28C of IAS 32)**

The IASB proposes:

- (a) to clarify that whether an entity has an unconditional right to avoid delivering cash or another financial asset (or otherwise to settle a financial instrument in such a way that it would be a financial liability) depends on the facts and circumstances in which shareholder discretion arises. Judgement is required to assess whether shareholder decisions are treated as entity decisions (paragraph AG28A).
- (b) to describe the factors an entity is required to consider in making that assessment, namely whether:
  - (i) a shareholder decision would be routine in nature—made in the ordinary course of the entity's business activities;
  - (ii) a shareholder decision relates to an action that would be proposed or a transaction that would be initiated by the entity's management;
  - (iii) different classes of shareholders would benefit differently from a shareholder decision; and
  - (iv) the exercise of a shareholder decision-making right would enable a shareholder to require the entity to redeem (or pay a return on) its shares in cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability) (paragraph AG28A(a)–(d)).
- (c) to provide guidance on applying those factors (paragraph AG28B).

Paragraphs BC116–BC125 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

### Reclassification of financial liabilities and equity instruments

Paragraph 15 of IAS 32 requires the issuer of a financial instrument to classify the instrument on initial recognition as a financial liability or an equity instrument, based on the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

However, the Standard does not contain any general requirements on whether or when to reclassify the instrument after initial recognition. Practice issues arise about:

- (a) whether or when such reclassifications are required, permitted or prohibited; and
- (b) if reclassifications are required or permitted, how to account for those reclassifications.

These issues arise if the substance of the contractual arrangement changes without a modification to its contractual terms. The substance of the contractual arrangement could change because of a change in circumstances external to the contractual arrangement—for example, a change in an entity’s functional currency or its group structure.

<b>Question 6—Reclassification of financial liabilities and equity instruments (paragraphs 32B–32D and AG35A of IAS 32)</b>
<p>The IASB proposes:</p> <ul style="list-style-type: none"> <li>(a) to add a general requirement that prohibits the reclassification of a financial instrument after initial recognition, unless paragraph 16E of IAS 32 applies or the substance of the contractual arrangement changes because of a change in circumstances external to the contractual arrangement (paragraphs 32B–32C).</li> <li>(b) to specify that if the substance of the contractual arrangement changes because of a change in circumstances external to the contractual arrangement, an entity would:               <ul style="list-style-type: none"> <li>(i) reclassify the instrument prospectively from the date when that change in circumstances occurred.</li> <li>(ii) measure a financial liability reclassified from equity at the fair value of that financial liability at the date of reclassification. Any difference between the carrying amount of the equity instrument and the fair value of the financial liability at the date of reclassification would be recognised in equity.</li> <li>(iii) measure an equity instrument reclassified from a financial liability at the carrying amount of the financial liability at the date of reclassification. No gain or loss would be recognised on reclassification (paragraph 32D).</li> </ul> </li> <li>(c) provide examples of changes in circumstances external to the contractual arrangement requiring reclassification (paragraph AG35A).</li> </ul>



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<p><b>Question 6—Reclassification of financial liabilities and equity instruments (paragraphs 32B–32D and AG35A of IAS 32)</b></p> <p>Paragraphs BC126–BC164 of the Basis for Conclusions explain the IASB’s rationale for these proposals.</p> <p>Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.</p> <p>Would the proposal to reclassify the instrument prospectively from the date when a change in circumstances occurred give rise to any practical difficulties? If so, please describe those practical difficulties and the circumstances in which they would arise.</p>
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### Questions for respondents—Disclosure

The IASB published the Discussion Paper *Financial Instruments with Characteristics of Equity* in June 2018. Among other things, the Discussion Paper sets out proposals for enhancing the disclosure requirements relating to financial instruments issued by an entity. Overall, stakeholders generally agreed with the proposals, particularly users of financial statements. The IASB has further developed and refined the proposals, taking into account feedback on the Discussion Paper, feedback from meetings with stakeholders and research findings.

The IASB discussed extending the scope and objective of IFRS 7 to include equity instruments, and concluded it was necessary to do so. The IASB has also proposed additional disclosure requirements based on its deliberations on the classification and presentation topics.

<p><b>Question 7—Disclosure (paragraphs 1, 3, 12E, 17A, 20, 30A–30J and B5A–B5L of IFRS 7)</b></p> <p>The IASB proposes:</p> <p>(a) to expand the objective of IFRS 7 to enable users of financial statements to understand how an entity is financed and what its ownership structure is, including potential dilution to the ownership structure from financial instruments issued at the reporting date (paragraph 1).</p> <p>(b) to delete the reference to derivatives that meet the definition of an equity instrument in IAS 32 from paragraph 3(a) of IFRS 7.</p> <p>(c) to move paragraphs 80A and 136A from IAS 1 to IFRS 7. These paragraphs set out requirements for disclosures relating to financial instruments classified as equity in accordance with paragraphs 16A–16B and/or paragraphs 16C–16D of IAS 32 (paragraphs 12E and 30I). The IASB also proposes to expand paragraph 80A to cover reclassifications if there are changes in the substance of the contractual arrangement from a change in circumstances external to the contractual arrangement.</p>
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<b>Question 7—Disclosure (paragraphs 1, 3, 12E, 17A, 20, 30A–30J and B5A–B5L of IFRS 7)</b>	
(d)	to amend paragraph 20(a)(i) of IFRS 7 to require an entity to disclose gains or losses on financial liabilities containing contractual obligations to pay amounts based on the entity’s performance or changes in its net assets, separately from gains or losses on other financial liabilities in each reporting period.
(e)	to include disclosure requirements for compound financial instruments in IFRS 7 (paragraph 17A).
The IASB proposes to require an entity to disclose information about:	
(a)	the nature and priority of claims against the entity on liquidation arising from financial liabilities and equity instruments (paragraphs 30A–30B);
(b)	the terms and conditions of financial instruments with both financial liability and equity characteristics (paragraphs 30C–30E and B5B–B5H);
(c)	terms and conditions that become, or stop being, effective with the passage of time (paragraph 30F);
(d)	the potential dilution of ordinary shares (paragraphs 30G–30H and B5I–B5L); and
(e)	instruments that include obligations to purchase the entity’s own equity instruments (paragraph 30J).
Paragraphs BC170–BC245 of the Basis for Conclusions explain the IASB’s rationale for these proposals.	
Do you agree with the proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.	

### Questions for respondents—Presentation

The proposed amendments to the classification and disclosure requirements in IAS 32 and IFRS 7 are intended to improve the information an entity provides to users of financial statements about its issued financial instruments. Improving the presentation requirements in IAS 1 would also achieve this aim. Users of financial statements would

particularly benefit from information about similarities and differences between claims of an entity's investors on the entity's net assets.

The proposed amendments to IAS 1 require an entity to present amounts attributable to ordinary shareholders separately from amounts attributable to other holders of the entity's own equity instruments.

**Question 8—Presentation of amounts attributable to ordinary shareholders (paragraphs 54, 81B and 107–108 of IAS 1)**

The IASB proposes to amend IAS 1 to require an entity to provide additional information about amounts attributable to ordinary shareholders. The proposed amendments are that:

- (a) the statement of financial position shows issued share capital and reserves attributable to ordinary shareholders of the parent separately from issued share capital and reserves attributable to other owners of the parent (paragraph 54);
- (b) the statement of comprehensive income shows an allocation of profit or loss and other comprehensive income attributable to owners of the parent between ordinary shareholders and other owners of the parent (paragraph 81B);
- (c) the components of equity reconciled in the statement of changes in equity include each class of ordinary share capital and each class of other contributed equity (paragraph 108); and
- (d) dividend amounts relating to ordinary shareholders are presented separately from amounts relating to other owners of the entity (paragraph 107).

Paragraphs BC246–BC256 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Would the proposed requirement to allocate issued share capital and reserves between ordinary shareholders and other owners of the parent give rise to any practical difficulties in determining the required amounts? If so, please describe the possible difficulties and specify areas in which further guidance would be helpful.

**Questions for respondents—Transition****Question 9—Transition (paragraphs 97U–97Z of IAS 32)**

The IASB proposes to require an entity to apply the proposed amendments retrospectively with the restatement of comparative information (a fully retrospective approach). However, to minimise costs, the IASB proposes not to require the restatement of information for more than one comparative period, even if the entity chooses or is required to present more than one comparative period in its financial statements.

For an entity already applying IFRS Accounting Standards, the IASB proposes:

- (a) to require the entity to treat the fair value at the transition date as the amortised cost of the financial liability at that date if it is impracticable (as defined in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*) for the entity to apply the effective interest method in IFRS 9 *Financial Instruments* retrospectively (paragraph 97X);
- (b) not to require the entity to separate the liability and equity components if the liability component of a compound financial instrument with a contingent settlement provision was no longer outstanding at the date of initial application (paragraph 97W);
- (c) to require the entity to disclose, in the reporting period that includes the date of initial application of the amendments, the nature and amount of any changes in classification resulting from initial application of the amendments (paragraph 97Z);
- (d) to provide transition relief from the quantitative disclosures in paragraph 28(f) of IAS 8 (paragraph 97Y); and
- (e) no specific transition requirements in relation to IAS 34 *Interim Financial Reporting* for interim financial statements issued within the annual period in which the entity first applies the amendments.

For first-time adopters, the IASB proposes to provide no additional transition requirements.

Paragraphs BC262–BC270 of the Basis for Conclusions explain the IASB’s rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Would the proposal to apply the proposed amendments retrospectively give rise to any other cases in which hindsight would be necessary? If so, please describe those cases and the circumstances in which the need for hindsight would arise.

## Questions for respondents—Disclosure requirements for eligible subsidiaries

### Question 10—Disclosure requirements for eligible subsidiaries (paragraphs 54, 61A–61E and 124 of [IFRS XX])

The IASB proposes amendments to the draft Accounting Standard [IFRS XX *Subsidiaries without Public Accountability: Disclosures*], which will be issued before the proposals in the Exposure Draft are finalised.

[IFRS XX] will permit eligible subsidiaries to apply the recognition, measurement and presentation requirements in IFRS Accounting Standards with reduced disclosures.

The IASB's proposals select appropriate disclosure requirements from those proposed for IFRS 7, based on the IASB's agreed principles for reducing disclosures.

Paragraphs BC257–BC261 explain the IASB's rationale for the selected disclosures.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why, taking into consideration the reduced disclosure principles described in BC258.

### Deadline

The IASB will consider all comments received in writing by 29 March 2024 [120 days].

### How to comment

Please submit your comments electronically:

Online	<a href="https://www.ifrs.org/projects/open-for-comment/">https://www.ifrs.org/projects/open-for-comment/</a>
By email	<a href="mailto:commentletters@ifrs.org">commentletters@ifrs.org</a>

Your comments will be on the public record and posted on our website unless you request confidentiality and we grant your request. We do not normally grant such requests unless they are supported by a good reason, for example, commercial confidence. Please see our website for details on this and on how we use your personal data. If you would like to request confidentiality, please contact us at [commentletters@ifrs.org](mailto:commentletters@ifrs.org) before submitting your letter.

## **[Draft] Amendments to IAS 32 *Financial Instruments: Presentation***

Paragraphs 15A, 22B–22D, 25A, 32A–32D and 97U–97Z and the heading before paragraph 32B are added. For ease of reading, these paragraphs and this heading have not been underlined. Paragraphs 11, 12, 16, 22, 23, 25, 31 and 41 and the heading before paragraph 15 are amended. In the amended paragraphs and heading, new text is underlined and deleted text is struck through. Paragraphs 15, 22A, 28 and 32 are not amended but are included for ease of reference.

### **Definitions (see also paragraphs AG3–AG23)**

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11 The following terms are used in this Standard with the meanings specified:

...

**Liquidation is the process that begins after an entity has permanently ceased its operations.**

12 The following terms are defined in Appendix A of IFRS 9, ~~or~~ paragraph 9 of IAS 39 *Financial Instruments: Recognition and Measurement* or paragraph 8 of IAS 21 *The Effects of Changes in Foreign Exchange Rates* and are used in this Standard with the meaning specified in IAS 21, IAS 39 and IFRS 9.

- amortised cost of a financial asset or financial liability
- derecognition
- derivative
- effective interest method
- financial guarantee contract
- financial liability at fair value through profit or loss
- firm commitment
- forecast transaction
- functional currency
- hedge effectiveness
- hedged item
- hedging instrument
- held for trading
- regular way purchase or sale
- transaction costs.

...

## Presentation

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### Liabilities and equity (see also paragraphs AG13–AG14J and AG25–AG29BA)

- 15 The issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument.
- 15A In classifying a financial instrument (or its component parts) as a financial liability, a financial asset or an equity instrument, an entity:
- (a) shall consider only contractual rights and obligations that are enforceable by laws (see paragraph 13) or regulations and are in addition to those created by relevant laws or regulations (such as statutory or regulatory requirements applicable to the instrument); and
  - (b) 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.
- 16 When an issuer applies the definitions in paragraph 11 to determine whether a financial instrument is an equity instrument rather than a financial liability, the instrument is an equity instrument if, and only if, both conditions (a) and (b) below are met.
- (a) The instrument includes no contractual obligation:
    - (i) to deliver cash or another financial asset to another entity; or
    - (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.
  - (b) If the instrument will or may be settled in the issuer's own equity instruments, it is:
    - (i) a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or
    - (ii) a derivative that will be settled only by the issuer exchanging a fixed amount of cash, a fixed amount of ~~or~~ another financial asset, or settling a fixed amount of its financial liability for a fixed number of its own equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Also, for these purposes the issuer's own equity instruments do not

include instruments that have all the features and meet the conditions described in paragraphs 16A and 16B or paragraphs 16C and 16D, or instruments that are contracts for the future receipt or delivery of the issuer's own equity instruments.

A contractual obligation, including one arising from a derivative financial instrument, that will or may result in the future receipt or delivery of the issuer's own equity instruments, but does not meet conditions (a) and (b) above, is not an equity instrument. As an exception, an instrument that meets the definition of a financial liability is classified as an equity instrument if it has all the features and meets the conditions in paragraphs 16A and 16B or paragraphs 16C and 16D.

...

#### **Settlement in the entity's own equity instruments (paragraph 16(b))**

...

22 Except as stated in paragraph 22A, for the purposes of applying paragraph 16(b)(ii), a contract that will be settled by the entity (receiving or delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash, a fixed amount of or another financial asset, or settling a fixed amount of its financial liability (often referred to as the 'fixed-for-fixed' condition) is an equity instrument. For example, an issued share option that gives the counterparty a right to buy a fixed number of the entity's shares for a fixed price or for a fixed stated principal amount of a bond is an equity instrument. Changes in the fair value of a contract arising from variations in market interest rates that do not affect the amount of cash or other financial assets to be paid or received, the amount of the entity's financial liability to be exchanged, or the number of equity instruments to be received or delivered, on settlement of the contract do not preclude the contract from being an equity instrument. Any consideration received (such as the premium received for a written option or warrant on the entity's own shares) is added directly to equity. Any consideration paid (such as the premium paid for a purchased option) is deducted directly from equity. Changes in the fair value of an equity instrument are not recognised in the financial statements.

22A If the entity's own equity instruments to be received, or delivered, by the entity upon settlement of a contract are puttable financial instruments with all the features and meeting the conditions described in paragraphs 16A and 16B, or instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation with all the features and meeting the conditions described in paragraphs 16C and 16D, the contract is a financial asset or a financial liability. This includes a contract that will be settled by the entity receiving or delivering a fixed number of such instruments in exchange for a fixed amount of cash or another financial asset.

## FINANCIAL INSTRUMENTS WITH CHARACTERISTICS OF EQUITY

- 22B For a contract to meet the requirements in paragraph 22 to be classified as an equity instrument, the amount of consideration to be exchanged for each of an entity's own equity instruments is required to be denominated in the entity's functional currency (subject to paragraphs 16(b)(ii), AG27A(a) and AG29B) and either:
- (a) fixed (will not vary under any circumstances); or
  - (b) variable solely because of a preservation adjustment or a passage-of-time adjustment or both (as specified in paragraph 22C).
- 22C For the purposes of paragraph 22B(b):
- (a) a preservation adjustment is an adjustment to the amount of consideration exchanged for each of an entity's own equity instruments (made by adjusting either the amount of consideration to be exchanged or the number of the entity's own equity instruments used to settle the derivative) that:
    - (i) is made upon the occurrence of a contractually specified event(s) that affects the economic interests of the current holders of the entity's own equity instruments (current equity instrument holders); and
    - (ii) preserves the economic interests of the future holders of the entity's own equity instruments (the future equity instrument holders) to an equal or lesser extent, relative to the economic interests of the current equity instrument holders; and
  - (b) a passage-of-time adjustment is an adjustment to the amount of consideration exchanged for each of an entity's own equity instruments (made by adjusting either the amount of consideration to be exchanged or the number of the entity's own equity instruments used to settle the derivative) that:
    - (i) is predetermined at the inception of the contract;
    - (ii) varies with the passage of time only; and
    - (iii) has the effect of fixing on initial recognition the present value of the amount of consideration exchanged for each of the entity's own equity instruments—any difference in the amounts of consideration to be exchanged on each possible settlement date represents compensation proportional to the passage of time.
- 22D In applying paragraphs 16(b)(ii) and 22, a contract that will or may be settled only by the exchange of a fixed number of one class of an entity's own non-derivative equity instruments for a fixed number of another class of the entity's own non-derivative equity instruments is an equity instrument.
- 23 With the exception of the circumstances described in paragraphs 16A and 16B or paragraphs 16C and 16D, a contract that contains an obligation for an entity to purchase its own equity instruments for cash or another financial asset or a variable number of another class of the entity's own equity



instruments to the value of the contractual obligation) gives rise to a financial liability for the present value of the redemption amount (for example, for the present value of the forward repurchase price, option exercise price or other redemption amount). This is the case even if the contract itself is an equity instrument. One example is an entity's obligation under a forward contract to purchase its own equity instruments for cash. The financial liability is recognised initially at the present value of the redemption amount by removing that amount, and is reclassified from equity and including it in financial liabilities. Subsequently, the financial liability is measured at the present value of the redemption amount in accordance with IFRS 9, and any gains or losses on remeasurement of the financial liability are recognised in profit or loss. If the contract expires without delivery, the carrying amount of the financial liability is removed from financial liabilities and included in reclassified to equity. An entity's contractual obligation to purchase its own equity instruments gives rise to a financial liability for the present value of the redemption amount even if the obligation to purchase is conditional on the counterparty exercising a right to redeem (eg a written put option that gives the counterparty the right to sell an entity's own equity instruments to the entity for a fixed price). The redemption amount is discounted, assuming redemption will occur at the earliest possible redemption date specified in the contract. Therefore, the probability and estimated timing of the counterparty exercising their right to redeem have no effect on the initial or subsequent measurement of the financial liability.

...

### **Contingent settlement provisions**

25 A financial instrument may require the entity to deliver cash or another financial asset, or otherwise to settle it in such a way that the instrument (or a component of it (see paragraph 28)) it would be a financial liability, in the event of the occurrence or non-occurrence of uncertain future events (or on the outcome of uncertain circumstances) that are beyond the control of both the issuer and the holder of the instrument. Examples of such uncertain future events or uncertain circumstances are, such as a change in a stock market index, consumer price index, interest rate or taxation requirements, or the issuer's future revenues, net income or debt-to-equity ratio. The issuer of such an instrument does not have the unconditional right to avoid delivering cash or another financial asset (or otherwise to settle it in such a way that the instrument (or a component of it) it would be a financial liability). Therefore, it is a financial liability of the issuer unless:

- (a) the part of the contingent settlement provision that could require settlement in cash or another financial asset (or otherwise in such a way that it would be a financial liability) is not genuine;
- (b) the issuer can be required to settle the obligation in cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability) only in the event of liquidation of the issuer; or
- (c) the instrument has all the features and meets the conditions in paragraphs 16A and 16B.

25A The occurrence or non-occurrence of uncertain future events (or the outcome of uncertain circumstances) described in paragraph 25 that would require settlement, are outside the issuer's control. Therefore, the probability and estimated timing of occurrence or non-occurrence of uncertain future events (or the outcome of uncertain circumstances) have no effect on the initial or subsequent measurement of the financial liability arising from the contingent settlement provision. An entity measures the financial liability on initial recognition and subsequently at the present value of the settlement amount. The settlement amount is discounted, assuming settlement will occur at the earliest possible settlement date specified in the contract. Any gains or losses on remeasurement of the financial liability are recognised in profit or loss.

...

**Compound financial instruments (see also paragraphs AG30–AG35 and Illustrative Examples 9–12)**

28 The issuer of a non-derivative financial instrument shall evaluate the terms of the financial instrument to determine whether it contains both a liability and an equity component. Such components shall be classified separately as financial liabilities, financial assets or equity instruments in accordance with paragraph 15.

...

31 Except as stated in paragraph 25A, IFRS 9 deals with the measurement of financial assets and financial liabilities. Equity instruments are instruments that evidence a residual interest in the assets of an entity after deducting all of its liabilities. Therefore, when the initial carrying amount of a compound financial instrument is allocated to its equity and liability components, the equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component (such as an equity conversion option) is included in the liability component. The sum of the carrying amounts assigned to the liability and equity components on initial recognition is always equal to the fair value that would be ascribed to the instrument as a whole. No gain or loss arises from initially recognising the components of the instrument separately.

32 Under the approach described in paragraph 31, the issuer of a bond convertible into ordinary shares first determines the carrying amount of the liability component by measuring the fair value of a similar liability (including any embedded non-equity derivative features) that does not have an associated equity component. The carrying amount of the equity instrument represented by the option to convert the instrument into ordinary shares is then determined by deducting the fair value of the financial liability from the fair value of the compound financial instrument as a whole.

- 32A Paragraph 28 applies to all compound financial instruments, including compound instruments with contingent settlement provisions (see paragraph 25). Therefore, an entity determining whether such an instrument contains both a liability and an equity component applies paragraph 25 to identify the liability component and paragraph 25A to measure the liability component. Any discretionary dividends or payments are part of the equity component even if, applying paragraph 25A, an entity allocates on initial recognition the carrying amount of the compound instrument entirely to the liability component. An entity, therefore, recognises any dividends paid as a distribution of profit or loss (see paragraph AG37). For example, consider a contingent convertible instrument that has no maturity date, but is convertible into a variable number of ordinary shares equal to the value of the contractual amount upon the occurrence of a contingent event that is beyond the control of both the issuer and the holder. Dividends are payable at the issuer's discretion. This instrument contains a liability component (the issuer's obligation to issue a variable number of its own equity instruments) and an equity component (the discretionary dividends).

### **Reclassification of financial liabilities and equity instruments**

- 32B **An entity shall not reclassify a financial liability or an equity instrument after initial recognition unless paragraph 16E applies or the substance of the contractual arrangement changes because of a change in circumstances external to the contractual arrangement. If the substance of the contractual arrangement changes because of a change in circumstances external to the contractual arrangement, an entity shall reclassify any affected financial liability or equity instrument (see paragraphs 32C–32D).**
- 32C Changes in circumstances external to the contractual arrangement arise from events not specified in the contract that have not been considered in classifying the financial instrument on initial recognition. Such events are not specific to a particular instrument, but would affect an entity's business activities and operations, for example, a change in an entity's functional currency or a change in an entity's group structure.
- 32D If an entity reclassifies an instrument as a financial liability or an equity instrument in accordance with paragraph 32B, the entity shall apply the reclassification prospectively from the date the change in circumstances occurs. The entity shall not reverse in profit or loss any previously recognised items of income, expense, gains or losses. The entity shall measure:
- (a) a financial liability reclassified from equity at the fair value of that financial liability at the date of reclassification. The entity shall recognise in equity any difference between the carrying amount of the equity instrument and the fair value of the financial liability at that date.
  - (b) an equity instrument reclassified from a financial liability at the carrying amount of the financial liability at the date of reclassification. The entity shall recognise no gain or loss on reclassification.

...

**Interest, dividends, losses and gains (see also paragraph AG37)**

...

- 41 Gains and losses related to changes in the carrying amount of a financial liability are recognised as income or expense in profit or loss even when they relate to an instrument that includes a right to the residual interest in the assets of the entity in exchange for cash or another financial asset (see paragraph 18(b)). ~~Under IAS 1 the entity presents any gain or loss arising from remeasurement of such an instrument separately in the statement of comprehensive income when it is relevant in explaining the entity's performance.~~

...

**Effective date and transition**

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...

- 97U *Financial Instruments with Characteristics of Equity* (Amendments to IAS 32, IFRS 7 and IAS 1), issued in [Month, Year], amended paragraphs 11, 12, 16, 22, 23, 25, 31, 41, AG28 and AG37, and added paragraphs 15A, 22B–22D, 25A, 32A–32D, 97V–97Z, AG24A–AG24B, AG27A–AG27D, AG28A–AG28C, AG29B and AG35A. An entity shall apply these amendments retrospectively in accordance with IAS 8 for annual periods beginning on or after [date to be determined], except as specified in paragraphs 97V–97Z. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact and apply all the amendments at the same time.

- 97V For the purposes of the transition requirements in paragraphs 97U and 97W–97Z:

- (a) the date of initial application is the beginning of the annual reporting period in which an entity first applies the amendments in paragraph 97U.
- (b) the transition date is the beginning of the annual reporting period immediately preceding the date of initial application. An entity may also present adjusted comparative information for any earlier periods presented, but is not required to do so. If an entity does present adjusted comparative information for any earlier periods, the reference to ‘the transition date’ shall be read as ‘the beginning of the earliest adjusted comparative period presented’. If an entity presents unadjusted comparative information for any earlier periods, it shall clearly identify the information that has not been adjusted, disclose that it has been prepared on a different basis, and explain that basis.

- 97W In first applying the amendments in paragraph 32A to a compound financial instrument with a contingent settlement provision, an entity need not separate the components if the liability component is no longer outstanding at the date of initial application.
- 97X If, in first applying the amendments in paragraph 97U, it is impracticable (as defined in IAS 8) for an entity to apply the effective interest method in IFRS 9 retrospectively, the entity shall treat the fair value at the transition date as the amortised cost of the financial liability at that date.
- 97Y In the reporting period that includes the date of initial application of the amendments in paragraph 97U, an entity is not required to disclose the quantitative information required by paragraph 28(f) of IAS 8.
- 97Z If the initial application of the amendments in paragraph 97U results in a change in classification of a financial instrument, an entity shall disclose—in the reporting period that includes the date of initial application of the amendments—the following information as at the transition date or, if the financial instrument was issued during a comparative period, as at the beginning of the first reporting period after the financial instrument was issued:
- (a) the previous classification and carrying amount of the financial instrument determined immediately before applying the amendments; and
  - (b) the new classification and carrying amount of the financial instrument determined after applying the amendments.

**[Draft] Amendments to Appendix—Application Guidance for IAS 32**

Paragraphs AG24A–AG24B, AG27A–AG27D, AG28A–AG28C, AG29B and AG35A and the headings before paragraphs AG24A, AG28A and AG35A are added. For ease of reading, these paragraphs and headings have not been underlined. Paragraphs AG28 and AG37 are amended. In the amended paragraphs, new text is underlined and deleted text is struck through.

**Presentation****Liabilities and equity (paragraphs 15–27)****Substance of a contractual arrangement (paragraphs 15 and 15A)**

AG24A A contractual right or obligation typically applies only to the specific instrument and can be negotiated or modified by the parties to the contract. In contrast, a right or obligation solely created by laws or regulations applies to all similar instruments and cannot be modified by the parties to the contract. Therefore, a change in relevant laws or regulations would affect all instruments subject to those laws or regulations.

AG24B An entity shall consider a contractual right or obligation, which is not solely created by laws or regulations but is in addition to a right or obligation created by relevant laws or regulations, in its entirety in classifying that right or obligation. The entity shall not disaggregate such a contractual right or obligation into contractual and non-contractual parts. For example, if the relevant laws require the issuer to pay a minimum dividend on an instrument, but the instrument's contractual terms specify a higher minimum dividend to be paid (more than the minimum dividend requirement established by relevant laws), the issuer classifies the instrument (or its component parts) based on the entire contractual minimum dividend requirement. The entire contractual obligation to pay dividends would, therefore, be classified as a financial liability or liability component.

...

**Settlement in the entity's own equity instruments (paragraphs 21–24)**

...

AG27A Paragraphs 22B and 22C specify requirements for assessing whether a derivative is an equity instrument. In applying those requirements:

- (a) in accordance with paragraph 16(b)(ii), regarding rights, options or warrants to acquire a fixed number of an entity's own equity instruments that the entity offers pro rata to all existing owners of the same class of its own non derivative equity instruments, the amount of consideration to be received on exercise of the instruments may be a fixed amount of any currency. For such instruments, the currency in

which the amount of consideration is denominated does not affect their classification.

- (b) if a derivative gives one party a choice of settlement between two or more classes of an entity's own equity instruments (such as a choice between settlement in ordinary shares or in preference shares, both of which are equity instruments), the requirements in paragraphs 22B and 22C are applied to each class of own equity instruments that may be delivered on settlement. Such a derivative is an equity instrument only if all the settlement alternatives meet these requirements.
- (c) an example of a preservation adjustment, as described in paragraph 22C(a), is an adjustment to the amount of consideration to be received on exercise of a warrant over an entity's ordinary shares to compensate the future shareholder fully or partly for dividends paid on ordinary shares while the warrant is outstanding. However, if any such adjustment benefits the future shareholder to a greater extent than a current shareholder, that adjustment is not a preservation adjustment.

AG27B As required by paragraph 23, if a contract contains an obligation for an entity to purchase its own equity instruments, the entity initially recognises a financial liability at the present value of the redemption amount by removing that amount from equity and including it in financial liabilities. If the entity does not yet have access to the rights and returns associated with ownership of the equity instruments to which the obligation relates (the rights and returns have not legally or in substance been transferred to the entity), these equity instruments would continue to be recognised. The initial amount of the financial liability would, therefore, be removed from a component of equity other than non-controlling interests or issued share capital.

AG27C Paragraph 23 also states that if a contract containing an obligation for an entity to purchase its own equity instruments expires without delivery, the entity is required to remove the carrying amount of the financial liability from financial liabilities and include it in equity. In applying that requirement, an entity:

- (a) recognises the amount included in equity in the same component of equity as that from which it was removed on initial recognition of the financial liability.
- (b) does not reverse in profit or loss any gains or losses previously recognised from remeasuring the financial liability. However, the entity may transfer the cumulative amount of those gains or losses from retained earnings to another component of equity.

AG27D If an entity's contractual obligation to purchase its own equity instruments is to be gross physically settled—consideration is to be exchanged for own equity instruments—the entity is required to present its contractual obligation on a gross basis even if the obligation arises from a written put option or a forward purchase contract. If the obligation was to be net settled (in cash or in shares)

or could be net settled (at the election of either the issuer or the holder), derivative accounting would apply.

### **Contingent settlement provisions (paragraph 25)**

AG28 Paragraph 25 requires that if a part of a contingent settlement provision that could require settlement in cash or another financial asset (or otherwise in such a way that the instrument would be in another way that would result in the instrument being a financial liability) is not genuine, the settlement provision does not affect the classification of a financial instrument. Thus, a contract that requires settlement in cash or a variable number of the entity's own shares only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur is an equity instrument. Similarly, settlement in a fixed number of an entity's own shares may be contractually precluded in circumstances that are outside the control of the entity, but if these circumstances are not genuine, have no genuine possibility of occurring, classification as an equity instrument is appropriate. Assessing whether a contingent settlement provision is not genuine requires judgement based on the specific facts and circumstances (including the terms and conditions of the instrument) and is not based solely on the probability or likelihood of the contingent event occurring. A settlement provision based on a contingent event that might be very unlikely to occur could be genuine if the nature of the contingent event is neither extremely rare nor highly abnormal. For example, a bank might issue a financial instrument qualifying as regulatory capital that includes a clause that requires the instrument to be settled in cash if the regulation changes in a way that no longer allows the instrument to be classified as regulatory capital (known as a 'regulatory change clause'). Although such a regulatory change might be assessed as very unlikely to occur at initial recognition of the instrument, the clause is included for a genuine reason, which is to ensure the bank maintains sufficient levels of regulatory capital.

### **Shareholder discretion (paragraph 19)**

AG28A In determining whether an obligation meets the definition of a financial liability, paragraph 19 requires an entity to assess whether it has an unconditional right to avoid delivering cash or another financial asset. For some financial instruments, settlement of an obligation is at the discretion of the entity's shareholders. Whether the entity has an unconditional right to avoid delivering cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability) depends, therefore, on the facts and circumstances relating to that shareholder discretion. Judgement is required to assess whether such shareholder decisions are treated as entity decisions that result in it having an unconditional right to avoid delivering cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability). Factors an entity is required to consider in making that assessment include whether:



- (a) a shareholder decision is routine in nature—made in the ordinary course of the entity’s business activities. Routine decisions that are part of the entity’s ordinary course of business are more likely to be treated as entity decisions.
- (b) a shareholder decision relates to an action proposed or a transaction initiated by the entity’s management for shareholder approval. If the entity’s management can avoid an outflow of cash from the entity by not proposing an action requiring shareholder approval, shareholder discretion would have no bearing on the classification of the instrument because the shareholders would not have to make a decision. In contrast, if a shareholder decision relates to an action proposed or a transaction initiated by a third party, the shareholder decision is unlikely to be treated as an entity decision.
- (c) different classes of shareholders benefit differently from a shareholder decision. If so, each class of shareholder is likely to make an independent decision as investors in a particular class of shares, and the shareholder decision is unlikely to be treated as an entity decision.
- (d) exercise of a shareholder decision-making right enables a shareholder to require the entity to redeem—or pay a return on—its shares in cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability). Such decision-making rights indicate that the shareholders would make their individual decisions as investors in the shares, and the shareholder decision is unlikely to be treated as an entity decision.

AG28B An entity shall consider relevant factors in assessing whether a particular shareholder decision is treated as an entity decision. The factors set out in paragraph AG28A(a)–(d) are not exhaustive; other factors might be relevant in assessing whether a shareholder decision is treated as an entity decision. The weightings applied to each factor in making that assessment depend on the specific facts and circumstances. Different factors might provide more persuasive evidence in different circumstances. An entity shall also consider whether any interdependencies between shareholder decision-making rights affect whether, overall, it has an unconditional right to avoid delivering cash or another financial asset (or otherwise to settle a financial instrument in such a way that it would be a financial liability).

AG28C The requirements in paragraphs AG28A–AG28B apply for the purposes of this Standard only. An entity shall not apply these requirements by analogy in applying the requirements in other IFRS Accounting Standards.

### **Treatment in consolidated financial statements**

...

AG29B Paragraph 22B specifies requirements for classifying as an equity instrument a contract that will be settled by an entity exchanging a fixed number of its own equity instruments for a fixed amount of consideration. One of these requirements is that the amount of consideration to be exchanged for each of the entity’s own equity instruments be in the entity’s functional currency. In

consolidated financial statements, in applying the requirements in paragraph 22B, an entity classifies a financial instrument as equity if the consideration amount is in the functional currency of the entity within the group whose equity instruments will be delivered on settlement (subject to the other requirements in paragraph 22B).

...

### **Reclassification of financial liabilities and equity (paragraphs 32B–32D)**

AG35A Examples of changes in circumstances external to a contractual arrangement that could change the substance of the contractual arrangement, as described in paragraph 32C, include:

- (a) an entity issuing an instrument that will be settled by delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash denominated in its functional currency and classifying the instrument on initial recognition as an equity instrument (see paragraph 22B). If, after initial recognition, the entity's functional currency changes, the substance of the contractual arrangement would change because the instrument will no longer be settled by delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash denominated in the entity's functional currency. This change in the substance of the contractual arrangement would lead to the equity instrument being reclassified as a financial liability.
- (b) a parent entity issuing an instrument that will be settled by delivering a fixed number of a non-group entity's equity instruments in exchange for a fixed amount of cash and classifying the instrument on initial recognition as a financial liability in its consolidated financial statements (see paragraph 22B). If, after initial recognition, the parent gains control of the non-group entity such that it becomes a subsidiary, the substance of the contractual arrangement would change because the instrument would be settled by delivering a fixed number of the group's own equity instruments in exchange for a fixed amount of cash. This change in the substance of the contractual arrangement would lead to the financial liability being reclassified as an equity instrument.

...

### **Interest, dividends, losses and gains (paragraphs 35–41)**

AG37 The following example illustrates the application of paragraph 35 to a compound financial instrument. Assume that a non-cumulative preference share is mandatorily redeemable for cash in five years, but that dividends are payable at the discretion of the entity before the redemption date. Such an instrument is a compound financial instrument, with the liability component being the present value of the redemption amount. The unwinding of the discount on this component is recognised in profit or loss and classified as interest expense. Any dividends paid relate to the equity component and,

accordingly, are recognised as a distribution of profit or loss. This treatment of dividends paid would apply even if the initial carrying amount of the equity component was zero (see paragraph 32A). A similar treatment would apply if the redemption was not mandatory but at the option of the holder, or if the share was mandatorily convertible into a variable number of ordinary shares calculated to equal a fixed amount or an amount based on changes in an underlying variable (eg a commodity price). However, if any unpaid dividends are added to the redemption amount, the entire instrument is a liability. In such a case, any dividends are classified as interest expense.

## **[Draft] Amendments to IFRS 7 *Financial Instruments: Disclosures***

Paragraphs 12E, 17A, 30A–30J and 44LL and the headings before paragraphs 30A, 30C, 30D, 30E, 30F, 30G, 30I and 30J are added. For ease of reading, these paragraphs and headings have not been underlined. Paragraphs 1, 3 and 20 and the heading before paragraph 17 are amended. In the amended heading, deleted text is struck through. In the amended paragraphs, new text is underlined and deleted text is struck through. Paragraph 17 is not amended but is included for ease of reference.

### **Objective**

- 1 The objective of this IFRS is to require entities to provide disclosures in their financial statements that enable users to evaluate:
- (a) the significance of financial instruments for the entity's financial position and performance; ~~and~~
  - (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks; ~~and~~ how the entity is financed, its capital resources and its ownership structure—including potential dilution to the ownership structure from financial instruments issued at the reporting date.
  - (c) how the entity is financed, its capital resources and its ownership structure—including potential dilution to the ownership structure from financial instruments issued at the reporting date.
- ...

### **Scope**

- 3 This IFRS shall be applied by all entities to all types of financial instruments, except:
- (a) those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements* or IAS 28 *Investments in Associates and Joint Ventures*. However, in some cases, IFRS 10, IAS 27 or IAS 28 require or permit an entity to account for an interest in a subsidiary, associate or joint venture using IFRS 9; in those cases, entities shall apply the requirements of this IFRS and, for those measured at fair value, the requirements of IFRS 13 *Fair Value Measurement*. Entities shall also apply this IFRS to all derivatives linked to interests in subsidiaries, associates or joint ventures ~~unless the derivative meets the definition of an equity instrument in IAS 32.~~
- ...

- (e) financial instruments, contracts and obligations under share-based payment transactions to which IFRS 2 *Share-based Payment* applies. ~~However, except that this IFRS applies to contracts within the scope of IFRS 9~~
- (i) share-based payment transactions are subject to the disclosure requirements in paragraphs 30G–30H; and
  - (ii) this IFRS applies to contracts within the scope of IFRS 9.
- (f) instruments that are required to be classified as equity instruments in accordance with paragraphs 16A and 16B or paragraphs 16C and 16D of IAS 32. ~~However:~~
- (i) paragraph 12E applies to puttable instruments classified as equity instruments in accordance with paragraphs 16A and 16B of IAS 32 and instruments classified as equity instruments in accordance with paragraphs 16C and 16D of IAS 32; and
  - (ii) paragraph 30I applies only to puttable instruments classified as equity instruments in accordance with paragraphs 16A and 16B of IAS 32.

...

## Significance of financial instruments for financial position and performance

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...

### Statement of financial position

...

### Reclassification

...

- 12E If an entity has reclassified financial instruments as financial liabilities or equity instruments in accordance with draft paragraph 32B of IAS 32, it shall disclose the amount reclassified into and out of each category (financial liabilities or equity), and the timing and reason for that reclassification.<sup>1</sup>

...

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<sup>1</sup> The disclosure requirements in paragraph 80A of IAS 1 *Presentation of Financial Statements* have been relocated to draft paragraph 12E of IFRS 7, subject to editorial changes. [IFRS 18 *General Presentation and Disclosures*] will include the same proposed amendments.

**Compound financial instruments with multiple embedded derivatives**

17 If an entity has issued an instrument that contains both a liability and an equity component (see paragraph 28 of IAS 32) and the instrument has multiple embedded derivatives whose values are interdependent (such as a callable convertible debt instrument), it shall disclose the existence of those features.

17A For compound financial instruments, with both a liability and an equity component, an entity shall disclose:

- (a) the terms and conditions of the instrument that determine its classification on initial recognition; and
- (b) the amounts allocated on initial recognition to the liability and equity components in the reporting period in which the financial instrument is initially recognised.

...

**Statement of comprehensive income**

**Items of income, expense, gains or losses**

20 An entity shall disclose the following items of income, expense, gains or losses either in the statement of comprehensive income or in the notes:

- (a) net gains or net losses on:
  - (i) financial assets or financial liabilities measured at fair value through profit or loss, showing separately those on financial assets or financial liabilities designated as such upon initial recognition or subsequently in accordance with paragraph 6.7.1 of IFRS 9, and those on financial assets or financial liabilities that are mandatorily measured at fair value through profit or loss in accordance with IFRS 9 (eg financial liabilities that meet the definition of held for trading in IFRS 9). For financial liabilities designated as at fair value through profit or loss, an entity shall show separately the amount of gain or loss recognised in other comprehensive income and the amount recognised in profit or loss. For financial liabilities that include contractual obligations to pay amounts that vary with the issuing entity's performance or changes in its net assets, the entity shall disclose the gains or losses recognised on these financial liabilities in each reporting period separately from the gains or losses on other financial liabilities.

...

**Other disclosures**

...

**Nature and priority of claims on liquidation, arising from financial instruments**

- 30A An entity shall disclose information that enables users of financial statements to understand the nature and priority of claims against the entity on liquidation, arising from all of its financial liabilities and equity instruments within the scope of IAS 32.
- 30B To meet the objective in paragraph 30A, an entity shall disclose the carrying amounts of each class of claims arising from these financial instruments and the line item in the statement of financial position in which each class of claims is included (if not otherwise apparent). For the purposes of this disclosure, the entity shall group these claims into classes based on their contractual nature and priority on liquidation and, therefore, at a minimum:
- (a) in its separate and consolidated financial statements, distinguish between:
    - (i) secured and unsecured claims; and
    - (ii) subordinated and unsubordinated claims; and
  - (b) in its consolidated financial statements, distinguish between:
    - (i) financial liabilities and equity instruments that the parent has issued; and
    - (ii) financial liabilities that subsidiaries have issued and non-controlling interest in those subsidiaries—the entity is not required to disclose those financial liabilities or non-controlling interests separately for each subsidiary.

**Terms and conditions**

- 30C An entity shall disclose information about financial instruments with both financial liability and equity characteristics that enables users of financial statements to understand how the terms and conditions of these financial instruments affect the nature, amount, timing and uncertainty of their cash flows. To meet this objective, an entity shall provide information about terms and conditions:
- (a) of financial instruments with both financial liability and equity characteristics (see paragraphs 30D and 30E); and
  - (b) that are affected by the passage of time (see paragraph 30F).

*Financial instruments with both financial liability and equity characteristics*

- 30D An entity shall explain how the terms and conditions of financial instruments with both financial liability and equity characteristics (excluding all stand-alone derivatives) relate to their classification as financial liabilities or equity instruments. For this purpose, an entity shall disclose:
- (a) the terms and conditions of financial instruments that determine their classification as financial liabilities or equity instruments.

## FINANCIAL INSTRUMENTS WITH CHARACTERISTICS OF EQUITY

- (b) cash flow characteristics that are not representative of the classification of financial instruments as financial liabilities or equity instruments, but that are relevant to an understanding of the nature of those financial instruments. For this purpose, an entity shall disclose:
  - (i) 'debt-like characteristics' for instruments classified as equity instruments (see paragraphs B5C–B5D); and
  - (ii) 'equity-like characteristics' for instruments classified as financial liabilities (see paragraphs B5E–B5F).

### Priority on liquidation

30E For the financial instruments described in paragraph 30D, an entity shall provide information that enables users of financial statements to understand the priority on liquidation of each class of financial instruments. To meet this objective, an entity shall disclose:

- (a) the terms and conditions of financial instruments that indicate their priority on liquidation, including those that could lead to a change in priority on liquidation (for example conversion or contingent features);
- (b) information about the contractual subordination of instruments in a class of financial instruments if it differs from the contractual subordination of the other instruments in that class;
- (c) information about any significant uncertainty about how laws or regulations applicable to financial instruments could affect their priority on liquidation—an entity would not be required to predict what the legal outcomes might be when providing this disclosure; and
- (d) a description (including the nature and amount if such information is available) of any intra-group arrangements, such as guarantees, that might affect the priority of these financial instruments on liquidation of the entity that has issued them.

### Passage of time

30F An entity shall disclose information about terms and conditions of financial liabilities (including all stand-alone derivatives) that become, or stop being, effective with the passage of time before the end of the instrument's contractual term.

### Potential dilution of ordinary shares

30G An entity shall provide information that enables users of financial statements to understand the potential dilution to the entity's ownership structure resulting from financial instruments issued at the reporting date. To meet this objective, an entity shall disclose information about the maximum dilution of *ordinary shares*, including:

- (a) the maximum number of additional ordinary shares the entity might be required to deliver for each class of *potential ordinary shares* outstanding at the end of the reporting period;



- (b) a description of contracts or other commitments to repurchase ordinary shares and the minimum number of each class of ordinary shares the entity is required to repurchase;
- (c) a description of the causes of any important changes in the information disclosed in accordance with (a) or (b) from the prior reporting period, including how those causes contributed to the changes; and
- (d) a description of the terms and conditions of contracts that are relevant in understanding the likelihood of the maximum dilution of ordinary shares for each class of potential ordinary shares outstanding at the end of the reporting period.

30H An entity shall set out the information required by paragraph 30G in a table (to the extent possible), which shall also include for each class of ordinary shares:

- (a) the total maximum number of additional ordinary shares the entity might be required to deliver—the sum of the amounts disclosed in accordance with paragraph 30G(a); and
- (b) the net maximum number of additional ordinary shares the entity may be required to deliver, calculated by subtracting the minimum number of ordinary shares the entity is required to repurchase (as disclosed in accordance with paragraph 30G(b)) from the total maximum number of additional ordinary shares the entity might be required to deliver (as disclosed in accordance with paragraph 30H(a)).

#### **Puttable financial instruments classified as equity instruments**

30I An entity shall disclose information that enables users of financial statements to evaluate the nature, amount, timing and uncertainty of cash flows arising from puttable financial instruments it issues. For puttable financial instruments classified as equity instruments in accordance with paragraphs 16A–16B of IAS 32, the entity shall disclose (if not disclosed elsewhere):<sup>2</sup>

- (a) a summary of quantitative information about the amount classified as equity instruments;
- (b) its objectives, policies and processes for managing its obligation to repurchase or redeem the instruments when required to do so by the instrument holders, including any changes from the prior reporting period; and
- (c) the expected cash outflow on redemption or repurchase of that class of financial instruments and how the entity determined this expected cash outflow.

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<sup>2</sup> The disclosure requirements in paragraph 136A of IAS 1 *Presentation of Financial Statements* have been relocated to draft paragraph 30I of IFRS 7, subject to the inclusion of a disclosure objective and editorial changes. [IFRS 18 *General Presentation and Disclosures*] will include the same proposed amendments.

**Financial instruments that include an obligation for an entity to purchase its own equity instruments**

- 30J To enable users of financial statements to understand the accounting for financial instruments that include an obligation for an entity to purchase its own equity instruments, the entity shall disclose:
- (a) the amount removed from equity and included in financial liabilities on initial recognition of the obligation as a financial liability, and the component of equity from which that amount was removed;
  - (b) the amount of any remeasurement gain or loss recognised in profit or loss during the reporting period;
  - (c) the amount of any gain or loss recognised on settlement, if the obligation was settled during the reporting period;
  - (d) the amount removed from financial liabilities and included in equity, if the obligation has expired unexercised during the reporting period; and
  - (e) any transfers within equity of amounts related to the obligation during the reporting period and the components of equity from and to which these amounts were transferred.
- ...

**Effective date and transition**

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- ...
- 44LL *Financial Instruments with Characteristics of Equity* (Amendments to IAS 32, IFRS 7 and IAS 1), issued in [Month, Year], added paragraphs 12E, 17A, 30A–30J, B5A–B5L and new references to terms that are defined in IAS 33 *Earnings per Share* and IFRS 2, and amended paragraphs 1, 3 and 20. An entity shall apply these amendments when it applies the amendments to IAS 32 and IAS 1 arising from *Financial Instruments with Characteristics of Equity*.

## [Draft] Amendments to Appendix A—Defined terms

New references to terms that are defined in IAS 33 *Earnings per Share* and IFRS 2 *Share-based Payment* and are used in this Accounting Standard with the meaning specified in those Standards have been added. Added text is underlined.

...

The following terms are defined in paragraph 11 of IAS 32, paragraph 5 of IAS 33, paragraph 9 of IAS 39, Appendix A of IFRS 2, Appendix A of IFRS 9 or Appendix A of IFRS 13 and are used in this IFRS with the meaning specified in IAS 32, IAS 33, IAS 39, IFRS 2, IFRS 9 and IFRS 13.

...

- loss allowance
- ordinary share
- past due
- performance condition
- potential ordinary share
- purchased or originated credit-impaired financial assets
- reclassification date
- regular way purchase or sale.
- vesting period.

## [Draft] Amendments to Appendix B—Application Guidance for IFRS 7

Paragraphs B5A–B5L, the main heading before paragraph B5 and the headings before paragraphs B5, B5B, B5H and B5I have been added. For ease of reading, these paragraphs and headings have not been underlined. The heading before paragraph B5 has been amended. In the amended heading, added text is underlined and deleted text is struck through. Paragraph B5 has been amended. Deleted text is struck through.

### Significance of financial instruments for financial position and performance (paragraphs 7–30J)

#### ~~Other disclosures disclosure—accounting policies (paragraph 21)~~

#### ~~Accounting policies (paragraph 21)~~

B5 Paragraph 21 requires disclosure of material accounting policy information, which is expected to include information about the measurement basis (or bases) for financial instruments used in preparing the financial statements. For financial instruments, such disclosure may include:

- (a) for financial liabilities designated as at fair value through profit or loss:
  - (i) the nature of the financial liabilities the entity has designated as at fair value through profit or loss;
  - (ii) the criteria for so designating such financial liabilities on initial recognition; and
  - (iii) how the entity has satisfied the conditions in paragraph 4.2.2 of IFRS 9 for such designation.

...

- (e) how net gains or net losses on each category of financial instrument are determined (see paragraph 20(a)), for example, whether the net gains or net losses on items at fair value through profit or loss include interest or dividend income.
- (f) [deleted]
- (g) [deleted]

~~Paragraph 122 of IAS 1 (as revised in 2007) also requires entities to disclose, along with material accounting policy information or other notes, the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.~~

B5A Along with the requirements for disclosing material accounting policy information or other notes, paragraph 122 of IAS 1 (as revised in 2021) also requires an entity to disclose the judgements that management has made in applying the entity's accounting policies and that have the greatest effect on the amounts recognised in the financial statements. For example, an entity shall disclose the judgements that management has made in classifying a financial instrument (including all stand-alone derivatives), or its component parts, as a financial liability or as an equity instrument, if those judgements are among the judgements that have the most significant effect on the amounts recognised in the entity's financial statements. Note, however, that an entity is not required to disclose judgements based on estimations.

### **Terms and conditions**

#### *Financial instruments with both financial liability and equity characteristics (paragraphs 30D–30E)*

B5B Paragraph 30D(a) requires an entity to disclose the terms and conditions that determine whether an instrument is classified as a financial liability or an equity instrument. For the purposes of paragraphs 30D–30E, a financial instrument has both financial liability and equity characteristics if it is classified as:

- (a) an equity instrument that also has 'debt-like characteristics' (see paragraphs B5C and B5D); or
- (b) a financial liability that also has 'equity-like characteristics' (see paragraphs B5E and B5F).

B5C An equity instrument with debt-like characteristics has contractual terms that give rise to cash flows with characteristics of nature, timing or amount that are similar to those of a financial liability, but without a contractual obligation to deliver cash. Debt-like characteristics might cause an entity to deliver debt-like cash flows without a contractual obligation to do so.

B5D An equity instrument with debt-like characteristics has terms and conditions that:

- (a) might result in payments to the instrument holder of fixed amounts or determinable amounts based on a market rate of interest on specified dates, despite the issuer's contractual right to avoid or defer making those payments before its liquidation—for example, a preference share that is not redeemable by the holder, with fixed cumulative coupon amounts, specified coupon payment dates and a fixed principal amount;
- (b) incentivise the issuing entity to make payments to the instrument holder of fixed amounts or determinable amounts based on a market rate of interest on specified dates, despite the issuer's contractual right to avoid making those payments before its liquidation—for example, a perpetual instrument with cumulative coupon payments at an increasing interest rate if the issuer chooses not to redeem the instrument on or before a specified date;

## FINANCIAL INSTRUMENTS WITH CHARACTERISTICS OF EQUITY

- (c) include a contractual right for the issuer to choose whether to settle the instrument in either a fixed amount of cash or a fixed number of its own equity instruments at a specified date—for example, some instruments known as ‘reverse convertibles’ are classified as equity instruments, but give the issuer the contractual right to settle the instrument in a fixed amount of cash; or
  - (d) include a contractual right for the issuer to redeem a perpetual instrument after a specified number of years for a fixed amount of a specified currency.
- B5E A financial liability with equity-like characteristics has contractual terms that give rise to cash flows with characteristics of nature, timing or amount that are similar to those of ordinary shares. Equity-like characteristics do not negate the issuer’s contractual obligation to deliver cash, but might affect the amount or timing of the cash flows the issuer has an obligation to deliver. However, in some cases, equity-like characteristics might result in an entity delivering its own equity instruments to settle an obligation or paying less than the full amount of the obligation.
- B5F A financial liability with equity-like characteristics has terms and conditions that either:
- (a) will or might result in payments to the instrument holder of amounts that are variable or indeterminable, or that might not occur on specified dates, such as:
    - (i) payments that are directionally consistent with changes in the issuer’s financial performance, financial position or share price—for example, an instrument that requires payment of amounts based on the issuer’s profit or share price;
    - (ii) payments that are reduced in amount upon the occurrence of a specified event to absorb losses arising from an adverse change in the issuer’s financial position—for example, an instrument with a principal amount that is reduced upon the occurrence of a specified decline in the issuer’s capital ratio;
    - (iii) payments the issuer is required to make only after settling its obligations to other instrument holders—for example, a subordinated debt instrument; and
    - (iv) payments the issuer has the contractual right to avoid for a specified time—for example, a redeemable instrument with coupon payments that the issuer has the right to defer for a specified time; or
  - (b) allow the issuer, or include a contractual obligation for the issuer, to settle the instrument by delivering its own equity instruments to the instrument holder—for example, a financial instrument that is settled by delivering a variable number of the entity’s own equity instruments would meet the definition of a financial liability, however would include equity-like characteristics.

B5G An entity shall include both quantitative and qualitative information in its disclosure of debt-like and equity-like characteristics to enable users of financial statements to understand how these characteristics affect the nature, amount, timing and uncertainty of its cash flows.

**Priority on liquidation**

B5H To meet the disclosure requirements in paragraph 30E, an entity could, for example, disclose:

- (a) that its subordinated liabilities rank junior to its unsubordinated liabilities and they rank senior to its ordinary and preference shares.
- (b) that a class of financial instruments, such as contingent convertible bonds, might be converted into lower priority instruments, such as ordinary shares, before the entity is liquidated. In the banking industry, for instance, resolution is a term commonly used to describe the process of enabling an insolvent bank to continue its normal business activities so as to avoid harming public interest or causing financial instability. A financial instrument might be converted into lower priority financial instruments, such as ordinary shares, or written down in the event of the issuer's resolution. Therefore, the terms and conditions relating to conversion and write-down could change the priority of those instruments on liquidation if resolution occurs before liquidation.
- (c) which entities within the group have provided or received guarantees to or from other entities within the group and how those guarantees affect the priority of applicable instruments.

**Potential dilution of ordinary shares (paragraphs 30G–30H)<sup>3</sup>**

B5I Paragraph 30G(a) requires an entity to disclose the maximum number of additional ordinary shares it might be required to deliver for each class of potential ordinary shares outstanding at the end of the reporting period. Except for share-based payment arrangements within the scope of IFRS 2 (see paragraph B5J), for the purposes of the disclosure required by paragraph 30G(a), an entity shall:

- (a) include anti-dilutive instruments that could become dilutive in future even if they are not dilutive at the reporting date.
- (b) use assumptions that maximise the number of additional ordinary shares it might be required to deliver. For example, an entity shall assume that:
  - (i) all outstanding written call options, warrants and conversion options in convertible instruments that might require the entity to deliver ordinary shares are exercised – resulting in the entity delivering the maximum total number of ordinary shares

<sup>3</sup> The requirements in paragraphs 30G–30H and B5I–B5L apply only for the purposes of this Standard. These requirements do not affect (and differ from) requirements in IAS 33 *Earnings per Share*.

on settlement of these options or warrants (not only the bonus element)<sup>4</sup>;

- (ii) if settlement in shares (or the number of shares to be delivered) is contingent upon an uncertain event occurring, that the contingent event has occurred; and
  - (iii) if either the entity or the counterparty has a choice of settlement in cash or settlement by the entity delivering ordinary shares to the counterparty, settlement is in ordinary shares.
- (c) if the maximum number of additional ordinary shares an entity might be required to deliver for a class of potential ordinary shares is unknown at the end of the reporting period, the entity shall disclose that fact. For example, if an entity is required to deliver a variable number of shares to the value of a fixed or variable amount (such as the prevailing price of gold), without a cap on the number of shares to be delivered, the maximum number of additional ordinary shares the entity is required to deliver would be unknown at the end of the reporting period.

B5J For share-based payment arrangements within the scope of IFRS 2 that might require an entity to deliver ordinary shares, for the purposes of the disclosure required by paragraph 30G(a) of IFRS 7, the maximum number of additional ordinary shares an entity might be required to deliver at the end of the reporting period includes:

- (a) the total number of ordinary shares that would be delivered if all share options outstanding at the end of the reporting period – as disclosed in accordance with paragraph 45(b)(vi) of IFRS 2 – were exercised.
- (b) the maximum number of additional ordinary shares the entity might be required to deliver for other share-based payment arrangements, if known at the end of the reporting period. If this number is unknown at the end of the reporting period, the entity shall disclose that fact. For example, if an arrangement requires an entity to deliver 200 shares at the end of the *vesting period* (or either 100 or 200 shares, depending on the outcome of a *performance condition*), the maximum number of additional ordinary shares the entity might be required to deliver is 200 shares. In contrast, if the number of shares an entity will deliver at the end of the vesting period is based on an increase in the entity's revenue or share price over the vesting period, without a cap on the number of shares to be delivered, the maximum number of additional ordinary shares the entity might be required to deliver would be unknown at the end of the reporting period.

<sup>4</sup> For the purposes of paragraphs B5I and B5K, the difference between the total number of shares issued or repurchased and the number of shares assumed to be issued at the average market price is referred to as the 'bonus element'.



- B5K For contracts or other commitments to repurchase ordinary shares, paragraph 30G(b) of IFRS 7 requires an entity to disclose the minimum number of ordinary shares it is required to repurchase. For the purposes of this disclosure:
- (a) the entity's commitment to repurchase ordinary shares might arise before it enters into a contract for that repurchase from a specific counterparty (or counterparties).
  - (b) the entity uses assumptions that minimise the number of ordinary shares to be repurchased. For example, the entity shall assume:
    - (i) purchased call options and written put options to repurchase the entity's ordinary shares are not exercised (except as stated in (c)); and
    - (ii) the number of shares it repurchases is the minimum number of shares (not only the bonus element) required under the terms of forward contracts or other commitments to repurchase ordinary shares.
  - (c) the entity shall include, in the minimum number of ordinary shares it is required to repurchase, the number of ordinary shares that would be repurchased on the exercise of any purchased call options on ordinary shares that meet two conditions, namely:
    - (i) the call options were purchased to mitigate the risk of the entity having to deliver ordinary shares on the settlement of specific potential ordinary shares; and
    - (ii) the purchased call options have the same exercise price and exercise date (or exercise period) as those potential ordinary shares.
- B5L For each class of potential ordinary shares outstanding at the end of the reporting period, paragraph 30G(d) of IFRS 7 requires an entity to disclose a description of the terms and conditions of contracts that are relevant in understanding the likelihood of the maximum dilution of ordinary shares. In applying this requirement to share-based payment arrangements within the scope of IFRS 2, an entity provides a cross-reference to the information disclosed in accordance with paragraph 45(a) of IFRS 2.

## **[Draft] Amendments to IAS 1 *Presentation of Financial Statements***

Paragraph 139X is added. For ease of reading, this paragraph has not been underlined. Paragraphs 54, 81B and 107–108 are amended. In the amended paragraphs, new text is underlined and deleted text is struck through. Paragraphs 106–106A are not amended but are included for ease of reference. Paragraphs 80A and 136A and the heading before paragraph 136A are deleted.

### **Structure and content**

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...

#### **Statement of financial position**

##### **Information to be presented in the statement of financial position**

54 The statement of financial position shall include line items that present the following amounts:

...

- (q) non-controlling interests, presented within equity; and
- (r) issued capital and reserves attributable to: ~~owners of the parent.~~
  - (i) ordinary shareholders of the parent; and
  - (ii) other owners of the parent.

...

##### **Information to be presented either in the statement of financial position or in the notes**

...

80A ~~If an entity has reclassified~~

- (a) ~~a puttable financial instrument classified as an equity instrument, or~~
- (b) ~~an instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and is classified as an equity instrument~~

~~between financial liabilities and equity, it shall disclose the amount reclassified into and out of each category (financial liabilities or equity), and the timing and reason for that reclassification.<sup>5</sup>~~

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<sup>5</sup> Disclosure requirements in paragraph 80A of IAS 1 *Presentation of Financial Statements* have been relocated to [draft] paragraph 12E of IFRS 7, subject to editorial corrections. [IFRS 18 *General Presentation and Disclosures*] will include the same proposed amendments.

## Statement of profit or loss and other comprehensive income

...

81B An entity shall present the following items, in addition to the profit or loss and other comprehensive income sections, as allocation of profit or loss and other comprehensive income for the period:

- (a) profit or loss for the period attributable to:
  - (i) non-controlling interests; ~~and~~
  - (ia) ordinary shareholders of the parent; and
  - (ii) other owners of the parent.
- (b) comprehensive income for the period attributable to:
  - (i) non-controlling interests; ~~and~~
  - (ia) ordinary shareholders of the parent; and
  - (ii) other owners of the parent.

If an entity presents profit or loss in a separate statement it shall present (a) in that statement.

...

## Statement of changes in equity

### Information to be presented in the statement of changes in equity

106 An entity shall present a statement of changes in equity as required by paragraph 10. The statement of changes in equity includes the following information:

- (a) total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;
- (b) for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with IAS 8; and
- (c) [deleted]
- (d) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately (as a minimum) disclosing changes resulting from:
  - (i) profit or loss;
  - (ii) other comprehensive income; and

## FINANCIAL INSTRUMENTS WITH CHARACTERISTICS OF EQUITY

- (iii) transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.

### Information to be presented in the statement of changes in equity or in the notes

- 106A For each component of equity an entity shall present, either in the statement of changes in equity or in the notes, an analysis of other comprehensive income by item (see paragraph 106(d)(ii)).
- 107 An entity shall present, either in the statement of changes in equity or in the notes, the amount of dividends recognised as distributions to ordinary shareholders and to other owners during the period, and the related amounts of dividends per share.
- 108 In paragraph 106, the components of equity include, for example, each class of ordinary share capital, each class of other contributed equity, the accumulated balance of each class of other comprehensive income and retained earnings.

...

### Notes

...

### Puttable financial instruments classified as equity

- 136A ~~[deleted]For puttable financial instruments classified as equity instruments, an entity shall disclose (to the extent not disclosed elsewhere):~~
- ~~(a) summary quantitative data about the amount classified as equity;~~
  - ~~(b) its objectives, policies and processes for managing its obligation to repurchase or redeem the instruments when required to do so by the instrument holders, including any changes from the previous period;~~
  - ~~(c) the expected cash outflow on redemption or repurchase of that class of financial instruments; and~~
  - ~~(d) information about how the expected cash outflow on redemption or repurchase was determined.~~

...

### Transition and effective date

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...

- 139X *Financial Instruments with Characteristics of Equity* (Amendments to IAS 32, IFRS 7 and IAS 1), issued in [Month, Year], amended paragraphs 54, 81B and 107–108 and deleted paragraphs 80A and 136A. An entity shall apply these amendments when it applies the amendments to IAS 32 and IFRS 7 arising from *Financial Instruments with Characteristics of Equity*.

**[Draft] Amendments to [IFRS XX *Subsidiaries without Public Accountability: Disclosures*]**

Paragraphs 61A–61E and the headings before paragraphs 61A, 61B, 61C, 61D and 61E are added. For ease of reading these paragraphs and headings have not been underlined. Paragraphs 54 and 124 are amended. In the amended paragraphs, new text is underlined and deleted text is struck through.

...

**IFRS 7 *Financial Instruments: Disclosures***

...

**Items of income, expense, gains or losses**

54 An entity shall disclose separately:

- (a) *income*, expense, gains or losses, including changes in fair value, recognised on:
  - (i) financial assets or financial liabilities measured at fair value through profit or loss. For financial liabilities that include contractual obligations to pay amounts that vary with the issuing entity's performance or changes in its net assets, the entity shall disclose the gains or losses recognised on these financial liabilities in each reporting period separately from the gains or losses on other financial liabilities;
  - (ii) financial assets measured at amortised cost;
  - (iii) financial liabilities measured at amortised cost;
  - (iv) investments in equity instruments designated at fair value through other comprehensive income in accordance with paragraph 5.7.5 of IFRS 9; and
  - (v) financial assets measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A of IFRS 9, showing separately the amount of gain or loss recognised in other comprehensive income during the period, and the amount reclassified upon derecognition from accumulated other comprehensive income to profit or loss for the period.

...

**Nature and priority of claims on liquidation, arising from financial instruments**

- 61A For all of its financial liabilities and equity instruments within the scope of IAS 32, an entity shall disclose the carrying amounts of each class of claims arising from those financial instruments and the line item in the statement of financial position in which each class of claims is included (if not otherwise apparent). For the purposes of this disclosure, the entity shall group these claims into classes based on their contractual nature and priority on liquidation and, therefore, at a minimum:
- (a) in its separate and consolidated financial statements, distinguish between:
    - (i) secured and unsecured claims; and
    - (ii) subordinated and unsubordinated claims; and
  - (b) in its consolidated financial statements, distinguish between:
    - (i) financial liabilities and equity instruments that the parent has issued; and
    - (ii) financial liabilities that subsidiaries have issued and non-controlling interest in those subsidiaries—the entity is not required to disclose those financial liabilities or non-controlling interests separately for each subsidiary.

**Financial instruments with both financial liability and equity characteristics**

- 61B For financial instruments with both financial liability and equity characteristics (excluding all stand-alone derivatives), an entity shall disclose:
- (a) the terms and conditions of financial instruments that determine their classification as financial liabilities or equity instruments.
  - (b) cash flow characteristics that are not representative of the classification of financial instruments as financial liabilities or equity instruments, but that are relevant to an understanding of the nature of those financial instruments. For this purpose, an entity shall disclose:
    - (i) ‘debt-like characteristics’ for instruments classified as equity instruments; and
    - (ii) ‘equity-like characteristics’ for instruments classified as financial liabilities.

*Priority on liquidation*

- 61C For the financial instruments described in paragraph 61B, an entity shall disclose:
- (a) the terms and conditions of financial instruments that indicate their priority on liquidation, including those that could lead to a change in priority on liquidation (for example conversion or contingent features);

- (b) information about the contractual subordination of instruments included in a class of financial instruments if it differs from the contractual subordination of the other instruments in that class;
- (c) information about any significant uncertainty about how laws or regulations applicable to financial instruments could affect their priority on liquidation—an entity would not be required to predict what the legal outcomes might be when providing this disclosure; and
- (d) a description (including the nature and amount if such information is available) of any intra-group arrangements, such as guarantees, that might affect the priority of these financial instruments on liquidation of the entity that has issued them.

#### **Passage of time**

- 61D An entity shall disclose information about terms and conditions of financial liabilities (including all stand-alone derivatives) that become, or stop being, effective with the passage of time before the end of the instrument's contractual term.

#### **Financial instruments that include an obligation for an entity to purchase its own equity instruments**

- 61E For financial instruments that include an obligation for an entity to purchase its own equity instruments, the entity shall disclose:

- (a) the amount removed from equity and included in financial liabilities on initial recognition of the obligation as a financial liability, and the component of equity from which that amount was removed;
- (b) the amount of any remeasurement gain or loss recognised in profit or loss during the reporting period;
- (c) the amount of any gain or loss recognised on settlement, if the obligation was settled during the reporting period; and
- (d) the amount removed from financial liabilities and included in equity, if the written obligation has expired unexercised during the reporting period.

...

#### **Information about judgements**

- 124 An entity shall disclose, along with its material accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. Examples of judgements that an entity may be required to disclose include those determining:

- (a) when recognising revenue from contracts with customers: the transaction price, the amounts allocated to performance obligations, and the timing of satisfaction of performance obligations;

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- (b) appropriate classes of assets and liabilities for which disclosures about fair value measurements should be provided;
- (c) that the entity has control of another entity;
- (d) that the entity has *joint control* of an arrangement or *significant influence* over another entity;
- (e) the type of *joint arrangement* (that is, a *joint operation* or joint venture) when the arrangement has been structured through a *separate vehicle*; and
- (f) that the entity is an investment entity; and
- (g) the classification of a financial instrument (including stand-alone derivatives), or its component parts, as a financial liability or an equity instrument.



**Approval by the International Accounting Standards Board of  
Exposure Draft *Financial Instruments with Characteristics of  
Equity* published in [November 2023]**

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The Exposure Draft *Financial Instruments with Characteristics of Equity* was approved for publication by [13] of the 14 members of the International Accounting Standards Board. Mr Uhl voted against its publication. His alternative view is set out after the Basis for Conclusions.

Andreas Barckow	Chair
Linda Mezon-Hutter	Vice-Chair
Nick Anderson	
Patrina Buchanan	
Tadeu Cendon	
Florian Esterer	
Zach Gast	
Hagit Keren	
Jianqiao Lu	
Bruce Mackenzie	
Bertrand Perrin	
Rika Suzuki	
Ann Tarca	
Robert Uhl	



# IFRS<sup>®</sup>

Foundation

Columbus Building  
7 Westferry Circus  
Canary Wharf  
London E14 4HD, UK

Tel **+44 (0) 20 7246 6410**

Email **customerservices@ifrs.org**

**[ifrs.org](http://ifrs.org)**