IFRS Accounting

Staff paper

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IASB® meeting

Date	**October 2024**
Project	**Financial Instruments with Characteristics of Equity (FICE)**
Topic	**Detailed feedback—presentation of equity instruments**
Contacts	Hongrun Zhang (hongrun.zhang@ifrs.org) Angie Ah Kun (aahkun@ifrs.org) Riana Wiesner (rwiesner@ifrs.org)

Purpose of the paper

1. In this paper the staff summarise the detailed feedback from comment letters and outreach on the proposals about the presentation of equity instruments in the Exposure Draft *Financial Instruments with Characteristics of Equity* (the ED) issued in November 2023. This paper does not ask for any decisions from the IASB. Agenda Paper 5B contains the staff's analysis and preliminary views on this topic.

2. This paper is structured as follows:
   (a) background and questions in the ED;
   (b) summary of feedback:
      (i) overview;
      (ii) distinction between ordinary shareholders and other owners;
      (iii) basis and method for determining amounts for separate presentation;
      (iv) costs versus benefits of the proposed amendments; and
      (v) various other issues; and
   (c) question for the IASB.

Background and questions in the ED

3. The proposed amendments to IAS 1 *Presentation of Financial Statements* require an entity to present amounts attributable to ordinary shareholders of the parent separately from amounts attributable to other owners of the parent in the statement of financial position, the statement of comprehensive income and the statement of changes in equity.

4. The proposed amendments do not affect the existing requirements for presenting amounts attributable to non-controlling interests. These proposals are intended to meet the needs of investors in ordinary shares for transparency and a clearer distinction of returns attributable to ordinary shareholders and returns attributable to others.

5. The IASB asked these questions:

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

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

Summary of feedback

Overview

6. There was general appreciation for the IASB's efforts to enhance the presentation of equity instruments, and provide additional information about the amounts attributable to ordinary shareholders of the parent and amounts attributable to other owners of the parent. However, feedback on the presentation proposals was mixed, ranging from full agreement, some reservations to disagreement.

7. Most users of financial statements, regulators, and some other stakeholders (such as standard-setters, accountancy bodies, preparers and accounting firms), agreed with the presentation proposals. A few of these stakeholders acknowledged that the proposed separate presentation between ordinary shareholders and other owners appears to already be current practice, at least for some entities for example those with Additional Tier 1 capital. Stakeholders that agreed with the proposals believed it would improve transparency, provide useful information about multiple equity

providers, help investors better understand the ownership structure and increase the informational value of the financial statements. However, some of these stakeholders expressed concerns with regards to:

(a) consistent application and comparability of information, and therefore requested additional application guidance and illustrative examples to address the potential practical challenges and diversity in implementation;

(b) applying the presentation amendments to non-listed entities that are out of the scope of IAS 33 *Earnings per Share*; and

(c) how to split equity (especially reserves) between ordinary shareholders and other owners.

8. Conversely, many preparers and some other stakeholders such as standard-setters, accountancy bodies and accounting firms, disagreed with the presentation proposals because they did not consider the proposals to provide a clear principle or guidance on how to separate amounts between different owners. They perceived that such separate presentation could lead to limited incremental benefits to users of the financial statements and potential implementation challenges to arise. Suggestions made by these respondents included:

(a) disclosing the information in the notes instead of presenting it on the face of the financial statements;

(b) improving the proposals with more guidance/examples and clarification to address their concerns;

(c) withdrawing the proposals as they represent a fundamental change from the current requirements and instead maintaining the status quo;

(d) deferring the introduction of new presentation requirements until after the implementation of IFRS 18; or

(e) scoping the presentation proposals out of the FICE project into a separate project, for example a maintenance project to amend IAS 33 or IFRS 18 in the future.

9. A few respondents said it is unnecessary to introduce the presentation requirements, because paragraph 55 of IAS 1 already requires an entity to present additional line items when such presentation is relevant to an understanding of the entity's financial position. [1] These respondents were concerned that the proposals could be counter-productive if entities present information about 'other owners of the parent' when not material.

10. A few other respondents did not provide firm views, mainly because they were uncertain about how to separate amounts attributable to ordinary shareholders of the parent from those attributable to other owners of the parent. Some of these respondents stated that as a result, they were unable to assess the effects and whether the proposal can result in relevant and understandable information for users of financial statements properly at this stage.

11. The main concerns raised by respondents related to the following, each of which is discussed separately:
    (a) the distinction between ordinary shareholders and other owners;
    (b) the basis and method for determining amounts for separate presentation;
    (c) the costs versus benefits of the proposed amendments; and
    (d) various other issues.

Distinction between ordinary shareholders and other owners

12. Some respondents (including users of financial statements, standard-setters and accounting firms) questioned the distinction between ordinary shareholders and other owners. They said that the terms 'ordinary shareholders' and 'other owners' were not sufficiently clear, which could potentially lead to different interpretations and diversity in practice to develop. A few of these respondents mentioned instruments for

[1] Paragraph 55 of IAS 1 requires an entity to 'present additional line items (including by disaggregating the line items listed in paragraph 54), headings and subtotals in the statement of financial position when such presentation is relevant to an understanding of the entity's financial position'.

which the distinction between ordinary shareholders and other owners is not always clear in practice or cases where it is difficult to assess whether a specific class is considered as ordinary shares, including:

(a) multiple classes of ordinary shares with different ranks of subordination and/or different dividend and voting rights;

(b) preference shares with the same voting rights as ordinary shares, or with limited voting rights (eg only at extraordinary shareholder meetings);

(c) non-voting preference shares that participate in the entity's profit and equity together with ordinary shares;

(d) preference shares with a conversion feature to ordinary shares; and

(e) multiple classes of shares issued by many non-listed corporate entities which are funded by private equity investors, often termed 'ordinary shares', where payouts are determined by exit events (eg sale of business or listing) and by the investee's market value on exit and follow a predetermined waterfall schedule.

13. To improve clarity of how to distinguish ordinary shareholders from other owners, some respondents (including users of financial statements) provided suggestions that included:

(a) defining 'ordinary shareholders' and 'other owners' explicitly;

(b) providing application guidance and illustrative examples to clarify the distinction between ordinary shareholders and other owners;

(c) explicitly aligning the definition of ordinary shareholders with the definition of an ordinary share in paragraph 5 of IAS 33 or specifying any differences[2];

(d) replacing the term 'other owners' with 'other equity providers', 'other equity holders', 'other holders of the entity's own equity instruments' or 'other equity

[2] An ordinary share is defined in paragraph 5 of IAS 33 as 'an equity instrument that is subordinate to all other classes of equity instruments'.

claims' to reflect the fact that other equity providers may not necessarily be owners in legal terms or carry voting rights that could give them control; and

(e) introducing disclosures that explain what constitutes 'other equity' or 'other equity holders' and their distinct characteristics or rights.

14. An accounting firm suggested making consequential amendments to IAS 33. They pointed out that the existing language in IAS 33 is limited in its reference to 'preference shares' and could be broadened, given the proposed changes to distinguish between ordinary shareholders and other owners of the parent. For example, paragraph 12 of IAS 33 could indicate that the requirements for 'preference shares' apply equally to other equity-classified instruments with preferential rights to distributions over those held by ordinary equity holders of the parent. [3]

Basis and method for determining amounts for separate presentation

15. Many respondents (including users of financial statements) expressed concerns about the lack of application guidance on the basis and methods for determining amounts attributable to ordinary shareholders of the parent and amounts attributable to other owners of the parent. They emphasised that sufficient guidance is necessary to ensure consistent application and comparability of information, otherwise new application questions would arise and the objective of the proposal would not be met.

16. Some respondents noted significant challenges and complexities in determining amounts for equity instruments based on contractual terms. Specifically, equity instruments could have different and complex contractual arrangements, including:

(a) priority of claims on liquidation;

(b) variation in the extent of participation in residual interests, ranging from fixed amounts to variable amounts based on a distribution formula; and

[3] For the purpose of calculating basic earnings per share, paragraph 12 of IAS 33 requires an entity to 'adjust for after-tax amounts of preference dividends, differences arising on the settlement of preference shares, and other similar effects of preference shares classified as equity' to determine the amounts attributable to ordinary equity holders of the parent entity.

(c) different profit participation or dividend rights, eg cumulative or non-cumulative, fixed or discretionary amounts.

17. A respondent said it would be challenging to allocate profit or loss and other comprehensive income between ordinary shareholders and other owners of the parent because these amounts are recorded on a transaction-by-transaction basis—currently there is no separate recording of what corresponds to ordinary shareholders and other owners of the entity.

18. Another respondent said separate presentation at the level of consolidated accounts would be artificial and could lead to misleading information, because of practical difficulties in splitting the rights of the different categories of group shareholders over the different natures of consolidated amounts.

Basis and method of allocation for specific instruments

19. Questions arose regarding how to determine the amounts attributable to other owners of the parent for specific instruments including whether the allocation should be done in accordance with IAS 33, for example:

(a) *equity derivatives*. Clarification was requested on the basis for allocating profit or loss and total comprehensive income to equity derivatives.

(b) *perpetual instruments*. For instruments that pay fixed rate cumulative coupons with the issuer having the right to defer payment until liquidation, it was unclear whether profit or loss and comprehensive income should be attributed to other owners of the parent only when the coupons are declared, or whether any undeclared amounts are required to be attributed.

(c) *preference shares*. Questions included how to consider the effects of cumulative and non-cumulative dividends, conversion features and liquidation preferences for attribution to other owners of the parent.

(d) *compound instruments*. For example, for non-cumulative mandatorily redeemable preference shares with discretionary dividends, it was not clear how to determine the reserves attributable to other owners of the parent.

20. Some respondents generally questioned how to attribute amounts in other comprehensive income (eg foreign currency translation adjustments, hedging gains/losses, remeasurements of defined benefit liabilities/assets), and amounts in various types of reserves (eg retained earnings, fair value and revaluation reserves). In addition, a few respondents questioned how to consider the other equity changes, such as those resulting from a reclassification of equity to liability, share buybacks, and the sale of a business.

Suggestions for determining amounts for separate presentation

21. To enhance understandability and comparability of the separate presentation, some respondents requested the IASB to provide examples to illustrate the basis and methods used and additional application guidance to clarify the calculation approach.

22. Specifically, a few respondents suggested providing examples based on common fact patterns, and/or improving the illustrative example in the proposed IG6A of the Guidance on implementing IAS 1. Concerns raised by respondents with regards to this example included that:

(a) the example did not provide guidance on the approach used to perform the allocation.

(b) there was no clear linkage between the profit and comprehensive income to the other owners of the parent and equity attributable to the same owners, showing how they relate to each other.

(c) the example could cause confusion because the comprehensive income attributable to other owners for 20X7 exceeded dividends paid during the same period. Two banking respondents said Additional Tier 1 instruments issued by them do not participate in the issuer's performance other than through fixed coupons; therefore, they believed the comprehensive income attributable to these instrument holders should be the same as dividend (or coupon) payments.

(d) the proposed amendment in proposed paragraph 54(r)(ii) of IAS 1 requires the separate presentation of issued capital and reserves attributable to other owners of the parent separately, but the example presented a line item for the total of 'equity attributable to other owners of the parent'.

(e) for issued capital attributable to other owners, the example used the term 'issue of share capital' which is commonly associated with ordinary shareholders.

(f) Earnings Per Share (EPS) is presented according to the requirements in paragraph 66 of IAS 33. However, it may be unclear to users of the financial statements that the EPS amount relates only to ordinary shareholders and not to other owners when read in conjunction with the separate presentation proposed in the ED.

23. For non-derivatives, some respondents (including users of financial statements) suggested that a method consistent with IAS 33 that applies to preference shares could be used to calculate profit attributable to other owners of the parent, irrespective of whether the entity is in the scope of IAS 33.

24. A few respondents provided other suggestions related to the basis and method for determining the amounts for separate presentation:

(a) incorporate the wording in paragraph BC256 of the Basis for Conclusions on the ED into the body of the IFRS Accounting Standard to avoid misinterpretation that the allocation would involve estimating the occurrence of future events. [4]

[4] Paragraph BC256 states: 'The presentation of equity attributable to ordinary shareholders and other equity holders in the draft illustrative example is based on the contractual terms applicable at the reporting date. Therefore, reserves attributed to other equity holders do not include amounts expected to become attributable to those equity holders upon the occurrence of future events.'

(b) consider the relative amounts due on liquidation, and other features such as restrictions on distributions and priority of claims on liquidation.

(c) consider a hypothetical liquidation at the reporting date. For reserves attributable to other owners, calculate the percentage of total reserves attributable to other owners and apply this percentage across all types of reserves.

(d) distinguish the amounts based on the percentage of ownership held by ordinary shareholders and other owners.

25. For equity derivatives, a user group said an attribution based on the relative fair value of these instruments—as suggested in the 2018 Discussion Paper on FICE—would be highly useful for investors. They noted, however, it would need to be considered in conjunction with potential changes to IAS 33, which could go beyond the scope of the FICE project. Conversely, a standard-setter said that attributing total comprehensive income to equity derivatives may not have significant predictive value of the returns that the holders would receive over the life of these instruments.

26. In the absence of developing further application guidance, some users of financial statements suggested the IASB require entities to disclose the assumptions and methods used to separate amounts attributable to ordinary shareholders.

Costs versus benefits of the proposed amendments

Benefits to users of financial statements

27. As discussed at the IASB's July 2024 meeting, most users of financial statements found that the proposed presentation requirements would effectively highlight the complexity of an entity's ownership structure, improve the transparency of the risks and returns of the different shareholders and provide useful information to facilitate their understandings of equity instruments and valuation analyses.

28. An equity analyst explained that separate presentation of share capital and reserves attributable to ordinary shareholders is helpful for valuing ordinary shares of companies that have accumulated profits attributable to other owners. This pertains to deriving the book value of equity attributable to ordinary shareholders, which is used in price-to-book and sum-of-part valuations. In their view, the proposed change would therefore, lessen the burden on ordinary equity investors and alert them to the existence of any unpaid dividends or deferred distributions which could significantly erode or even wipe out the residual value of equity attributable to ordinary shareholders when accumulated over a long period.

29. The equity analyst also explained that presenting profits attributable to ordinary shareholders on the face of financial statements may improve accuracy in computing the EPS numerator. Their research showed that not all companies deducted distributions accrued to non-ordinary equity instruments from the numerator of EPS, leading to an inflation in their annual profits attributable to ordinary shareholders.

30. Similarly, some other stakeholders also believed the proposed presentation requirements could provide a clearer reflection of different equity participants and result in useful information for users of financial statements. The information would be used to assess the rights and claims of different classes of equity instruments and evaluate the ordinary shareholders' value, especially because of inherent limitations of the binary classification as financial liabilities or equity instruments.

31. Conversely, some respondents questioned the usefulness and provided factors that they believed could impair the usefulness of information, lead to misleading information in some cases or could have significant effects beyond the presentation issue, such as:

    (a) allocating profit or loss, comprehensive income and reserves to other owners of the parent could involve significant use of assumptions. For example, allocating profit or loss before deciding actual distributions would be arbitrary and not represent the payout eventually received by investors with discretionary dividends. Similarly, for equity instruments with debt-like features, the amounts an entity expects to pay out in the most likely scenario may significantly differ from the actual payout on liquidation.

(b) the proposals ignore forward-looking information, but attributable amounts could change significantly with various future changes in the entity's circumstances.

(c) potential unintended consequences on the calculation of non-controlling interests (NCI), because the subsidiary could also issue equity instruments other than ordinary shares. Their concern is that once the calculation method for attributing amounts to ordinary shareholders and other owners of the parent is clarified, the amounts attributed to other owners of the subsidiary under the clarified approach may not reconcile with the amounts attributed to NCI under current practice.

Costs for preparers and suggestions to reduce costs

32. Many respondents reported the practical difficulties for preparers to implement the presentation proposals caused by:

(a) complex contractual arrangements with NCI and other owners of the parent;

(b) attributing amounts included in other comprehensive income and allocating various types of reserves; and

(c) determining which ordinary shares participate at the most subordinated level and how to allocate profits amongst multiple classes of shares in cases of complicated funding structures or various subcategories within issued capital.

33. Considering these practical difficulties, some respondents (including standard-setters, accounting firms, and preparers) raised concerns that the presentation proposals could involve significant costs for preparers that exceed the incremental benefits to investors. These respondents therefore recommended that the IASB carefully consider the cost vs benefits of the separate presentation proposals and whether to proceed with the proposals.

34. To alleviate these cost vs benefit concerns, a few respondents provided specific suggestions:

(a) limit the scope of the proposed amendments to entities with publicly listed ordinary shares, similar to the scope exclusion in IAS 33.

(b) only require the attribution of profit or loss to ordinary shareholders used for calculating EPS in IAS 33, without requiring a split of other amounts within equity.

(c) only require attribution of *total comprehensive income* to achieve the objective of providing transparent information of returns attributable to ordinary shareholders vs other owners.

(d) disclose disaggregated information about equity instruments in a dedicated note. These respondents did not agree that presentation in the primary financial statements is necessary so that users of financial statements do not have to go through multiple notes to the financial statements to piece together the information.

Various other issues

35. A few stakeholders found the presentation proposals contrary to paragraph 3.8 of *Conceptual Framework for Financial Reporting*:

> Financial statements provide information about transactions and other events viewed from the perspective of the reporting entity as a whole, not from the perspective of any particular group of the entity's existing or potential investors, lenders or other creditors.

36. A few stakeholders requested that the IASB either clarify the proposed amendments by providing further explanations or align the terminology in IAS 1 or IAS 33 (as relevant) and explain any differences where different terms were used, for example:

(a) for the statement of changes in equity, paragraph 106(a) of IAS 1 has not been amended ie total comprehensive income attributable to *owners of the parent* was not updated in the ED, to distinguish between ordinary shareholders and other owners;

(b) clearer drafting is needed for ‘each class of ordinary share capital’ and ‘each class of other contributed equity’ as stated in the proposed amendment to paragraph 108 of IAS 1, to avoid misinterpretation about the level of detail that would be required;

(c) IAS 1 includes various references to ‘issued capital’, ‘issued share capital’, ‘paid-in capital’, ‘equity capital’ and ‘contributed equity’, but does not provide definitions for these terms; and

(d) ‘profit or loss attributable to ordinary shareholders of the parent’ in the ED and ‘profit or loss attributable to ordinary equity holders of the parent entity’ in paragraph 10 of IAS 33 are very similar terms.

37. To further improve the usefulness of information, some users of financial statements suggested the IASB require further disaggregation of ‘other owners of the parent’ in the financial statements to help investors understand the complexity of an entity’s equity structure and how proceeds from the sale of a business will be distributed. Such disaggregation would be done for different types of equity instruments, such as perpetual instruments and written call options.

38. Other users of financial statements preferred for such information to be provided in the notes, to keep the financial statements relatively simple. A few users of financial statements requested the separate presentation of amounts attributable to ordinary shareholders to be extended to NCI and amounts presented for distributions in the statement of cash flows. Similarly, to highlight the unique features of perpetual instruments, a standard-setter recommended presenting them as a separate line item within equity in the statement of financial position and in a separate column in the statement of changes in equity, when they are material.

39. A few respondents commented on transition issues and said retrospective restatement of equity attributable to ordinary shareholders and other owners would be challenging

and costly to apply and suggested the IASB consider providing some transitional relief.

Question for the IASB

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Does the IASB have any questions or comments on the matters discussed in this paper?