IFRS® Accounting

Staff paper

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Purpose of the paper

1. In this paper the staff analyse 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. Agenda Paper 5A contains the staff's summary of the detailed feedback.

2. At this meeting, the staff will seek input from IASB members on the potential changes to the proposed amendments related to presentation in response to the feedback received and timing of finalising these amendments. This paper does not ask for any decisions from the IASB.

3. This paper is structured as follows:

   (a) staff preliminary views and next steps;

   (b) question for the IASB; and

   (c) staff analysis.

4. This paper includes two appendices:

   (a) Appendix A—Research findings of different features in shares; and

(b) Appendix B—Research findings of current presentation practice on perpetual instruments.

Staff preliminary views and next steps

5. The staff recommend refinements to the proposed amendments related to presentation of equity instruments. Instead of requiring an entity to present the amounts attributable to *ordinary shareholders* of the parent separately from the amounts attributable to *other owners* of the parent in the financial statements, the staff propose to present the amounts attributable to *perpetual instrument holders and non-participating preference shareholders* of the parent separately from the amounts attributable to other owners of the parent (including ordinary shareholders) in the statement of financial position, the statement of comprehensive income, and the statement of changes in equity.

6. The staff's preliminary preferred approach is discussed in paragraphs 60-67 of this paper. Our preliminary view aims to enhance the clarity and transparency of the financial statements by providing users of financial statements with relevant information about equity instruments. Furthermore, the staff believe that this refinement would effectively alleviate cost-benefit concerns raised by respondents. These concerns are primarily due to practical challenges in allocating amounts between ordinary shareholders and other owners of the parent and in determining which class(es) of ordinary shares participates at the most subordinated level.

7. The staff will discuss the potential changes to the presentation proposals with consultative groups and seek their input on the timing of finalising these amendments before bringing them back to the IASB for further discussion and decision-making at a future meeting.

Question for the IASB

8. The staff would like to ask the IASB the following question:

Question for the IASB
Does the IASB have any questions or comments on the staff's preliminary views, analysis and next steps?

Staff analysis

9. The staff considered the feedback from stakeholders regarding the presentation proposals for equity instruments in the ED. The comments and concerns raised by respondents have highlighted the need for clarifications, and in some cases refinements, to increase stakeholders' understanding of the presentation proposals and assist with consistent application across entities.

10. When developing the proposals for the allocation of amounts to ordinary shareholders and other owners of the parent at the reporting date, the IASB intended for the proposals to be very simple— not requiring complicated attribution requirements or speculating about future events but reflecting the contractual reality as at the reporting date.

11. Specifically, as described in paragraph BC256 of the Basis for Conclusions on the ED, the presentation of equity attributable to ordinary shareholders and other equity holders is based on the contractual terms applicable at the reporting date. The underlying principles and intentions of the proposal include:

    (a) *reliance on existing information provided at reporting date*. The separate presentation primarily relies on existing carrying amounts, without the introduction of extensive and potentially complex measurement approaches. For example, entities would not be required to measure the fair value of equity derivatives or apply complex assumptions to calculate amounts attributable to

other owners of the parent, given they are not required to remeasure these equity instruments.

(b) *exclusion of the impact from contingent events*. Reserves attributed to other owners of the parent do not include amounts expected to become attributable to those owners upon the occurrence of future events. Therefore, when determining the equity allocation, the focus is on the current entitlement of owners at the reporting date without the need to estimate the impact from the occurrence (or non-occurrence) of future events.

(c) *disregard of the amount or priority of claims on liquidation*. The concept of going concern underpins the basis for preparing the financial statements. Therefore, presenting liquidation rights or amounts that owners may be entitled to either upon a future liquidation or upon a hypothetical liquidation at reporting date is outside the scope of presenting equity on a going concern basis.

12. Applying these principles, the expectation was that reserves and other comprehensive income would not typically be allocated to other owners of the parent, except for dividends/distributions that are accrued or declared to other owners and share-based payment reserves related to share options held by employees.

13. However, considering the feedback from stakeholders and number of questions raised—such as how to allocate profit and reserves between ordinary shareholders and other owners of the parent—the staff think there has been a misunderstanding of what the proposals required.

14. In light of these concerns, the staff conducted an analysis of the key issues and challenges associated with the presentation proposals, focusing particularly on:

(a) the distinction between ordinary shareholders and other owners;

(b) determining the presentation amounts for different types of equity instruments; and

(c) the costs compared to the benefits of implementing the proposed requirements.

15. In doing this analysis, we considered alternative presentation approaches and their effects on the usefulness of information provided in the financial statements. Based on our analysis, the staff developed preliminary views, which are outlined in paragraphs 60-67 of this paper.

Distinction between ordinary shareholders and other owners

16. In considering feedback on the distinction between ordinary shareholders and other owners, we considered the concerns about the meaning of 'ordinary shareholders' and 'other owners', and how to determine whether a particular class of equity instruments is considered similar to ordinary shares.

17. In our view, the real question underlying these concerns relates to whether making a distinction solely based on ordinary shareholders and other owners of an entity is appropriate for the allocation of equity amounts if some equity instruments held by other owners are similar to ordinary shares or have similar rights but are not called ordinary shares.

18. The ED does not have explicit definitions for 'ordinary shareholders' and 'other owners'. However, 'an ordinary share' and 'owners' are defined in other IFRS Accounting Standards.

19. Paragraph 5 of IAS 33 *Earnings per Share* defines an ordinary share as 'an equity instrument that is subordinate to all other classes of equity instruments'. Further, paragraph 6 of IAS 33 explains that ordinary shares participate in profit for the period only after other types of shares (such as preference shares) have participated. Ordinary shares of the same class have the same rights to receive dividends, but it is possible for an entity to have more than one class of ordinary shares. 'Owners', are defined in paragraph 7 of IAS 1 *Presentation of Financial Statements* as 'holders of instruments classified as equity'. [1]

[1] In April 2024 the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* which replaces IAS 1. Owners are defined as holders of claims classified as equity in Appendix A Defined terms of IFRS 18.

20. The proposals in the ED therefore distinguished ordinary shareholders—holders of ordinary shares—from other owners—holders of equity instruments other than ordinary shares. Other owners would include holders of perpetual instruments where the obligation to pay cash only arises on liquidation (such as some Additional Tier 1 (AT1) instruments and corporate hybrids), non-redeemable preference shares (both participating and non-participating), equity derivatives, and equity components of compound instruments.

21. To consider the practical challenges that could arise from distinguishing ordinary shares from other types of shares, the staff researched and summarised the key terms of shares with different rights (see Appendix A). While the distinction between ordinary shares and other equity instruments is obvious in most cases, the staff acknowledge there could be potential difficulties in making the distinction due to the intricate and overlapping features of various financial instruments (for example, ordinary shares with preferential rights and preference shares with many of the same characteristics of ordinary shares).

22. Specifically, our research indicates that preference shares generally hold distinct rights, such as fixed dividend paid before ordinary dividends and priority on liquidation before payments to ordinary shares. Preference shares therefore do not generally meet the definition of ordinary shares as per IAS 33. However, participating preference shares that bear characteristics akin to ordinary shares can blur these lines. For example, participating dividend features such as formula-based dividends linked to ordinary dividends could enable the holders to participate in the profit in a similar way to ordinary shares.

23. Similarly, IAS 33 which focuses on calculating basic earnings per *ordinary share* acknowledges that there are instruments similar to ordinary shares. Paragraph A13 of IAS 33 contains application guidance on calculating basic EPS for participating equity instruments—instruments that participate in dividends with ordinary shares according to a predetermined formula (for example, two for one) with, at times, an upper limit

on the extent of participation. An example of a participating equity instrument in IAS 33 is a non-convertible non-cumulative preference share.

24. The staff think entities need to consider the substance of the contractual arrangement rather than their legal form. Moreover, equity instruments that are legally termed as 'ordinary shares' do not always embed the same features across jurisdictions due to differences in the corporate laws or securities regulations. Furthermore, the staff think voting rights should not be a determining factor in distinguishing ordinary shares from other equity instruments because voting rights may arise for preference shares or even be attached to debt instruments under specific circumstances.

25. Given the evidence gathered from comment letters, outreach meetings, research findings and the extent of complex shares with different rights, the staff agree that the distinction between ordinary shareholders and other owners is not always clear. This is because there may be other equity instruments that are subordinated and participate in the entity’s profit or loss and equity together with ordinary shares as defined in IAS 33. Additionally, in our view, ensuring a clear distinction may become increasingly complex and costly as financial markets continue to evolve.

26. In conclusion, the staff do not think distinguishing ordinary shareholders from other owners of the parent would always provide useful information on the face of the financial statements. Instead, the staff will consider alternative presentation approaches by considering the characteristics of different types of equity instruments (see paragraphs 29-54 of this paper). The staff note that entities still have the flexibility to present amounts attributable to ordinary shareholders separately under current IFRS Accounting Standards (see paragraph 62 of this paper).

Alternative approach for allocating amounts between different types of equity holders

27. The staff think that any principle for the separate presentation and allocation of amounts between different equity holders needs to be clear, simple and consistent

with the principles set out in paragraph 11 of this paper. The staff believe these principles would minimise the burden on preparers while ensuring that users of financial statements receive transparent and consistent information.

28. In exploring alternative approaches as basis for the separate presentation between different equity holders, the staff first considered the features of equity instruments that are frequently mentioned as examples of instruments for which separate presentation would provide useful information. For the purpose of our analysis, we focussed on the following frequently mentioned instruments to determine if any common features could be identified. These equity instruments include:

(a) perpetual instruments;

(b) non-participating preference shares;

(c) participating instruments;

(d) equity derivatives; and

(e) equity components of compound instruments.

Perpetual instruments

29. As indicated by the name, perpetual instruments are instruments that have no fixed maturity date—the principal amount is due only on liquidation of the issuer and there is no contractual obligation to redeem them. These instruments have been the subject of many questions in the past because they have many 'debt-like' features. Essentially, perpetual instruments are designed to behave like bonds when the issuer is not in financial difficulty. The holder is not expected to be entitled to participate in changes in economic resources of the entity beyond those specified cash flows, based on the applicable contractual terms.

30. In accordance with IAS 32 *Financial Instruments: Presentation*, these instruments are classified as equity instruments because there is no contractual obligation for the

issuer to repay the instruments, although many entities tend to repay them at the first call date.[2] [3]

31. In practice, some entities already provide separate presentations for perpetual instruments. The staff conducted a desktop review of the 2023 consolidated annual financial statements of 14 entities that have issued equity instruments other than ordinary shares (particularly perpetual instruments) to see whether and how they are presented separately on the face of the financial statements (see Appendix B for the research findings).

32. Based on the research findings, most entities provided a separate presentation for perpetual instruments in the statement of comprehensive income, statement of financial position and statement of changes in equity. However, there were some inconsistencies observed in the presentation practice. For example, one financial services group separately presented perpetual instruments in the statement of financial position, but not in the statement of comprehensive income.

33. Furthermore, among entities that separately presented the equity balance of perpetual instruments in the statement of financial position and statement of changes in equity, the amounts used for the separate presentation were not always determined consistently. Some entities considered profit for the year and dividends on the perpetual instruments, while others only considered issuances and redemptions.

34. Given the history and the frequency with which questions are being asked about these instruments, separately presenting issued perpetual instruments in the primary financial statements could increase the usefulness of information provided in the financial statements. Such an approach could therefore enhance the comparability and transparency of financial statements, allowing users of financial statements to better

[2] Obligations that arise only in liquidation were discussed in Agenda Paper 5E and 5F of the February 2021 meeting.

[3] Although the obligations to make specific payments only arise on liquidation of the entity, the perpetual instruments referred to in these presentation proposals do not include instruments or components of 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 which are classified as equity applying paragraphs 16C-16D of IAS 32.

understand the nature and impact of perpetual instruments on an entity's financial position and performance and on the returns to ordinary shareholders.

35. With regards to the allocation of profits to perpetual instrument holders:

    (a) if the coupon or dividend is non-cumulative, ie the issuer has the right to cancel the payment—only declared amounts would be allocated; and

    (b) if the coupon or dividend is cumulative, ie any undeclared amount will increase the amount payable on liquidation—the coupon or dividend required for the period would be allocated, irrespective of whether they have been declared.

36. In allocating equity attributable to perpetual instrument holders, the allocation amount would represent the initial carrying amounts plus undeclared cumulative distributions. If distributions have been declared in the current period, the net effect on the equity balance is zero.

37. In our view, such an approach is consistent with the calculation of basic EPS in paragraph 14 of IAS 33 and aligns with the feedback on both the 2018 DP and the ED in support of leveraging the requirements in IAS 33 for preference shares to calculate profit attributable to other owners (irrespective of whether the entity is in the scope of IAS 33).

38. By separating the presentation of these amounts in the financial statements, it would effectively solve the needs of equity analysts to look for amounts to be deducted from profit and book value in calculating financial ratios like the price to book ratio for ordinary shares or return on ordinary shareholders' equity.

Non-participating preference shares

39. The staff acknowledge the various types of instruments with participation rights mentioned by respondents, such as rights to distributions from the entities' operating performance, claims on net assets in the case of liquidation, and voting rights in the corporate decision-making process. As indicated in paragraph 11 and 24 of this paper,

voting rights and liquidation rights are not considered relevant for the presentation proposals in the ED. The focus of participation lies on participation in distribution of profits and reserves on a going concern basis, similar to ordinary shares. As such, non-participating preference shares are preference shares that do not share in the entity's operating performance beyond the specified cash flows.

40. Non-participating preference shares classified as equity are usually non-redeemable instruments with fixed rate dividends that are cumulative or non-cumulative. These preference shares would rank above ordinary shares with respect to the payment of dividends and the distribution of the company's net assets upon liquidation. The staff understand these types of preference shares are the ones referred to in paragraph 12 of IAS 33 when calculating basic earnings per share. The staff further acknowledge that depending on the specific contractual features, some non-participating preference shares could be perpetual instruments as described in paragraph 29 of this paper.

41. Our research findings indicate that some entities already provide separate presentation of non-participating preference shares from ordinary shares (either as a separate line item or aggregated with perpetual instruments) in the statement of comprehensive income, statement of financial position and statement of changes in equity (see Appendix B for the research findings).

42. Given the similarities between non-participating preference shares and perpetual instruments, the staff believe that the presentation requirements proposed for perpetual instruments would also apply to non-participating preference shares. The approach for determining profit and equity attributable to perpetual instrument holders as described in paragraphs 35-36 of this paper, is also applicable to non-participating preference shares.

Participating instruments

43. The staff understand that participating instruments effectively allow holders to receive a share of the entity's economic resources, similar to ordinary shares. As explained in paragraph 39 of this paper, the staff focus on participation in distribution of profits

and reserves on a going concern basis. However, the participation rights of these instruments can vary, eg different types of dividend rights:

(a) discretionary dividends with unspecified amount or timing;

(b) fixed dividends plus additional discretionary dividends; and

(c) formula-based dividends based on ordinary dividends (for example, two for one) with, at times, an upper limit on the extent of participation as described in paragraph A13 of IAS 33.

44. If separate presentation from ordinary shareholders were to be required for participating instruments, the allocation of reserves to participating instrument holders (as expected by some respondents due to their similar rights) could pose significant practical difficulties due to:

(a) a difficult starting point because entities have various types of reserves (eg share-based payment reserves, retained earnings, fair value reserves, revaluation reserves and accumulated other comprehensive income). This is further complicated by diversity in practice (eg different policies on which transactions affect retained earnings, inconsistent terminology, transfers within reserves) and different statutory considerations.

(b) different and complex contractual features in participating instruments, making it challenging to allocate profit and retained earnings to complex instruments such as those with formula-based distributions;

(c) differing views on allocation for transactions that could affect both ordinary shareholders and participating instrument holders, such as gains or losses on redemption or issuance of participating instruments;

(d) lack of consensus on the method of allocation, with only a few stakeholders providing suggestions for consideration, such as liquidation value or relative percentage of ownership; and

(e) allocating reserves based on carrying amounts may not be very meaningful, given the lack of consensus among investors on reserve allocation and their own perspectives in valuing residual amounts.

45. On the other hand, if no reserves are allocated to participating instrument holders, the following challenges may arise:

  (a) potentially misleading outcomes, when the carrying amount of ordinary shares is overstated, if reserves which participating instrument holders are entitled to are allocated to ordinary shareholders.

  (b) disregard of different participating rights attached to equity instruments held by other owners of the parent. By applying the same approach mentioned in paragraph 12 of this paper to different types of other equity instruments, the accounting treatment would fail to reflect different rights, particularly for participating instruments.

  (c) the limited informational value of presenting initial carrying amounts to investors who already allocate reserves in their valuations.

46. Considering the challenges and practical difficulties outlined above, both allocation and non-allocation of reserves to participating instrument holders are problematic if separate presentation is required for participating instruments. Furthermore, as noted in paragraph 25 of this paper, the distinction between ordinary shareholders and other owners is not always clear because instruments like participating instruments participate in the entity's profit or loss and equity together with ordinary shares. Therefore, the staff do not think it is appropriate to require presentation of amounts attributable to participating instrument holders separate from amounts attributable to ordinary shareholders.

47. In addition, the staff note this view aligns with current practice observed in entities that have issued both participating preference shares and perpetual instruments. The research findings in Appendix B show that while these entities separately presented

amounts attributable to perpetual instruments, they do not separately present amounts attributable to participating preference shares from ordinary shares.

Equity Derivatives

48. Derivatives that meet the fixed-for-fixed condition are classified as equity, such as rights, options and warrants to deliver own shares. The 2018 DP proposed various approaches for attributing amounts to derivatives classified as equity. Most respondents who provided feedback on those proposals disagreed with the possible attribution approaches because they believed the benefits of the resulting information would not outweigh the cost of preparing it. Many respondents suggested that the IASB pursue a disclosure solution instead.

49. Applying the principles in paragraph 11 of this paper, neither profit or loss nor total comprehensive income for the period would be allocated to equity derivatives since no changes in the fair value of equity derivatives are recognised in the financial statements in accordance with paragraph 36 of IAS 32. While we understand that fair value information would be preferred by users of financial statements, it will not be considered further in the presentation proposals because it is outside the scope of the FICE project, as it would effectively introduce a new measurement approach for equity derivatives.

50. Therefore, the separate presentation of equity derivatives would mean presenting their carrying amounts, and thus does not reflect the value that the holders would receive from these instruments. Consequently, the staff do not think it is necessary to require the separate presentation of amounts attributable to equity derivatives.

Equity components of compound instruments

51. Compound financial instruments are non-derivative financial instruments that contain both liability and equity components. Typical examples of an equity component of a compound instrument include a conversion option in a convertible bond that meets the

fixed-for-fixed condition and discretionary dividends in mandatorily or contingently redeemable instruments.

52. When an equity component is initially recognised, it 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 in accordance with paragraph 31 of IAS 32. In practice, the equity component could be very small or even zero, which may not necessarily reflect its economic value if viewed as a standalone instrument.

53. Applying the principles in paragraph 11 of this paper, the separate presentation of equity components of compound instruments would mean presenting:

    (a) the initial carrying amount because no changes in the fair value of equity derivatives are recognised applying paragraph 36 of IAS 32; or

    (b) no or a nominal amount for discretionary dividends because the declaration of dividends would increase the amount attributable to the equity component, and simultaneously, the equity component is reduced by the same amount to recognise dividends as a distribution of profit applying paragraph AG37 of IAS 32.

54. Similar to equity derivatives, the staff do not think it is necessary to require the separate presentation of amounts attributable to equity components of compound instruments. The potential divergence between the carrying amount and the economic value suggest that the benefits of separate presentation may be limited, especially when weighed against the increased complexity and costs for preparers.

Other alternative approaches considered

55. To address concerns from respondents about allocating amounts between ordinary shareholders and other owners of the parent and taking into account the characteristics of the different types of equity instruments, the staff explored alternative approaches to the presentation proposals, including:

(a) separate presentation only for share capital (ie issued capital and not reserves) between ordinary shareholders and other owners;

(b) presenting ordinary shareholders and participating instrument holders (as described in paragraphs 43-47 of this paper) together and separate from other owners;

(c) separate presentation based on participating instruments and non-participating instruments;

(d) separate presentation based on liquidation rights ie between instruments entitled to fixed or determinable amounts and those entitled to residual interests on liquidation;

(e) separate presentation between ordinary shareholders, perpetual instrument holders, and other owners; and

(f) a combination of the above approaches.

56. The staff have not included these approaches as our preliminary preferred approach mainly due to the following reasons:

(a) similar concerns would still exist for allocating reserves between ordinary shareholders and other owners of the parent;

(b) there is a lack of a consistent starting point for share capital, with differences in practice regarding whether to include share premium;

(c) the need to categorise all equity instruments as either participating or non-participating when the distinction is not always clear eg for equity derivatives and equity components of compound financial instruments;

(d) focusing on liquidation rights might be deemed inconsistent with the going concern principle;

(e) simplification would be at the cost of providing useful information;

(f) adding different layers of separation would add complexity, require more application guidance and result in more costs;

(g) equity derivatives and equity components of compound instruments might have insignificant amounts compared to participating equity instruments and ordinary shares;

(h) this would represent more significant changes from the current requirements or practice; or

(i) the amounts separated would not always carry the same informational value for different types of instruments because their carrying amounts may have different measurement basis, making them less useful.

57. However, the staff acknowledge the merits of some alternative approaches, particularly:

(a) separate presentation between participating instruments and non-participating instruments. This approach is principles-based and aggregates equity instruments based on their rights to participate in the distribution of profits and reserves on a going concern basis instead of requiring separate presentation only for specific types of equity instruments.

(b) separate presentation based on liquidation rights. This approach provides a clearer distinction about different returns on liquidation for holders of equity instruments and aligns with feedback from some stakeholders in support of focusing on liquidation features.

58. The staff also considered the feedback from a few respondents who found it unnecessary to introduce the presentation requirements, based on the requirements in paragraph 55 of IAS 1. [4] These respondents were concerned that the proposed requirements could be counter-productive if entities present information about 'other owners of the parent' when it is not material or relevant to an understanding of their financial statements.

[4] 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'.

59. However, the staff note that paragraph 19 of IFRS 18 *Presentation and Disclosure in Financial Statements* states that an entity need not provide a specific presentation required by IFRS Accounting Standards if the information resulting from that presentation is not material, even if IFRS Accounting Standards contain a list of specific requirements or describe them as minimum requirements. Therefore, the staff do not consider that any additional presentation requirements would result in counter-productivity because entities would not be required to present immaterial information in the financial statements. Furthermore, the staff think reliance on paragraph 55 of IAS 1, would not achieve consistency and the needs of users of financial statements for more transparency.

Staff's preliminary preferred approach

60. Based on the feedback from respondents and the staff's analysis in paragraphs 9-59 of this paper, the staff think refinements could be made to the current presentation proposals. Instead of requiring an entity to present the amounts attributable to ordinary shareholders separately from those attributable to other owners, the amounts could be presented for and allocated to perpetual instrument holders and non-participating preference shareholders separately from other owners in the financial statements (ie the statement of financial position, the statement of comprehensive income and the statement of changes in equity). Other owners would now include ordinary shareholders, participating instrument holders, equity derivative holders and equity components of compound financial instruments.

61. As described in paragraphs 35 and 42 of this paper, the profit attributable to perpetual instrument holders and non-participating preference shares is either the declared amount for non-cumulative distributions or the accrued amount for cumulative distributions. Applying the principles in paragraph 11 of this paper, other comprehensive income is not attributable to these holders since they do not have contractual rights to benefit from the increase in economic resources of the entity except for the distributions specified in the contracts. Therefore, the staff recommend

allocating only profit for the year, not total comprehensive income, in the statement of comprehensive income.

62. The staff are aware that some users of financial statements requested further disaggregation in the financial statements by different types of equity instruments. The staff also acknowledge that our preliminary preferred approach would no longer provide separate information about amounts attributable to ordinary shareholders. However, the staff note that paragraph 55 of IAS 1 and paragraph 85 of IAS 1 already requires an entity to present additional line items when such presentation is relevant to an understanding of the financial position and financial performance. Similarly, paragraph 41 of IFRS 18 requires an entity to aggregate or disaggregate items to present line items in the primary financial statements that fulfil the role of the primary financial statements in providing useful structured summaries. Therefore, entities are required to present additional line items if such presentations are necessary for a primary financial statement to provide a useful structured summary.

63. The staff's preliminary preferred approach to require separate presentation for perpetual instruments and non-participating preference shares is expected to meet the objective to enhance transparency and a clearer distinction between equity instruments with non-participating or debt-like characteristics and other equity instruments. This approach aligns with the feedback requests for presenting these types of instruments separately (especially in light of recent market events) and addresses the concerns raised regarding the clarity and usefulness of the information presented. It also aligns with the IASB's decision to address issues related to perpetual instruments using presentation and disclosures in the FICE project.

64. The staff believe our preliminary preferred approach has several merits compared to the current proposal in the ED, because it would:

(a) assist with consistency and comparability of separately presented information specifically where entities have issued perpetual instruments or non-participating preference shares, by applying the methodology in paragraphs 35-36 of this paper;

(b) alert investors to the existence of any unpaid dividend 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;

(c) significantly simplify the requirements by not allocating profit or loss, comprehensive income and reserves separately to other types of equity instruments, including ordinary shareholders, participating instruments, equity derivatives and equity components of compound instruments;

(d) alleviate concerns about the lack of clarity on the definition and distinction of ordinary shareholders and other owners of the parent, thereby reducing potential confusion amongst users of financial statements; and

(e) simplify other areas, such as not allocating share-based payment reserves to employees holding share options.

65. Furthermore, we acknowledge that respondents raised concerns about the balance between costs for preparers and benefits to investors, primarily due to practical challenges associated with allocating reserves between ordinary shareholders and other owners of the parent other than perpetual instruments. The staff think that our preliminary preferred approach could alleviate some of the cost-benefit concerns by focusing on the separate presentation of perpetual instruments and non-participating preference shares which have debt-like characteristics. The staff therefore think the benefit of the additional presentation requirements to users of financial statements might outweigh the costs to preparers.

66. However, the staff are aware that our preliminary preferred approach could present some challenges. For example, this approach focuses on specific types of equity instruments and their participation in the distribution of profits and reserves on a going concern basis. As indicated in paragraph 57 of this paper, the staff note that there are various ways to present and differentiate between equity instruments which could also provide useful information.

67. Furthermore, the staff acknowledge that there might be different interpretations of what is considered 'perpetual instruments' or 'non-participating preference shares'. We also think that, consistent with the feedback in paragraph 12 of Agenda Paper 5A of this meeting about equity instruments that are similar to ordinary shares, there could be other non-participating instruments that are similar to these instruments that would not be captured by our preliminary approach. Neither perpetual instruments nor non-participating preference shares are defined in IFRS Accounting Standards. Therefore, this approach will require a clear and robust definition of such instruments to ensure consistent application across entities and in different jurisdictions. The staff plan to obtain input from the IASB's consultative groups on this approach before further discussing it at a future meeting.

Other clarifications

68. The staff acknowledge other feedback from respondents, such as suggestions for improving the illustrative example in the Guidance on implementing IAS 1/IFRS 18 and aligning/clarifying the wording used in the proposed amendments. The staff will consider these comments during the drafting process to ensure that the final amendment is clear and consistent.

69. Regarding transition, the staff will further consider the feedback, including whether further transition relief is necessary, and will present the staff's analysis on this matter at a future IASB meeting.

Appendix A: Research findings of different features in shares

A. This appendix provides a summary of the key features of various types of shares classified as equity instruments. Please note this summary does not cover all possible terms due to jurisdictional differences and the complexities associated with different shares.

	Ordinary shares	**Non-participating preference shares**	**Other participating shares**
Voting rights	• typically carry voting rights (eg, one vote per share) • multiple classes of ordinary shares may have different voting rights	• generally, no voting rights unless exceptional circumstances such as non-payment of dividends	• may carry voting rights
Dividend rights	• discretionary dividend with unspecified amount or timing, depending on changes in the entity's economic resources • multiple classes of ordinary shares may have different dividend rights	• fixed dividend rate, with the issuer having the discretion to cancel or defer payment until liquidation • dividends can be cumulative or non-cumulative • dividends are paid prior to ordinary shares (eg, dividend stopper or dividend pusher)	Different dividend rights, including: • discretionary dividends with unspecified amount or timing, depending on changes in the entity's economic resources • additional discretionary, formula-based or pro rata dividends after receiving fixed dividends • formula-based dividends based on ordinary dividends with, at times, an upper limit on the extent of participation (eg, up to, but not beyond, a specified amount per share)

	Ordinary shares	**Non-participating preference shares**	**Other participating shares**
Liquidation rights	• residual interest in net assets after deducting its liabilities and liquidation rights of preference shares • subordinate to all other equity instruments • multiple classes of ordinary shares may have different liquidation values	• fixed amount (eg par value of the share) plus any accrued dividends • higher priority than ordinary shares, but lower priority than debt instruments	Different liquidation rights, including: • fixed amount (eg par value of the share) plus any accrued dividends (plus pro rata share of residual interest with ordinary shares) • partial participation in residual interest, eg with an upper limit • pro rata share of residual interest with ordinary shares • may not participate in any liquidation proceeds
Other rights	• may have pre-emptive rights for access to new share issues before the public often at a discount	• may be convertible to ordinary shares	• may be convertible to ordinary shares

Appendix B: Research findings of current presentation practice on perpetual instruments

B1. The staff conducted a desktop review of the 2023 consolidated annual financial statements of 14 entities that have issued equity instruments other than ordinary shares (particularly perpetual instruments where the obligation arises only on liquidation) to see whether and how they are presented separately from ordinary shares on the face of the financial statements. The sample included eight banking or financial services groups and six corporates representing industries such as automobile, oil and gas, real estate and utilities and geographic regions such as Europe, Asia, North America and Africa.

Statement of comprehensive income

B2. Of the 14 entities reviewed:

(a) 10 showed line items for ordinary shareholders separately from other equity holders in the profit attribution section (although one bank showed the attribution as a deduction on the face of the income statement for preferred dividends and distributions on other equity instruments).

(b) one corporate grouped the profit attributable to ordinary and participating preference shareholders together but separate from profit attributable to hybrid capital investors and provided the further breakdown in the earnings per share note.

(c) three entities (one financial services group and two corporates) just showed one line for the group's share of profit or loss.

B3. Of the 14 entities reviewed, 13 entities provided presentation similar to their profit attribution section to attribute their total comprehensive income. One bank did not provide any breakdown of total comprehensive income.

Statement of financial position

B4. Of the 14 entities reviewed:

(a) 10 presented other equity instruments in a separate line item on the statement of financial position but only four of these clearly distinguished equity attributable to ordinary shareholders from equity attributable to other equity holders (other than NCI holders) using subtotals.

(b) two entities (one financial services group and one corporate) presented ordinary and participating preference shares together but hybrid capital separately.

(c) two corporates did not present other equity instruments separately (one only presented a line item for shareholders' equity, the other included the other equity instruments in the line item 'net income and consolidated reserves').

B5. Share capital was generally presented separately by entities in the sample although called by different names. Share premium, treasury shares, reserves and retained earnings were either presented separately or combined together with other line items.

Statement of changes in equity

B6. Of the 14 entities reviewed:

(a) eight presented a separate column for share/subscribed capital.

(b) three banks presented share capital together with share premium.

(c) two entities (one financial services group and one corporate) presented ordinary and participating preference shares together but hybrid capital separately.

(d) one bank presented one column for all equity instruments issued.

B7. Some entities presented share premium either clearly in a separate column or together with share capital but other entities included it as part of another column or with a different description which had to be determined from the notes to the financial

statements. Some entities presented separate columns for treasury stock with one bank explicitly keeping track of reconciliations in equity for treasury–preferred shares and other equity instruments.

B8. 10 of the 14 entities presented equity instruments other than ordinary shares and NCI in a separate column. Two entities presented ordinary and participating preference shares together but hybrid capital in a separate column. These instruments related to AT1 instruments, hybrid capital, preference shares, perpetual notes, perpetual capital securities, perpetual subordinated bonds, the equity component of a convertible bond and other equity instruments. However, only five entities clearly distinguished equity attributable to ordinary shareholders from equity attributable to other equity holders (other than NCI holders) using subheadings and/or subtotals in the current year.

B9. Of the 14 entities reviewed:

(a) seven attributed amounts for profit for the year, interest payments/distributions, capital issued and capital redeemed to holders of other equity instruments (other than NCI) in the separate column for that other equity instrument.

(b) one bank only showed issues and redemptions of securities in the separate column for that other equity instrument (but since interest is discretionary, it may be that there were no coupons declared to these other equity holders).

(c) four entities only showed issues and redemptions of securities in the separate column for that other equity instrument and showed profit for the year and dividends on these other equity instruments in retained earnings/consolidated reserves.

(d) one bank showed issues of other equity instruments together with their cost of issue and other in the column for all issued equity instruments and showed profit for the year and dividends on these other equity instruments in reserves and retained earnings.

(e) one corporate showed net income, remuneration on perpetual subordinated bonds, issuance/redemption of perpetual subordinated bonds and convertible bonds in one column for 'other consolidated reserves and net income'.

B10. Dividends paid to different equity holders were in most cases shown separately in the statement of changes in equity. For three entities, an equal amount was presented for profit attributable to and dividends paid to holders of other equity instruments. A reason for this may be that the dividends are non-cumulative and discretionary. In other cases where the profit was allocated to other equity holders, the dividend paid was either more or less than the profit allocated and in most cases, where the dividend to other equity holders was shown separately in the statement of cash flows, the amounts agreed to the statement of changes in equity.

B11. The entities had various presentation of reserves and retained earnings including which items of other comprehensive income affected retained earnings. 10 of the 14 entities presented a separate column for retained earnings.

Statement of cash flows

B12. All 14 entities presented dividends to ordinary shareholders, other equity instrument holders and NCI under cash flows from financing activities. However, not all entities presented distributions to other equity instruments separately and in some cases there was only one line item for dividends paid.

Other observations

(a) All entities in the sample provided further information about equity in the notes to the financial statements.

(b) Of the 14 entities in the sample, the line items in the statement of financial position largely corresponded with the columns in the statement of changes in equity for eight entities. For the other six entities, the main difference was that the statement of financial position only showed one line item whereas the statement of changes in equity showed further disaggregation in columns.

(c) If there is a shortage of space in the statement of changes in equity, instead of adding additional columns for subtotals, some entities used sub-headings above columns to clearly indicate amounts attributable to different holders of equity instruments. Other presentation included the use of line items and subtotals in the form of reconciliations for each type of equity, instead of columns.

(d) Some entities do not have ordinary shares eg one bank issues certificates, the proceeds of which are available to the bank in perpetuity and are subordinated to all liabilities and to other equity instruments such as capital securities.

(e) Terminology was different across entities and jurisdictions eg some entities referred to common and preferred stock/shares instead of ordinary and preference shares, respectively. Similarly, share premium was called by other descriptions for example, contributed surplus. Retained earnings was also called by other descriptions such as revenue reserves.

(f) Some accounting entries related to other equity instruments (other than NCI) but affected other components of equity for example:

   (i) net discount on sale of treasury instruments (preference shares and other equity instruments) in contributed surplus;

   (ii) loss on issue of other equity instruments in retained profits;

   (iii) loss on redemption of hybrid bonds recognised in the capital adjustments account;

   (iv) tax effect of the interest paid on AT1 instruments in retained earnings;

   (v) share and other equity instrument issue expenses in retained earnings;

   (vi) net premium on redemption of preferred shares and other equity instruments in retained earnings; and

   (vii) currency movements on redemption of AT1 instruments in retained earnings.