IFRS Accounting

Staff paper

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Topic	**Detailed feedback—Disclosures**
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Introduction

1. In this paper the staff summarise the detailed feedback related to some of the proposed disclosure requirements, received from comment letters and outreach on the Exposure Draft *Financial Instruments with Characteristics of Equity* (the ED) issued in November 2023. Agenda Paper 5D for this meeting contains the staff's analysis and preliminary views on this topic.

2. This paper focuses on particular aspects of the proposed disclosure requirements, namely those that originated from proposals in the 2018 Discussion Paper *Financial Instruments with Characteristics of Equity* (see paragraph 5 of this paper). This paper does not ask for any decisions from the IASB. The other disclosure proposals in the ED will be discussed at a future meeting.

Overview

3. This paper is structured as follows:

   (a) background;

   (b) overall comments on the proposed disclosure requirements;

   (c) detailed feedback on specific topics:

(i) scope and objective of IFRS 7 *Financial Instruments: Disclosures*;

(ii) terms and conditions;

(iii) nature and priority of claims on liquidation; and

(iv) potential dilution of ordinary shares;

(d) other feedback; and

(e) question for the IASB.

Background

4. The IASB proposes in the ED 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. In meeting this objective, the scope would also be expanded to include information about an entity's equity instruments. This is in response to stakeholder feedback that the information entities provide in their financial statements about equity instruments is too limited.

5. The proposed disclosures in the ED had been developed and refined after taking into account feedback on the 2018 Discussion Paper, feedback from meetings with stakeholders and research findings and include:

(a) terms and conditions of financial instruments with both financial liability and equity characteristics—information about debt-like characteristics in equity instruments, equity-like characteristics in financial liabilities, and key features that determine classification;

(b) terms and conditions of compound financial instruments—features that determine classification and amounts allocated on initial recognition to the liability and equity components;

(c) nature and priority of claims against the entity on liquidation arising from all financial liabilities and equity instruments in the scope of IAS 32 *Financial*

Instruments: Presentation—categorised claims, distinguished between secured/unsecured and contractually subordinated/unsubordinated, and separate disclosures for instruments issued by the parent and those issued by subsidiaries in the consolidated financial statements; and

(d) potential dilution of ordinary shares—maximum dilution of the entity's ordinary shares arising from financial instruments that could be settled in ordinary shares, including key terms and conditions relevant to understanding the likelihood of maximum dilution and the possibility for unknown dilution.

6. The proposals related to paragraph 5 of this paper were developed in response to requests from users of financial statements for more information about:

(a) the nature, amount, timing and uncertainty of cash flows arising from complex financial instruments issued by an entity and which key features determine their classification;

(b) an entity's financing structure to help them assess the nature of claims against the entity and understand how the claims affect the entity's liquidity and solvency; and

(c) the maximum potential dilution of ordinary shares arising from financial instruments such as convertible bonds and derivatives on own equity instruments.

Overall comments on the proposed disclosure requirements

7. Generally, many respondents appreciated the IASB's efforts to provide more useful information to users of financial statements and improve transparency and understandability. They said that the disclosure requirements proposed by the IASB are responsive to user feedback and crucial because they allow a better understanding of an entity's ownership structure in line with the expanded objective of IFRS 7 proposed in the ED. In addition, they said it would provide users of financial statements with better information about features of claims that are not presented by

the binary distinction between financial liabilities and equity, and improved disclosures for equity instruments.

8. Whilst many respondents understood the need to provide further information to users of financial statements, most respondents, particularly preparers, standard-setters and accountancy bodies, raised significant concerns about the proposed disclosure requirements because:

   (a) the increased volume of the proposed disclosures would be onerous, especially for preparers that have a short timetable for financial reporting, resulting in significant costs;

   (b) some proposals would be complex and difficult to produce, resulting in practical application challenges for preparers; and

   (c) some information would not be useful for users of financial statements in their decision making and could have the negative consequence of obscuring more relevant information about an entity's issued financial instruments.

9. Therefore, those respondents encouraged the IASB to balance the information needs of users of financial statements with the costs and operational burden for entities to prepare the information. Some respondents suggested the IASB:

   (a) provide more application guidance on how to prepare the proposed disclosures, including how to determine if information is material to ensure comparability and determine the appropriate level of aggregation and disaggregation of information;

   (b) perform field testing including cost-benefit analysis or further outreach with users of financial statements;

   (c) allow cross-referencing to other documents (eg Basel III Pillar 3 *Disclosure Requirements*) similar to paragraph B6 of IFRS 7 for financial instrument risk disclosures; and

   (d) consider objective-based disclosure requirements instead of prescribing mandatory requirements.

10. *Scope and objective of IFRS 7*—Most respondents, including standard-setters and accountancy bodies, agreed that expanding the scope and objective of IFRS 7 would enable users of financial statements to better understand diverse financial instruments including equity instruments that entities have issued. See paragraphs 15–17 of this paper for an analysis of the feedback.

11. *Terms and conditions*—Respondents expressed mixed views on the proposal. Some respondents, particularly users of financial statements and many standard-setters, said that it would help users of financial statements gain a better understanding of the nature of equity instruments with 'debt-like characteristics' and financial liabilities with 'equity-like characteristics'. On the other hand, most other respondents raised concerns about the granularity of the information required and the potential burden on preparers to prepare and provide the information. In addition, some mentioned challenges with providing the terms and conditions about priority on liquidation. See paragraphs 18–27 of this paper for further detail on this feedback.

12. *Nature and priority of claims on liquidation*—Most respondents, including preparers, standard-setters and accountancy bodies, questioned the operability and usefulness of the information. They were concerned about complexities that would arise in a group structure which operates in multiple jurisdictions. This is further discussed in paragraphs 28–35 of this paper.

13. *Potential dilution*—Most respondents, including preparers and accountancy bodies, raised concerns that the proposals overlap with the requirements in IAS 33 *Earnings per Share* and may create confusion. Some respondents said that the proposals should be added to IAS 33 instead of IFRS 7—see paragraphs 36–42 of this paper for more information on this feedback.

Detailed feedback on specific topics

14. Some respondents made general comments and expressed views on the overall package of disclosure proposals instead of commenting on specific topics. The detailed feedback analysis on specific topics (paragraphs 15–43 of this paper) is based

on the comments specifically made on each topic. Therefore, the terms that are used to indicate the portion of respondents that expressed a view are based on the population of respondents who specifically commented on each topic.

Scope and objective of IFRS 7

15. Some respondents commented on the scope and objective of IFRS 7 and most of these respondents welcomed the proposal because it would:

    (a) improve transparency by requiring disclosures for financial instruments with characteristics of equity, particularly those classified as equity instruments for which there are no current disclosure requirements; and

    (b) enable users of financial instruments to understand how an entity is financed and the risks that arises from the entity's ownership structure.

16. However, some respondents expressed concerns about the expanded scope and objective of IFRS 7 mainly due to the potential for disclosure overload. Comments and suggestions from these respondents included:

    (a) limiting the scope of the proposed disclosures to:

        (i) compound instruments or complex financial instruments[1];

        (ii) disclosures that are significant such as key judgements concerning the classification, and key terms and conditions, of individually material instruments; or

        (iii) particular entities, such as listed entities;

    (b) including the relevant disclosure requirements on equity structure in IAS 1 *Presentation of Financial Statements* instead because these are directly related to the statement of changes in equity;

[1] The respondent did specify what constitutes complex financial instruments.

(c) clarifying how disclosures may be aggregated for example based on operating segments, jurisdiction, terms and conditions or other characteristics and requiring entities to disclose how the disclosures are aggregated; and

(d) including members' shares in the scope exemption in paragraph 3(f) of IFRS 7 because the disclosure requirements have little applicability to members' shares in cooperative entities classified as equity applying IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments*.

17. In contrast, a few respondents asked the IASB to consider whether additional disclosures would be useful to users of financial statements, for example:

(a) information about risks affecting an entity's capital structure (eg how an entity's capital might change due to exchange rates or interest rates); and

(b) information about non-controlling interests in material subsidiaries and changes in significant non-controlling interests by segment to forecast the future financial position and assess the soundness of a corporate group.

Terms and conditions

18. Many respondents commented on the proposals and generally they expressed mixed views. Some respondents agreed with the proposed requirements and noted that the information would help users of financial statements understand the complex financial instruments. They also specifically mentioned that:

(a) having this information in one place would be timesaving because users of financial statements do not need to 'dig through' historic documents;

(b) this information would be especially relevant for significant investments made by pre-IPO investors or other investors with complex arrangements—ensuring understanding of the voting rights, the economic interest and the capacity to generate cash flows from the holding of specific financial instruments; and

(c) the information would ultimately enable appropriate valuation of financial instruments traded in the capital markets.

19. However, most respondents raised concerns about practical difficulties in preparing the disclosures and the potential for information overload due to the granularity of the information and some of these disagreed with the proposals and asked the IASB not to proceed with the proposals due to these concerns.

20. We have analysed the feedback on terms and conditions separately between the proposed disclosure requirements for compound financial instruments (in draft paragraph 17A of IFRS 7), and for financial instruments with both financial liability and equity characteristics (in draft paragraphs 30C–30E of IFRS 7).

Compound financial instruments (draft paragraph 17A of IFRS 7)

21. Overall, respondents did not provide a significant amount of feedback on the proposals for compound financial instruments and only some respondents commented on these. Many respondents that provided feedback on this topic agreed with the proposals because the information would help users of financial statements understand how the classification is determined and provide clarity on which components were part of a compound financial instrument before separation.

22. On the other hand, many other respondents that provided feedback (including standard setters and accountancy bodies) raised concerns about the proposed disclosure requirements and most of these respondents disagreed with the proposals because they believe:

    (a) requiring an entity to disclose the terms and conditions of compound financial instruments on an individual basis would result in disclosure overload.

    (b) the proposed information would also be captured by the requirements in draft paragraphs 30C–30D of IFRS 7. Conversely, an analyst specialising in convertible instruments was concerned the proposed disclosures about instruments with debt/equity-like characteristics in draft paragraph 30D(b) of IFRS 7 would not include all compound convertible instruments ie those with pure liability and equity components.

(c) the amounts allocated on initial recognition to the liability and equity components were already presented in the statement of financial position in the reporting period in which the financial instrument is initially recognised. The benefits of disclosing the amounts allocated on initial recognition compared to the carrying amounts at subsequent reporting dates may not outweigh the costs.

Financial instruments with both financial liability and equity characteristics (draft paragraphs 30C–30E of IFRS 7)

23. We received feedback on this topic from many respondents. Among those who provided feedback on this topic, some respondents (including users of financial statements and many standard-setters) agreed with the proposed disclosure requirements.

24. However, most other respondents (including preparers and many other standard-setters) expressed concerns about the increased level of disclosures and questioned the usefulness of the disclosures proposed in paragraphs 30C–30D of IFRS 7. Due to these concerns, some of these respondents (including preparers) disagreed with the proposals. Their comments included:

(a) requiring an entity to disclose the terms and conditions on an instrument-by-instrument basis, and in a narrative form, would result in disclosure overload and make the application of the materiality framework challenging. They noted that if information is difficult for users of financial statements to digest, it would not be helpful in the decision-making process.

(b) disclosing the terms and conditions that determined the classification of these financial instruments would be sufficient to meet the disclosure objective. Disclosing detailed information on ‘equity-like characteristics’ and ‘debt-like characteristics’ that are not representative of the classification of financial instruments would not improve the relevance of the information because the classification is supposed to achieve fair presentation.

(c) there is potential overlap with existing or proposed disclosures. Some 'equity-like characteristics' in financial liabilities may be already provided as part of the liquidity risk disclosures required by paragraph B10A(b) of IFRS 7 or draft paragraph 20(a) of IFRS 7 for gains or losses on financial liabilities that include contractual obligations to pay amounts that vary with the entity's performance or changes in its net assets.

(d) the information on 'debt-like' and 'equity-like' characteristics is already available outside the financial statements to interested parties.

25. In addition, some respondents, including standard-setters and accountancy bodies, raised concerns regarding the proposed disclosure requirements in draft paragraph 30E of IFRS 7 related to terms and conditions about priority on liquidation and noted that:

(a) the proposed disclosures are prescriptive, not considered to be useful to the decision-making of users of financial statements and should be removed;

(b) with regards to information about any significant uncertainty about how laws or regulations applicable to financial instruments could affect their priority on liquidation (draft paragraph 30E(c) of IFRS 7):

(i) it is unclear how entities might assess whether there is 'significant uncertainty';

(ii) significant costs and efforts would be incurred to:

- obtain legal advice or legal review to provide meaningful information about uncertainties that may exist about laws or regulations and to prevent any potential unintended negative reaction from users of financial statements;
- analyse all possible laws or regulations that could affect priority on liquidation; or
- collect information when an entity consolidates subsidiaries from different countries having different legal frameworks and extensive

intra-group financing arrangements (consistent with feedback on the proposed disclosures regarding nature and priority of claims on liquidation in paragraphs 29(b) and 30(b) of this paper);

(iii) disclosing significant uncertainty about laws or regulations that could affect priority on liquidation could involve disclosing sensitive information; and

(c) information about priority on liquidation would be of limited relevance for entities in the financial sector because resolution instead of liquidation is more relevant in most cases (consistent with feedback on the proposed disclosures regarding nature and priority of claims on liquidation in paragraph 30(d) of this paper).

26. A few respondents requested clarifications or made suggestions to ensure further clarity on the terms and conditions disclosure proposals, including:

(a) what constitutes 'debt-like' and 'equity-like' characteristics eg whether dividend pushers are 'debt-like' characteristics;

(b) additional information about the timing and uncertainty of the cash flows (eg the conditions in which the entity would expect to defer payments or an estimate of the timing of these payments), fair value of those instruments and priority of dividend payments;

(c) whether stand-alone derivatives (referred to in draft paragraph 30D of IFRS 7) include derivatives that are obligations to buy an entity's own equity; and

(d) whether use of the term 'obligation' in draft paragraph B5E of IFRS 7 is appropriate to refer to an amount that may not be paid in full, suggesting using principal or notional amounts instead.

27. In addition, to increase the usefulness of the information and reduce the potential burden on preparers, a few respondents suggested:

(a) making disclosures on an aggregated basis, grouped according to similar terms and conditions rather than on an instrument-by-instrument basis. They

requested the IASB provide application guidance on how to aggregate the information and consider requiring the same level of aggregation for the disclosures on both 'nature and priority of claims on liquidation' and 'terms and conditions about priority on liquidation'.

(b) limiting the scope of the proposed disclosures to only compound financial instruments or the more complex financial instruments.

(c) allowing cross-references to information in documents other than financial statements.

(d) providing illustrative examples for financial instruments classified as liabilities in addition to those classified as equity instruments.

(e) instead of requiring the information in draft paragraph 30E of IFRS 7, disclosing by class of financial instruments, whether the amounts due at liquidation (assuming the entity was liquidated at reporting date) would be materially different from the carrying amounts and if so, the difference between the two amounts.

(f) requiring the information in draft paragraph 30E of IFRS 7 only in specific situations, such as when there is significant uncertainty about an entity's ability to continue as a going concern or considering for financial institutions subject to regulatory resolution measures, whether disclosing the fact that liquidation may never happen would be sufficient.

Nature and priority of claims on liquidation (draft paragraphs 30A–30B of IFRS 7)

28. Many respondents commented on the proposals and among those respondents, some (including users of financial statements) acknowledged that the proposed disclosure requirements would help users of financial statements understand the capital and funding structure of an entity and analyse how claims against the entity affect its solvency and liquidity and thus agreed with the proposals. Despite agreement from these respondents, most respondents (including preparers, standard-setters and

accountancy bodies) were concerned about the operability (paragraph 29 of this paper) and usefulness of the information (paragraph 30 of this paper).

29. Significant concerns with regards to potential operational challenges and/or the costs and efforts associated with preparing and auditing the information, included:

(a) the impact of local legislation for entities operating in multiple jurisdictions—when a multinational group operates in several jurisdictions, liquidation rules may vary significantly. It would therefore be challenging to review all the relevant laws or regulations in multiple jurisdictions and to differentiate between claims based on contractual rights and those based on relevant laws or regulations.

(b) difficulty at a consolidated entity level to collect and rank the instruments in order of priority—disclosure would be a theoretical construct because the group itself cannot be liquidated and the actual order of settlement on liquidation might be dependent on circumstances that could not be foreseen at the reporting date.

(c) significant judgements to categorise claims—it is unclear how to differentiate between subordinated and unsubordinated claims (all claims are senior relative to ordinary shares/equity and subordinate relative to the most senior claim) and how to consider rights to offset or collateral agreements. Specifically, it would be challenging to determine whether instruments are 'secured' and 'subordinated' if a group has special purposes entities (SPEs) with complex waterfall distribution structures in addition to non-SPEs.

(d) overlap with other information already provided—similar information might already be provided in the memorandum of incorporation of an entity or required by prudential regulatory disclosures such as the Pillar 3 disclosure requirements.

30. In addition to these operational difficulties, some respondents questioned the usefulness and relevance of the information to users of financial statements because:

(a) the disclosure would not provide a full picture of what would happen on liquidation—the scope is limited to financial liabilities and equity instruments in the scope of IAS 32 ie would exclude pension obligations, tax and value-added tax payables.

(b) information about liquidation is available for each individual entity rather than at a consolidated entity level—claims are only made against individual legal entities. Disclosing the proposed information would involve significant assumptions to be made and might be theoretical/unrealistic in most cases such as assuming that all legal entities within the group are liquidated simultaneously. Respondents said that it is the legal entity information, and not the consolidation group numbers, that is most useful and relevant for users of financial statements. Some items in the legal ranking are not recognised on the consolidated balance sheet eg creditors' costs relating to their claims or have different names and levels of aggregation. In addition, internal transfers between consolidated entities in the liquidation process would not be considered.

(c) intragroup financing arrangements that could affect the priorities of external creditors would not be presented in the proposed disclosures.

(d) liquidation may be a remote possibility—especially for the regulated financial institutions, liquidation is not the most likely outcome because those institutions considered 'too big to fail' will enter into resolution.

(e) the information would not be sufficiently granular and lack informational value in its current proposed format. However, providing more granular information in an understandable manner and presenting information at a reasonable level of aggregation would be hard to achieve, costly to implement and would impair the readability of the notes to the financial statements.

(f) the fact that the priority could change upon liquidation is not appropriately highlighted. For example, secured claims could change into unsecured claims if assets are insufficient to cover the claim at liquidation and Additional Tier 1

bonds that are meant to prevent liquidation might suffer a significant loss in value before liquidation.

(g) distinguishing the instruments issued by the parent and subsidiaries as proposed in paragraph 30B(b) of IFRS 7 would not provide a faithful representation if the parent raises finance on behalf of the entire group and distributes the funds to its subsidiaries.

31. In addition, some respondents pointed out that the proposals seem to contradict principles in other IFRS Accounting Standards, for example:

(a) providing information regarding priority on liquidation is contradictory to paragraph 25 of IAS 1, which requires an entity to prepare financial statements on a going concern basis; and

(b) the separate disclosure of financial liabilities issued by the parent and by subsidiaries indicates that consolidated reporting required by IFRS 10 *Consolidated Financial Statements* is not sufficient for a faithful presentation.

32. A few respondents suggested ways to limit the scope of the proposed disclosure requirements or to reduce the burden on preparers. Those suggestions included:

(a) disclosing some limitations eg that the information does not provide a wholistic picture on liquidation because the scope is limited to financial instruments within the scope of IAS 32;

(b) limiting the scope of draft paragraph 30A of IFRS 7 to material financial instruments or financial securities issued;

(c) limiting the proposed disclosure in draft paragraph 30B(b) of IFRS 7 to subsidiaries that have material financial instruments or subsidiaries with public accountability;

(d) requiring the information only when there is significant uncertainty about an entity's ability to continue as a going concern; and

(e) allowing cross-referencing eg to Pillar 3 disclosures.

33. A few respondents suggested that the IASB not proceed with the proposed disclosure requirements but instead:

    (a) consider whether the terms and conditions of compound financial instruments in draft paragraph 17A of IFRS 7 and the terms and conditions of financial instruments with both financial liability and equity characteristics in draft paragraphs 30C–30E of IFRS 7 could be sufficient to fulfil the objectives of IFRS 7;

    (b) consider a presentation based on liquidity as required by paragraph 60 of IAS 1 to meet the objectives of the proposed disclosure requirements; and

    (c) develop a principle to help users of financial statements understand the risks within the capital structure and allow entities discretion and judgement on how to present and disclose that information rather than prescribing a template for disclosure.

34. On the other hand, some respondents, including users of financial statements, requested further clarifications to increase understandability and comparability, including:

    (a) using a different term for ‘priority on liquidation’ because the information at reporting date may differ from the information at actual liquidation date, eg some very subordinated bonds could mature in the short term and would not exist in actual liquidation;

    (b) application to instruments in the scope of IFRS 7 might be preferable given these disclosure requirements would be located in IFRS 7;

    (c) whether ‘carrying amount’ means (1) the current carrying amount per the statement of financial position at the reporting date, (2) the actual amount of the claim that would fall due if liquidation occurred at the reporting date, or (3) an estimate of the claim at a future liquidation date;

    (d) more clarity on the scope, especially which financial liabilities are included because the term ‘issuer’ is usually associated with a security; and

(e) additional guidance on how to determine the appropriate level of aggregation for categorising claims and how to assess whether the instruments in complex structures are 'secured' and 'subordinated'.

35. In addition to the proposed disclosure requirements, a few respondents (including users of financial statements) asked the IASB to further explore requiring additional useful information to be disclosed, including:

(a) additional levels of priority with more granularity eg disclosing by order of priority or a more detailed waterfall structure; and

(b) judgements, assumptions and estimates used by entities to determine the priority on liquidation.

Potential dilution of ordinary shares (draft paragraphs 30G–30H of IFRS 7)

36. Many respondents provided feedback on the proposals and some of those respondents (including users of financial statements) agreed with the proposed disclosure requirements to enable users of financial statements to assess the maximum potential dilution of ordinary shares. These respondents highlighted that:

(a) it is important to disclose information about potential dilution to the entity's ownership structure for both listed and non-listed entities;

(b) the information would assist potential and existing investors to make decisions about investing in the entity;

(c) information would be provided on the extent to which control or voting rights may be diluted in future periods as a result of contracts that were entered into in the current and prior periods; and

(d) information about potential dilution will be easily accessible and updated periodically for transactions that have been exercised or have expired and new contracts that have been entered into.

37. In addition, some users of financial statements acknowledged the proposed disclosure would be a good starting point for further analysis and said that they currently experience significant challenges in extracting such information from the financial statements. They also welcomed the inclusion of anti-dilutive instruments and the use of a table format. A few users of financial statements said showing the maximum dilution for each instrument along with information about the key terms and conditions and the diluting event was useful because the breakdown would enable them to make their own judgements.

38. However, most respondents (including preparers and accountancy bodies) questioned the usefulness of the proposed disclosure requirements and expressed concerns about operational difficulties in preparing the disclosures and the potential burden on preparers.

39. The main concern is related to the perceived overlap with IAS 33 *Earnings per Share.* Respondents said that IAS 33 already requires information about dilutive and anti-dilutive instruments, even though the principles applied in the proposals are different to those in IAS 33. Thus, the costs of preparing similar information might outweigh the benefits to users of financial statements and this overlapping information could cause confusion to both preparers and users of financial statements.

40. Due to the perceived overlap with IAS 33, some respondents suggested that these proposed requirements be added to IAS 33 instead of IFRS 7. Doing so would limit the scope to entities that are required to apply IAS 33 and would reduce the costs for unlisted entities. In addition, it would allow consistent application and help users of financial statements to understand the differences between IAS 33 dilution disclosures and the proposed disclosure requirements. Similarly, a few other respondents said the proposed disclosure goes beyond the narrow scope of the FICE project and should be considered in the future in conjunction with IAS 33 instead of addressing the shortcomings of information in IAS 33 by supplementing the disclosure requirements.

41. Other concerns raised by respondents included:

(a) *understandability to users of financial statements and operational difficulties in preparing the disclosure*—disclosing detailed information would impose significant burden on preparers. Class-by-class information and narrative-focused disclosures can also be very granular, hindering the overall clarity and conciseness of the information, and ultimately impact the benefits to users of financial statements.

(b) *misleading information*—

(i) disclosing shares that could be issued from anti-dilutive instruments could be misleading and confusing, particularly when anti-dilutive shares are excluded from diluted earnings per share.

(ii) having data for maximum dilution would not be useful without information about the probability that this maximum dilution will occur and the other financial effects (ie proceeds) of issuing additional shares. In contrast, a few said that providing the information about the likelihood of maximum dilution could be challenging and subjective.

(iii) maximising potential dilution does not take into account the interaction between different instruments.

(c) *unintended consequences*—the proposals may result in a material change in an entity's behaviour in selecting instruments used for funding due to a desire to avoid the large volume of onerous disclosures.

42. To further enhance the usefulness and completeness of these disclosures, some respondents suggested:

(a) clarification of the objectives of both the IAS 33 disclosures and the proposed disclosure requirements including a clear definition of 'dilution' as compared to IAS 33 because the scope of this term is not always clear in practice.

(b) a description of 'unknown number of share buy-back' because in practice entities may not know the exact number of shares to be repurchased in the

future (only the maximum or expected amount to be spent) and on the condition that the entity has entered into a contract or legal commitment.

(c) additional description and examples of items that are relevant in understanding the likelihood of the maximum dilution of ordinary shares in draft paragraph 30G(d) of IFRS 7. For example, whether the conversion option is out of (or in) the money (or by how much), the strike/conversion price or fair value information of derivatives.

(d) the number of shares should be based on the share price at the reporting date instead of 'unknown dilution' where the number of shares depends on the value at settlement date.

(e) a reconciliation or explanation of the differences between the maximum dilution of ordinary shares and IAS 33 diluted earnings per share.

(f) information about cash inflows eg issue proceeds from the exercise of stock options and the effects on debt reduction from the exercise of conversion rights. This would provide accurate insights into how dilution could affect the interests of ordinary shareholders and not overstate the risk to investors. In addition, providing the maximum value of what would be contributed to ordinary equity by the conversion to shares would help users of financial statements to calculate the enterprise value.

(g) further information to assist users of financial statements in making their decisions, such as:

    (i) any contractual changes that could affect the potential dilution of ordinary shares, such as those in share-based payment arrangements, to make users of financial statements aware of the impact on a timely basis;

    (ii) 'off-balance sheet' commitments (ie standby facility agreements where an entity can sell shares to investors up to a specified amount); and

    (iii) the maximum dilution of voting rights if they differ from the maximum dilution of ordinary shares.

Other feedback

43. A few respondents requested a sufficient transition period for preparers, auditors and regulators considering the expanded disclosure requirements. They said:

    (a) preparers need time to prepare disclosures and reduce duplicative disclosures because there is a potential overlap between the disclosure proposals and other documents; and

    (b) 18–24 months will be needed in order to collect the data required to meet the proposed disclosure requirements.

Question for the IASB

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