IASB® meeting

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Project	**Financial Instruments with Characteristics of Equity (FICE)**
Topic	**Presentation of equity instruments**
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Purpose of the paper

1 At the October 2024 IASB meeting (Agenda Paper 5A and 5B), the IASB discussed the detailed feedback on the presentation proposals in the Exposure Draft *Financial Instruments with Characteristics of Equity* (the ED) issued in November 2023. The IASB also discussed potential changes to the proposed amendments related to the presentation proposals in response to the feedback.

2 The purpose of this paper is to explore further refinements to the proposed amendments and alternative presentation approaches based on the input from IASB members at the October 2024 IASB meeting. This paper does not ask for any decisions from the IASB.

3 This paper is structured as follows:

(a) next steps;

(b) question for the IASB;

(c) staff analysis; and

(d) Appendix A—Comparison of three alternative presentation approaches.

Next steps

4 The staff will discuss with consultative groups the potential changes to the presentation proposals under the three alternative approaches set out in paragraph 54 of this paper and seek their input on:

(a) which of these approaches would best balance the needs of users of financial statements with the costs to preparers of preparing the additional information; and

(b) the timing of finalising these amendments ie finalising the presentation and some disclosure requirements in advance of finalising the requirements related to the various classification topics.

5 The staff will then consider the feedback from the consultative groups before making recommendations to the IASB for decision-making at a future meeting.

Question for the IASB

6 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 analysis and next steps? Are there any approaches that IASB members prefer, or conversely, any approaches that IASB members do not want the staff to explore with the consultative groups?

Staff analysis

7 In Agenda Paper 5A of the October 2024 IASB meeting, the staff summarised feedback from stakeholders on the proposals about the presentation of equity instruments in the ED. The main concerns raised by the stakeholders can be grouped into three categories:

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

(b) the basis and method for determining amounts for separate presentation; and

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

8 In Agenda Paper 5B of the October 2024 IASB meeting, the staff discussed alternative approaches to the separate presentation between different equity holders compared to the proposed approach in the ED. More specifically, the staff suggested a preliminary preferred approach based on the features of equity instruments that are frequently mentioned as examples of instruments for which separate presentation would provide useful information ('the October approach'), while grouping all other owners of equity instruments together.

9 During the October 2024 IASB meeting, some IASB members supported the general direction of the staff's suggested approach, acknowledging that it might be easier to respond to stakeholder concerns while still providing useful information by focussing on the complex equity instruments investors are more concerned about. However, other IASB members were concerned that introducing a different 'cut' within equity instruments that would be different from the 'cut' made by IAS 33 *Earnings per Share* could be confusing to users of financial statements and would result in additional complexity for both preparers and investors.

10 In addition, IASB members emphasised the importance of:

(a) having clear objectives for the proposed presentation requirements;

(b) considering the information needs of investors; and

(c) maintaining a coherent interaction with the requirements in IAS 33 or at least enabling investors to understand the interaction between the proposed presentation requirements and IAS 33.

11 Based on these comments, IASB members asked the staff to consider how stakeholder concerns and the factors in paragraph 10 could best be addressed through potential further refinements to either the ED or October approaches or another presentation approach that could be discussed with our consultative groups.

12 As previously acknowledged, financial instruments, including equity instruments, are becoming more complex, therefore investors need new and/or additional information to understand how these instruments could affect the nature, timing and amount and uncertainty of cash flows on these instruments. This complexity means that it is not straight-forward to develop a presentation approach that is easy to understand, can be clearly articulated and applied consistently to different types of instruments in all circumstances. In addition, different types of investors have different information needs and some might focus more on particular types of instruments or instruments with particular features, than others.

13 The staff therefore think that, before considering any potential refinements or alternatives, it is important to take a step back and first get to a common understanding of what information needs the proposed presentation requirements are to fulfil. For the purpose of our analysis, we have tried to answer the following questions:

(a) what is the problem to solve—what are the information needs of users of the financial statements;

(b) what are the related current requirements in IFRS Accounting Standards;

(c) what were the key messages from feedback on the proposals in the ED;

(d) are there any simplifications that can be made;

(e) what are the options for developing a presentation approach; and

(f) are other requirements needed.

What is the problem to solve—what are the information needs of users of the financial statements?

14 As noted in paragraph BC246 of the Basis for Conclusions on the ED, users of financial statement have said for a long time that the information about issued equity instruments currently provided in the financial statements is too limited. They were also of the view that the information provided in the financial statements can be improved by the related presentation and disclosure requirements, instead of relying solely on the classification of the instruments.

15 One of the long-standing objectives of the FICE project is to consider how to improve the information provided about equity instruments by issuing entities.[1] Users of financial statements have over the years (including through feedback on the 2018 Discussion Paper on FICE (2018 DP)) told us that they need:

(a) more accessible and less confusing information about issued instruments classified as equity;

(b) information to understand the distribution of profits between holders of different types of equity instruments that enable them to understand the effect other classes of equity instruments have on the returns to ordinary shareholders;

(c) transparency as to whether an entity has issued other instruments classified as equity without users of financial statements having to go through multiple notes to the financial statements to try and piece together information needed for their analysis; and

[1] Paragraph 6.55 of the 2018 Discussion Paper on FICE

(d) information to understand the key features that lead to the classification as equity or financial liability so that they can perform their own analyses and valuations.[2]

16 The information above is particularly important for equity analysts who analyse an entity from the perspective of an investor in the entity's ordinary shares. Some of these users of financial statements advocate for a narrow definition of equity instruments, limited to ordinary shares, and suggest that financial instruments other than ordinary shares be measured at fair value with changes in fair value recognised in profit or loss.[3]

17 However, as part of the outreach while developing the proposals in the ED, users of financial statements acknowledged that such an approach would require a fundamental change to the definition of equity (and could potentially have significant consequences beyond the particular instruments they are interested in). These users of financial statements therefore asked for improved information to be provided, through presentation and/or disclosure, that would enable them to assess the effects of other equity instruments on the valuation of ordinary shares.

What are the current requirements in IFRS Accounting Standards

18 IAS 1 *Presentation of Financial Statements* and IFRS 18 *Presentation and Disclosure in Financial Statements* contain the following requirements related to the presentation of equity instruments, amongst others **(emphasis added)**:

(a) the statement of financial position shall include line items that present non-controlling interests presented within equity and **issued capital and reserves attributable to owners of the parent** (paragraph 54(q)-(r) of IAS 1 and paragraph 104 of IFRS 18);

[2] This is further discussed in Agenda Paper 5B Feedback analysis—disclosures for this meeting

[3] CFA institute is one of the user groups that recommend a narrow definition of equity instruments. They proposed the definition of equity interests in their paper A Comprehensive Business Reporting Model: Financial Reporting for Investors which includes only those components of equity associated with the common shareowner's interest—that is, common stock, additional paid-in capital, and retained earnings.

(b) an entity shall present **profit or loss and comprehensive income for the period** attributable to non-controlling interests and **owners of the parent** in the statement of profit or loss and other comprehensive income (paragraph 81B of IAS 1, paragraphs 76 and 87 of IFRS 18);

(c) in the statement of changes in equity, **total comprehensive income** for the period, showing separately the total **amounts attributable to owners of the parent and to non-controlling interests** (paragraph 106(a) of IAS 1 and paragraph 107(a) of IFRS 18);

(d) in the statement of changes in equity, the components of equity include, for example, each class of contributed equity, the accumulated balance of each class of other comprehensive income and retained earnings (paragraph 108 of IAS 1 and paragraph 111 of IFRS 18); and

(e) an entity shall present, either in the statement of changes in equity or in the notes, the amount of dividends recognised as **distributions to owners** during the period, and the related amount of dividends per share (paragraph 107 of IAS 1 and paragraph 110 of IFRS 18).

19 Both IAS 1 and IFRS 18 require an entity to present additional line items, headings and subtotals or disaggregate items in their financial statements if such presentations are relevant to an understanding of the entity's financial position and financial performance or are necessary to provide a useful structured summary (paragraphs 55, 77 and 85 of IAS 1 and paragraphs 24 and 41(c) of IFRS 18 paraphrased).

20 Paragraph 66 of IAS 33 requires the presentation of basic and diluted earnings per share (EPS) in the statement of comprehensive income for each class of ordinary shares that has a different right to share in profit for the period. In addition, paragraph 70(a) of IAS 33 requires entities to disclose the amounts used as the numerators in calculating basic and diluted EPS, and a reconciliation of those amounts to profit or loss attributable to the parent entity for the period. The reconciliation shall include the individual effect of each class of instruments that affects EPS.

21 Paragraph BC254 of the Basis for Conclusions on the ED explains that the IASB considered whether the requirements in IAS 1 could be read as requiring separate presentation of amounts relating to ordinary shareholders from amounts relating to other equity holders. However, the IASB concluded that amendments are required 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. Therefore, the proposed amendments in the ED explicitly required presentation of amounts attributable to ordinary shareholders separately from other equity holders.

22 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. However, the staff think that reliance on entities applying these paragraphs would not achieve consistency and fulfil the needs of users of financial statements for more transparency.

23 The other information needs expressed by users of financial statements (see paragraphs 14-17 of this paper) also demonstrate that the current requirements in IAS 1 and IAS 33 are not sufficient, specifically:

(a) investors require information about equity instruments for non-listed entities, which fall outside the scope of IAS 33; and

(b) while the ultimate focus of most equity analysts is on ordinary shares, they need disaggregated information for equity instruments to understand how the interests of ordinary shareholders could be affected by other equity instruments.

What presentation proposals were included in the ED?

24 To meet the information needs of users of the financial statements, the ED included the following presentation proposals:

(a) to enhance transparency about issued instruments classified as equity, line items in the statement of financial position that present issued capital and reserves attributable to:

(i) ordinary shareholders of the parent;

(ii) other owners of the parent;

(b) to distinguish between returns attributable to ordinary shareholders and returns attributable to other owners, an allocation of profit or loss and other comprehensive income attributable to;

(i) non-controlling interests;

(ii) ordinary shareholders of the parent;

(iii) other owners of the parent; and

(c) to provide information about the effect that different features of equity instruments have on the distribution of returns between equity instruments, either in the statement of changes in equity or in the notes, the amount of dividend recognised as distributions to ordinary shareholders and to other owners.

25 Additionally, the ED proposed disclosure requirements to supplement the presentation proposals, including disclosing information about the nature and priority of claims on liquidation, the terms and conditions of financial instruments with both financial liability and equity characteristics and potential dilution of ordinary shares. See Agenda Paper 5B for this meeting for suggested refinements to these proposed requirements.

26 Equity instruments that are not ordinary shares are likely issued to raise finance, have debt-like features (for example, non-redeemable preference shares with fixed cumulative coupons) or expose ordinary shareholders to potential dilution (for example written call options on a fixed number of own shares). Therefore, these equity instruments will very likely fall within the scope of one or more of the disclosure proposals in the ED.

What were the key messages from feedback on the proposals?

27 As mentioned in paragraph 7 of this paper, stakeholders raised concerns about the anticipated challenges with implementing the proposals in the ED, especially with regards to potential application and practical challenges or significant expected costs of providing the information. For example, they asked about the definition of 'ordinary shareholders' and 'other owners', and how to determine whether a particular class of equity instruments is considered similar to ordinary shares.

28 With regards to the statement of profit or loss and other comprehensive income, stakeholders have raised questions or concerns about:

(a) the potential for inconsistencies with the requirements of IAS 33; and/or

(b) how to allocate other comprehensive income between ordinary shareholders and other owners of the parent.

29 In the statement of financial position, to determine the amount of equity (ie issued capital and reserves) attributable to ordinary shareholders (ie those shareholders bearing the most subordinate risk as defined in paragraph 5 of IAS 33), entities will first need to determine amounts attributable to all other equity instrument holders. This allocation process has led to stakeholders asking what basis to use for the allocation of reserves between ordinary shareholders and other owners of the parent, particularly for entities with complex capital structures or that have issued equity instruments with different rights and claims against the entity.

30 Although not required by the proposed amendments to IAS 1 in the ED, for the statement of changes in equity, the illustrative example shows that amounts attributable to *other owners* flow through from the statement of comprehensive income, the statement of changes in equity and the statement of financial position.[4] This has caused some stakeholders to understand (albeit mistakenly) that the

[4] Proposed IG6A of the Guidance on implementing IAS 1

proposals would effectively *require* updating the carrying amounts and therefore require the remeasurement of equity instruments.

31 In light of the concerns and questions raised by stakeholders regarding the ED approach, it is evident that further development and refinement of the presentation requirements are necessary.

Are there any simplifications that can be made?

32 Before we consider further refinements to either the ED or the October approaches or even new presentation approaches, we considered whether there are some simplifications and clarifications that could be made to some aspects of the proposals in the ED regardless of any preferred presentation approach.

33 As the focus of the proposals is on *presentation* (and not classification or measurement), we think it is important to clarify that any potential presentation requirements would not change the measurement requirements for equity instruments. Therefore, we suggest revising the illustrative example and tidying up any related drafting that could be seen as implying anything to the contrary when finalising the amendments.

34 The staff also acknowledge stakeholders' concerns about the practical challenges of attributing issued capital and reserves to different equity holders. We agree that the extent to which an entity's reserves are distributable to shareholders, is often determined by local laws and/or local GAAP, which may not be based on IFRS Accounting Standards. This might explain why some stakeholders challenged the usefulness of separately presenting reserves attributable to ordinary shareholders. We therefore suggest not requiring the attribution of issued capital and reserves between different types of owners of the parent as proposed in the ED nor specifying when or how transfers within equity are made between different owners.

35 Similarly, to address stakeholders' concerns and simplify the proposed requirements in the statement of comprehensive income, we suggest not requiring the allocation of

comprehensive income between the various equity holders of the parent. Many users of financial statements said that such information is a 'nice to have' and not a necessity.

36 In considering these suggested refinements, the staff considered whether there would be any significant deficits in information based on what we've heard from users of financial statements. In their feedback on the 2018 DP, many respondents agreed that it would be useful for investors to have information about the distribution of returns among the different types of equity instruments. This is consistent with the feedback we received during the outreach on the ED and discussions with investor IASB members.

37 Therefore, as users of financial statements consider the attribution of profit or loss for the period to different types of equity instrument holders to be more important when assessing the performance and returns of an entity, the staff think separate presentation in the statement of *profit or loss* should be the focus area for the IASB. Nonetheless, to satisfy investors' needs for transparency, we think there are some potential disclosure requirements that could be explored (see paragraphs 90-95 of this paper).

What are the options for developing a presentation approach?

38 We acknowledge that, even if focussing only on the presentation in the statement of profit or loss, there are multiple ways to differentiate between different holders of equity instruments that could provide useful information to users of financial statements. However, the staff are of the view that the focus should be on potential presentation approaches that:

(a) are consistent with the reasons the IASB developed the presentation proposals in the ED and satisfy the information needs of investors;

(b) address the key concerns raised by stakeholders in response to the ED;

(c) do not create inconsistencies with the requirements in IAS 32 *Financial Instruments: Presentation* or IAS 1/IFRS 18; and

(d) reduce the risk of other unintended consequences, eg new diversity in application.

39 To improve transparency about equity instruments and enhance comparability, it is crucial to establish clear and robust presentation principles that is easy to understand, can be applied by different types of entities and to different types of equity instruments while minimizing the need for significant judgments to be made.

40 The staff continue to believe that it is important for the attribution of profit or loss to different types of holders of equity instruments are based on the contractual rights of the instruments as at the reporting date. Specifically, the amounts presented separately should rely on information that is available at the reporting date, without considering *the effects of contingent events* or *the amount and priority of claims upon liquidation* (see paragraph 11 of Agenda Paper 5B of the October 2024 IASB meeting).

41 The staff also considered suggestions to limit the scope of any potential presentation requirements to entities that are in the scope of IAS 33. However, the staff do not think this is appropriate because:

(a) it would be inconsistent with the reasons the IASB developed the presentation proposals in the ED, which was to enhance transparency with regards to equity instruments for *all entities*; and

(b) there is no significant difference in information needs between investors of listed and non-listed entities.

Differentiation of equity instruments

42 To consider potential ways in which to differentiate between different types of equity instruments, the staff compared the economic rights of different types of equity instruments that are frequently mentioned by stakeholders. Our findings suggest that there are two key characteristics when differentiating between types of equity

instruments—the right to distributions and the right to share in the net assets of the entity. These two characteristics can be combined in different ways and when coupled with other features (such as contingent events), could result in many permutations. The effect of contingent events is more appropriately dealt with through disclosure, for the purpose of our analysis, we only focussed on the two key characteristics.

43 The right to distributions could be either the right to participate in the performance of an entity (ie 'participate in profit' similar to dividends on ordinary shares) or the right to only receive specified amounts such as a fixed coupon (ie are non-participating).

44 Similarly, the right to share in the net assets of an entity could be either the right to a residual interest in the net assets in liquidation or the right to only a specified amount (eg the amount initially contributed).

45 The combination of these rights give rise to equity instruments:

(a) that have rights to participate in both profit and a residual interest, for example ordinary shares;

(b) that have neither the right to participate in profit nor the right to a residual interest in the net assets, for example some perpetual instruments (such as Additional Tier 1 (AT1) instruments); or

(c) that have a combination of the two, for example the right to participate in profit coupled with the right to receive only a specified amount in liquidation or vice versa.

46 This can be illustrated as follows:

	Participate in profit	***Participate in residual interests***
Group A (eg ordinary shares)	Yes	Yes
Group B	Yes	No
Group C	No	Yes
Group D (eg AT1 instruments)	No	No

47 There is no doubt that an understanding of the particular rights an equity instrument has, is important to understand the effects these rights could have on the timing, amount, and uncertainty of future cash flows.

48 Therefore, the staff are of the view that, for the purposes of presenting the attribution of profit or loss, equity instruments could be differentiated based on their participation rights. However, because participation could refer to participation in profit, participation in residual interests, or both, the staff think 'participating' instruments would need to be defined.

49 The staff considered the implications of different definitions for participating instruments with regards to the presentation in the statement of profit or loss. Equity instruments, such as ordinary shares, that participate in both profit and in residual interests would be considered as participating instruments, regardless of how "participating" is defined. Similarly, equity instruments that participate in neither could be categorised as non-participating. However, when equity instruments participate only in profit or only in residual interests, their categorisation would vary depending on the definition of participating instruments.

50 Asymmetric participation features could in some cases lead to misleading information for users of financial statements, for example, if equity instruments that only

participate in profit (but not residual interests) are considered as 'non-participating' in the statement of profit or loss.

51 Consistent with our suggestion to focus potential presentation requirements on the attribution of profit or loss between different types of holders of equity instruments, the staff believe that participating instruments should be defined by focusing on the instrument's right to *participate in profit* because:

(a) participation in residual interests is less relevant when the focus is on the statement of profit or loss as stated in paragraph 37 of this paper; and

(b) it would be consistent with the current description of participating equity instruments in IAS 33, which only focuses on participation in profit. [5] Having a different definition could be confusing to stakeholders and would increase the complexity of the potential requirements.

52 This will then mean that, in the above table, participating instruments encompass two groups:

(a) Group A—equity instruments that have both rights to participate in profit and rights to participate in residual interests; and

(b) Group B—equity instruments that have rights to participate in profit only, without participation in residual interests.

53 However, we think this would still leave one important question unanswered for the purpose of specifying which line items an entity should present in the statement of profit or loss—how is the current 'profit or loss for the period attributable to owners of the parent' to be disaggregated?

[5] Paragraph A13 of IAS 33 describes participating equity instruments as 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.

54 Taking into account all the feedback on the ED and IASB members' comments at the October 2024 meeting, the staff think there are three potential approaches to explore for aggregating the profit or loss attributable to different types of instruments, namely:

(a) presenting profit or loss attributable to ordinary shareholders separately and aggregating all other equity instrument holders of the parent—this approach is based on the presentation proposals in the ED ('Revised ED approach') (see paragraphs 56-69 of this paper);

(b) presenting profit or loss attributable to participating instrument holders (being ordinary shareholders and other participating instrument holders) separate from non-participating instrument holders—this approach is based on the October approach ('Revised October approach') (see paragraphs 70-83 of this paper); and

(c) presenting separately profit or loss attributable to ordinary shareholders, other participating instrument holders, and non-participating instrument holders—this approach tries to bridge the gap between the Revised ED approach and the Revised October approach ('the Bridge approach') (see paragraphs 84-87 of this paper).

55 To facilitate the discussion of these approaches, the staff analysed each of them in term of their benefits and disadvantages, whether they would satisfy investor needs and how they would be consistent or not with the requirements in IAS 33.

Revised ED approach

56 Assuming the simplifications discussed in paragraphs 31–37 are made, the revised ED approach would require separate presentation only in the statement of profit or loss as illustrated below:

Statement of profit or loss (extract)	**20X7**	**20X6**
Profit attributable to:		
Ordinary shareholders of the parent	X	X
Other equity instrument holders of the parent	X	X
Non-controlling interests	X	X
Profit for the year	**X**	**X**

57 The staff are of the view that this approach would align with the requirements in IAS 33 (for calculating basic EPS) to a large extent, which was also suggested by some users of financial statements. To achieve maximum alignment with IAS 33, the staff suggest:

(a) aligning the definition of ordinary shareholders with the definition of ordinary shares in paragraph 5 of IAS 33; [6] and

(b) requiring the profit attribution to ordinary shareholders in a consistent method to the calculation of the numerator for basic EPS.

58 Similar to calculating the numerator for basic EPS, the profit attributable to ordinary shareholders is adjusted by the profit attributable to other equity instrument holders. This is in line with the feedback on both the 2018 DP and the ED, which supported leveraging the requirements in IAS 33 for preference shares to calculate profit attributable to other equity instrument holders (irrespective of whether the entity is in the scope of IAS 33).

[6] Paragraph 5 of IAS 33 defines an ordinary share as an equity instrument that is subordinate to all other classes of equity instruments.

Pros and cons analysis of the Revised ED approach

59 The distinction between ordinary shares and other equity instruments is consistent with the focus in IAS 33 on measuring the interests of each ordinary share of a parent entity in the performance of the entity over the reporting period. This could also prevent additional complexities in the financial statements from introducing another binary distinction within equity instruments.

60 Investors would benefit from receiving direct and relevant information associated with ordinary shares on the face of the statement of profit or loss. Research suggests that companies do not always adjust profit for the year with dividends on preference shares classified as equity or the premium on redemption of those preference shares.[7] Requiring the presentation of profit attributable to ordinary shareholders, will increase the prominence of the 'profit attributable to ordinary shareholders' number.

61 However, the staff note that IAS 33 is an old Standard which has not been amended for some time. During this time, innovation in the financial market and various structured financial instruments have led to less transparency on the nature of the claims against net assets and the rights and obligations inherent in those claims. Therefore, separately presenting profit attributions to ordinary shareholders might not necessarily provide investors with the useful information they asked for and/or could give rise to more application questions or diversity in practice developing.

62 The distinction between ordinary shares and other equity instruments—especially instruments with characteristics similar to ordinary shares —is challenging due to the intricate and overlapping features. In practice, entities do not always classify instruments as ordinary shares consistently with their legal form. This was confirmed by the evidence gathered from comment letters, outreach meetings and research findings (see Agenda Pager 5B of the October 2024 IASB meeting).

[7] The Financial Reporting Council reported that issues related to IAS 33 are reasonably frequent in the reports they reviewed and affect different sized companies across various industries. Their thematic review of earnings per share highlighted the more common errors found in EPS calculations, including: the definitions of dilutive and antidilutive; the treatment of share reorganisations that include a bonus element; adjustments required for equity preference shares; and the methodology for calculating EPS when a reverse acquisition has taken place.

63 To determine the amounts attributable to ordinary equity holders, paragraph 12 of IAS 33 requires adjustments related to 'preference shares', and paragraph 14 of IAS 33 provides requirements on deducting preference dividends *without referring to other types of instruments*.

64 The staff also note that in 2003, application guidance and illustrative examples for participating equity instruments were added to IAS 33 to address implementation questions related to complex capital structures and arrangements. However, not all related requirements were amended at the same time; for example, the definition of ordinary shares was not amended to explicitly include or exclude participating equity instruments. Furthermore, 'preference share' or 'preference dividends' is not defined in IAS 33. This could explain why stakeholder feedback raised concerns about complexity and the potential for divergence to develop with regards to participating equity instruments, eg whether they are considered as ordinary shares and whether their EPS is required to be presented.

65 Some preference shares might not have a preferential right to distributions, but could, along with other equity instruments, be participating instruments as described in paragraph 52 of this paper. The profit attributable to participating instruments is not required to be separately presented under the Revised ED approach and will be included in profit attributable to other equity instrument holders.

66 The Revised ED approach may therefore require addressing some of the current application issues in IAS 33 as highlighted in paragraphs 62-65 of this paper.

67 However, even after resolving these application issues, the Revised ED approach will still face challenges in aligning the profit attributable to ordinary shareholders with the numerator used to calculate basic EPS, due to some different treatment of equity transactions. For example, paragraphs 15-18 of IAS 33 require adjustments in calculating profit or loss attributable to ordinary equity holders of the parent entity for:

(a) amortisation of any original issue discount or premium on increasing rate preference shares; and

(b) gains/losses associated with the redemption of preference shares and the early conversion of convertible preference shares, by comparing the difference between carrying amount and consideration paid to settle them.

68 However, under the current IFRS Accounting Standards, gains/losses from the above transactions are recognised directly in equity, as they relate to transactions with owners in their capacity as owners—therefore not included in profit or loss.

69 Given that paragraph 70(a) of IAS 33 requires the disclosure of amounts used as the numerators in calculating basic EPS—profits attributable to the ordinary equity holders of the parent—and a reconciliation to the parent's profit or loss, this approach would provide only limited additional information for entities already within the scope of IAS 33.

Revised October approach

70 In the October 2024 meeting, the staff suggested an alternative to the proposed presentation requirements in the ED. In contrast to the ED approach (see paragraph 24 of this paper), entities would have been required to present the amounts attributable to particular non-participating instruments (such as perpetual instrument holders and non-participating preference shareholders) separately from the amounts attributable to other owners of the parent (including ordinary shareholders).

71 This approach was based on feedback from investors and other stakeholders about the importance of information about perpetual instruments such as Additional Tier 1 (AT1) instruments. Perpetual instruments have been described in this project as financial instruments classified as equity—because they contain obligations that only arise on liquidation of the entity—but which also have debt-like features.

72 IASB members noted that the approach as described in Agenda Paper 5B for the October 2024 meeting:

(a) lacks a clearly defined principle as it seems to focus on specific types of equity instruments;

(b) grouped ordinary shares together with other types of equity instruments (other than perpetual instruments and non-participating preference shares), which seems to be counter-intuitive in terms of the information that investors asked for; and

(c) does not define perpetual instruments and non-participating preference shares which could lead to questions about other instruments that are similar in nature (similar to the feedback discussed in the context of ordinary shares under the revised ED approach) causing diversity in practice to develop.

73 The staff considered that perpetual instruments and non-participating preference shares are both classified as equity because they are non-redeemable ie the issuer has an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation. However, these equity instruments have 'debt-like characteristics' such as rights to specified amounts based on their contractual terms. For example, these instruments do not participate in profits beyond specified amounts and typically do not have rights to the residual interests of the entity ie they generally only have predetermined liquidation amounts.

74 Using the matrix illustrated in paragraph 46 of this paper, these instruments would typically be similar to those in Group C and Group D of the matrix.

75 To refine the October approach and make it more principles based, it could require the separate presentation of profit attributable to non-participating instruments. Profits attributable to ordinary shareholders and other participating instruments would then be presented in aggregate, as illustrated below:

Statement of profit or loss (extract)	**20X7**	**20X6**
Profit attributable to:		
Ordinary shareholders and other participating instrument holders	X	X
Non-participating instrument holders	X	X
Non-controlling interests	X	X
Profit for the year	**X**	**X**

76 We think this refinement could also address some of the concerns mentioned in paragraph 72(b) that the October approach would group ordinary shareholders with other equity instrument holders. The staff note that not all other equity instrument holders would share in the entity's profit. With regards to profit allocation, only participating instruments would have rights to participate in profit along with ordinary shares. This is because stand-alone equity derivatives or equity derivative components of compound instruments do not have right to share in the entity's profit until they are exercised or converted. In addition, stakeholder feedback indicated preparers might have practical difficulties to distinguish ordinary shares from other equity instruments especially those that have similar profit participation rights to ordinary shares.

77 Although under this approach ordinary shares will be grouped with other participating instruments, investors would still be provided with information that enables them to understand that other participating instruments are presented together with ordinary shares because of their similar profit participation rights. Entities that are applying IAS 33, would still be required to disclose the numerator in calculating basic EPS for ordinary shares.

Pros and cons analysis of the Revised October approach

78 To separately present profit attributable to non-participating instrument holders, this approach would enhance transparency for non-participating instruments. It aligns with the IASB's decision in the February 2021 IASB meeting to address issues related to perpetual instruments using presentation and disclosure requirements in the FICE project. It also considers stakeholder feedback asking for separate presentation of perpetual instruments separately (especially in light of recent market events).

79 An academic paper implies that perpetual instruments are value-relevant to investors because the motivations behind the issuance of perpetual instruments are to increase the book value of equity (accounting treatment as equity) and generate deductible expenses for tax purposes (tax treatment as liability).[8] Other academic research findings support presenting perpetual instruments separately on the basis that it would enhance analysts' awareness and help their evaluations and forecasts. [9]

80 Furthermore, we think this approach could strengthen the link between the primary financial statements and the proposed disclosures for equity instruments with debt-like characteristics. Investors typically start with the primary financial statements and use disclosures in the notes to understand and evaluate the reported amounts. Therefore, a stronger link between presentation and disclosure requirements could improve investors' understanding of separately presented amounts.

81 By not requiring the split between ordinary shareholders and other participating instrument holders, this approach avoids the drawbacks associated with the Revised ED approach. The key benefits include:

(a) increased consistency by not requiring a distinction between ordinary shares and other participating instruments when their rights are similar;

[8] Eduardo Flores and Marco Fasan, (2024), "Financial instruments with characteristics of equity: outcomes and value relevance", Journal of Financial Reporting and Accounting

[9] Bornemann, Tobias and Novotny-Farkas, Zoltán, Does the Accounting Classification of Hybrid Financial Instruments as Debt or Equity Matter? (May 8, 2024). Available at SSRN: https://ssrn.com/abstract=4821642 or http://dx.doi.org/10.2139/ssrn.4821642

(b) profits attributable to non-participating instruments can be determined through a simple calculation based on non-participating instruments' contractual rights to specified profit amounts, meaning the residual profits are attributable to the ordinary shares and other participating instrument holders; and

(c) not extending existing IAS 33 application issues into the FICE project (see paragraphs 62-65 of this paper).

82 However, this approach could face criticism for not fully satisfying investors' information needs, eg why separate presentation of profit attributable to ordinary shareholders is not required when entities have to calculate this information for the purposes of IAS 33.

83 The staff note that not all entities apply IAS 33, but that for those that are, the current disclosure requirements would continue to apply. Furthermore, there were concerns from some stakeholders about making the distinction between ordinary shares and other equity instruments of non-listed entities. Many of these entities have multiple classes of shares that are often termed 'ordinary shares' in the financial statements, although payouts are determined by exit events and follow a predetermined waterfall schedule. The staff believe it is important to keep the presentation requirements as simple as possible. Developing the presentation proposal based on requirements in IAS 33 could make it too complex for entities that do not apply IAS 33 (for the reasons described in paragraphs 61-66 of this paper).

Bridge approach

84 The staff considered whether there was another presentation approach that would meet the needs of users of the financial statements. To bridge the gap between the Revised ED approach and the Revised October approach, the Bridge Approach would combine the two approaches and require separate presentation for profit or loss attributable to:

(a) ordinary shareholders (definition to be aligned with the definition of 'ordinary shares' in IAS 33)—included in Group A in the matrix in paragraph 46 of this paper;

(b) other participating instruments holders (based on participation in profits as discussed in paragraph 51 of this paper)—included either in Group A or in Group B; and

(c) non-participating instrument holders)—included in Group C and Group D.

85 Below is an example to illustrate the separate presentation under the Bridge approach:

Statement of profit or loss (extract)	**20X7**	**20X6**
Profit attributable to:		
Ordinary shareholders of the parent	X	X
Other participating instrument holders of the parent	X	X
Non-participating instrument holders of the parent	X	X
Non-controlling interests	X	X
Profit for the year	**X**	**X**

Pros and cons analysis of the Bridge approach

86 By combining the Revised ED and Revised October approaches, the Bridge approach would also share some of their pros and cons. However, because it bridges the gap between the other approaches, it might also address some of their cons. The pros include:

(a) as with the Revised ED approach, this approach builds on the existing requirements in IAS 33 and achieves alignments as much as possible (see paragraph 59 of this paper).

(b) also consistent with Revised ED approach, presenting profit attributable to ordinary shareholders best satisfies investors' needs by providing the most relevant information associated with ordinary shares (see paragraph 60 of this paper).

(c) although the approach still requires distinction between ordinary shares and other participating instruments, it addressed some of the main concerns about the Revised ED approach by not grouping other participating instruments with non-participating instruments. In addition, by requiring separate presentation of other participating instruments, it would achieve further alignment with IAS 33 in this regard.

(d) like the Revised October approach, it enhances transparency about non-participating instruments and strengthens the connection with disclosures for equity instruments with debt-like characteristics (see paragraphs 78-80 of this paper).

87 However, the Bridge Approach might share the same cons of the Revised ED approach with regards to the potential to extend the application questions in IAS 33 to the proposed presentation requirements (see paragraphs 62-65 of this paper). However, we think the risk under the Bridge approach is lower than for the Revised ED approach because both ordinary shares and other participating instruments are presented separately, thereby reducing the need for significant judgements to be made.

Are other requirements needed?

88 One of the final questions we considered was whether any other requirements are needed if there are no specific presentation requirements in the statement of financial position and the statement of changes in equity (see the simplifications discussed in paragraphs 32–37 of this paper).

89 Paragraph BC251 of the Basis for Conclusions on the ED explains several reasons why the IASB originally rejected specifying further sub-classes of equity instruments in the statement of financial position. The proposed disclosures in the ED (see paragraph 24 of this paper) will also provide some information to users of financial

statements for them to conduct their own analyses and to understand the effects of other equity instruments on ordinary shareholders' returns.

90 However, to enable users of financial statements to better understand the effects of these instruments on the entity's future cash flows, the staff think that additional information could be provided through disclose in the notes to the financial statements. This might include, for example, information about which equity instruments relates to the line items presented separately in the statement of profit or loss (ie, ordinary shares, other equity instruments, participating instruments, and non-participating instruments). These disclosures could also potentially include information about movements between these categories during the reporting period.

91 By establishing a clear link between the presentation of separate line items in the statement of profit or loss, and the equity instruments associated with each of these, will enable users of financial statements to get a better understanding of the composition of equity and the potential effects different equity instruments could have on the nature, timing and uncertainty of future cash flows attributable to different types of equity instruments.

92 The staff also suggest introducing additional disclosures to explain the terms and conditions of participating instruments (without any debt-like features) because these would not be covered by the proposed terms and conditions disclosures.

93 Additionally, the staff suggest requiring disclosure of the amount of cumulative undeclared dividends of non-participating instruments. Investors have told us that knowing the amount of equity attributable to non-participating instruments would be useful because they can use this information in their valuation of ordinary shares and in calculating price to book ratios and return on equity calculations.

94 This disclosure would also address investors' concern that the existence of any unpaid dividends or deferred distributions to non-participating instrument holders could erode or even wipe out the residual value of equity attributable to ordinary shareholders when accumulated over a long period.

95 We do not consider such a disclosure to require significant costs or effort from preparers because they need to track cumulative undeclared dividends attributable to non-participating instruments not just for distribution purposes but also for purposes of calculating realised gains or losses on redemption of these instruments. We therefore think the information should be available without undue cost or effort.

Appendix A—Comparison of three alternative presentation approaches

A1. To facilitate discussion and enhance understanding, the table below provides a comparison of these approaches:

Statement of profit or loss (extract)	Revised ED approach	Revised October approach	Bridge approach
Profit attributable to:			
Ordinary shareholders of the parent	X	X	X
Other participating instrument holders of the parent	X		X
Non-participating instrument holders of the parent		X	X
Non-controlling interests	X	X	X
Profit for the year	**X**	**X**	**X**

Amounts to be aggregated