IFRS Accounting

Staff paper

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Topic	**Feedback analysis—disclosures**
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Purpose of the paper

1. At its October 2024 meeting, the IASB discussed the detailed feedback from comment letters and outreach on some of the proposed disclosure requirements 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 these disclosure proposals in response to the feedback as noted in Agenda Paper 5D for that meeting. IASB members generally acknowledged these changes would be responsive to concerns relating to disclosure overload because those changes aim to reduce the burden on preparers while still meeting the needs of users of financial statements.

2. In this paper, the staff explore whether further refinements to the proposed amendments could be made based on the comments from IASB members at the October 2024 IASB meeting (see staff analysis section). This paper does not ask for any decisions from the IASB but we welcome any comments or observations that IASB members have on the staff analysis in this paper.

3. This paper is structured as follows:

   (a) summary of the staff's further refinements and next steps;

(b) question for the IASB;

(c) staff analysis; and

(d) Appendix A—comparison between the ED proposals and the staff's preliminary views as well as a cost assessment.

Summary of the staff's further refinements and next steps

4. Considering feedback from IASB members at its October 2024 meeting, the staff think further refinements could be made to the staff's preliminary views presented in Agenda Paper 5D for that meeting:

   (a) *nature and priority of claims on liquidation, arising from financial instruments*

      (i) change the focus of the proposed disclosure away from liquidation (paragraphs 9–12 of this paper).

      (ii) align the scope of claims classified as financial liabilities with that of the liquidity risk disclosures required by IFRS 7 *Financial Instruments: Disclosures* (paragraphs 13–23 of this paper).

   (b) *terms and conditions*

      (i) retain financial instruments that contain indirect obligations in the scope of financial liabilities with equity-like characteristics (paragraphs 26–30 of this paper).

      (ii) retain the disclosure of terms and conditions of financial instruments that could lead to a change in priority and similar to paragraph 4(a)(i) of this paper, change the focus away from liquidation(paragraphs 37–44 of this paper).

   (c) *Potential dilution of ordinary shares*

      (i) require entities that are applying IAS 33 *Earnings per Share* to disclose *qualitative* information about the main differences between diluted

earnings per share (DEPS) and potential/maximum dilution of ordinary shares (paragraphs 46–52 of this paper).

(ii) include examples of the terms and conditions of instruments an entity can disclose to enable users of financial statements to understand the potential/maximum dilution of ordinary shares. This could include for example the par value of convertible instruments, conversion ratios and contingent events affecting the conversion ratio (paragraphs 53–60 of this paper).

5. See Appendix A to this paper for a comparison between the proposals in the ED and the refinements suggested to date by the staff.

6. The staff will seek input from consultative groups on all the potential changes to the proposed disclosure requirements and on the timing of finalising these amendments before bringing our recommendations to the IASB for further discussion and decision-making at a future meeting.

Question for the IASB

Question for the IASB
Do you have any questions or comments about the further refinements, analysis and next steps discussed in this paper?

Staff analysis

Nature and priority of claims on liquidation, arising from financial instruments (draft paragraphs 30A–30B of IFRS 7)

7. To address the main concerns raised by respondents about the scope of the disclosures, potential practical difficulties with determining the priority on liquidation on a consolidated basis, and the usefulness of the information to users of financial statements, the staff considered in the October 2024 paper whether the scope of this

requirement could be reduced (see paragraphs 64–77 of Agenda Paper 5D for the October 2024 IASB meeting).

8. Our initial suggestions included the draft disclosure requirements applying only to financial liabilities in the scope of IAS 32 *Financial Instruments: Presentation* that arise from transactions that involve only the raising of finance (applying the principles in IFRS 18 *Presentation and Disclosure in Financial Statements*) and equity instruments issued to raise finance.

Change the focus of the proposed requirements away from liquidation

9. As explained in Agenda Paper 5C for the October 2024 IASB meeting (see paragraphs 28–31), the staff acknowledge respondents' concerns, such as:
   (a) difficulties at a consolidated entity level to rank the instruments in order of priority on liquidation;
   (b) information about liquidation is more relevant at an individual entity, rather than at a consolidated entity, level;
   (c) liquidation may be a remote possibility—especially for regulated financial institutions, liquidation is not the most likely outcome because institutions will instead enter into resolution (to avoid liquidation), which might affect the nature and priority of claims against the entity (prior to liquidation); and
   (d) providing information regarding priority on liquidation is contradictory to paragraph 25 of IAS 1 *Presentation of Financial Statements*, which requires an entity to prepare financial statements on a going concern basis.

10. The staff note that the objective of the proposed disclosures is to provide information about the nature and priority of any claims against an entity's assets and how those claims affect the entity's liquidity and solvency by *categorising* classes of claims based on their contractual terms.

11. As explained in BC200 of the Basis for Conclusions on the ED, a consolidated group is not required to disclose the relevant ranking of individual financial instruments at

an individual entity level or to assume a scenario in which an entire group is liquidated. The staff are therefore of the view that the IASB does not intend to require disclosure of information on a liquidation basis or information about what might occur if an entity is liquidated in the future. Instead, this disclosure is meant to provide additional information about financial instruments at the reporting date based on their contractual terms and conditions.

12. The staff think that many of the concerns raised by respondents relate to the implied focus of the disclosure on *liquidation*, because it might appear to require information about the relative ranking of claims assuming a liquidation basis. Therefore, the staff believe changing the focus of the proposed requirement away from liquidation would more accurately reflect the objective of the disclosure and resolve most of concerns raised by respondents as described in paragraph 9 of this paper.

Scope

13. As explained in Agenda Paper 5D for the October 2024 IASB meeting (see paragraphs 64–77), the staff considered reducing the scope of the proposed requirement based on the principles in IFRS 18 related to transactions that involve only the raising of finance. Such an approach would exclude financial liabilities, such as trade payables and lease liabilities, that are not directly related to an entity's financing structure.

14. However, an IASB member expressed the concern that determining the scope of the proposed disclosure requirement in such way would result in most liabilities under supplier finance arrangements being scoped out of the disclosures.[1]

15. Paragraph 44G of IAS 7 *Statement of Cash Flows* explains that supplier finance arrangements are characterised by one or more finance providers offering to pay amounts an entity owes its suppliers and the entity agreeing to pay the finance

[1] The IFRS Interpretations Committee published an Agenda Decision *Supply Chain Financing Arrangements—Reverse Factoring* in December 2020, which explained how to apply the existing IFRS Accounting Standards when an entity determines whether to present liabilities under supplier finance arrangements such as (a) within trade and other payables, (b) within other financial liabilities, or (c) as a line item separate from other items in its statement of financial position.

providers according to the terms and conditions of the arrangements (which could be at the same date as, or a date later than, suppliers are paid). These arrangements provide the entity with extended payment terms, or the entity's suppliers with early payment terms, compared to the related invoice payment due date.

16. As part of the *Supplier Finance Arrangements* amendments to IAS 7, the IASB included requirements for entities to disclose information that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk.[2] Specifically, paragraph 44H of IAS 7 requires disclosure of:

    (a) the terms and conditions of the arrangements;

    (b) the carrying amount at the beginning and end of the reporting period of financial liabilities associated with supplier finance arrangements, as well as the associated line items in the statement of financial position; and

    (c) the type and effect of non-cash changes in the carrying amounts of the financial liabilities disclosed.

17. Therefore, the IASB already concluded that information about supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk is useful to users of financial statements. However, if the principles in IFRS 18 were applied, some liabilities under supplier finance arrangements (eg those presented as part of 'trade and other payables') would be excluded from the proposed disclosure because they do not arise from a transaction that involves only the raising of finance.[3]

18. In the staff's view, it would seem contradictory to exclude financial liabilities under supplier finance arrangements from the scope of the nature and priority of claims

[2] Paragraph 44F of IAS 7

[3] Paragraph B51 of IFRS 18 includes as one of the examples of liabilities arising from transactions that involve only the raising of finance: 'a liability under a supplier finance arrangement when the payable for goods or services is derecognised—an entity is discharged of the financial liability for the goods or services and will return cash in exchange'.

disclosures merely because they were presented as part of trade and other payables. Further, if the objective of the proposed disclosures is to provide information about the nature of any claims against an entity's assets and how those claims affect the entity's liquidity and solvency, trade and other payables (whether or not related to supplier finance arrangements) are part of the entity's working capital that can affect its liquidity and solvency. Therefore, the staff believe that liabilities arising under supplier finance arrangements, regardless of whether they are presented within 'trade and other payables' or derecognised and presented separately, should be included in this disclosure.

19. The staff therefore explored another alternative to appropriately determine the scope of financial instruments that would meet the information needs of users of financial statements. We already considered and rejected alternatives that would list specific types of financial liabilities that are either included or excluded from the scope of the disclosure requirements. Without a clearly articulated principle to determine the scope of the financial liabilities for which the information should be disclosed, there is a risk of diversity in practice developing with regards to liabilities that are similar in nature to those included or excluded.

20. As noted in paragraph 10 of this paper, the purpose of the proposed disclosure is to help users of financial statements assess the nature of the claims against the entity and how they affect the entity's liquidity and solvency. Liquidity risk is defined in IFRS 7 as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

21. Paragraph 39 of IFRS 7 requires liquidity risk disclosures for financial liabilities. Furthermore, as part of the Supplier Finance Arrangements amendments, supplier finance arrangements were added as a factor in paragraph B11F of IFRS 7 to consider when providing the liquidity risk disclosures.

22. The staff think that aligning the scope of the nature and priority of claims against the entity with that of the liquidity risk disclosures for financial liabilities would not only complement the current liquidity risk disclosures, but would also resolve many of the

concerns about the ranking of individual instruments because the liquidity risk disclosures are provided on an aggregated basis already.

23. However, because liquidity risk disclosures are limited to financial liabilities, the staff continue to believe our suggested approach for equity instruments (see paragraph 76 of Agenda Paper 5D for the October 2024 IASB meeting) is still relevant.

Terms and conditions (draft paragraphs 17A and 30C–30E of IFRS 7)

24. To address concerns raised by respondents about the potential volume of disclosures to be provided, some of the potential refinements discussed in Agenda Paper 5D for the October 2024 IASB meeting (see paragraphs 25–61) included:

    (a) narrowing the scope of the proposed disclosure requirements by excluding particular equity-like characteristics in financial liabilities;

    (b) deleting some of the proposals related to terms and conditions about priority on liquidation; and

    (c) providing application guidance on shared characteristics that would cause instruments to be aggregated into classes.

25. Although IASB members generally agreed with these potential refinements, some asked the staff to reconsider some of the potential refinements related to:

    (a) financial instruments that contain indirect obligations;

    (b) compound financial instruments; and

    (c) terms and conditions about priority on liquidation.

Financial instruments that contain indirect obligations

26. Previously, the staff considered whether some of the equity-like characteristics in financial liabilities (see paragraphs 26–30 of Agenda Paper 5D for the October 2024 meeting) could be excluded from the application guidance on relevant terms and conditions that would require disclosure. More specifically, we suggested excluding

some equity-like characteristics, such as subordination and settling instruments by delivering an entity's own equity instruments, because this information would also be provided as part of the other disclosure proposals for example the nature and priority of claims on liquidation and/or potential/maximum dilution of ordinary shares.

27. Settling financial liabilities by delivering an entity's own equity instruments could take different forms—the issuer might have an obligation to settle the instrument by delivering a variable number of own equity instruments or might have the choice to settle in cash or shares whose value substantially exceeds the cash value (indirect obligation).[4]

28. Although both these scenarios would be in the scope of the potential/maximum dilution of ordinary shares disclosures (draft paragraphs 30G–30H of IFRS 7), an IASB member questioned whether users of financial statements would be able to understand the classification of an instrument that contains an indirect obligation. This is because typically, if an issuer has a choice of settlement, the instrument is classified as equity. Therefore, without information about the terms and conditions that gives rise to the indirect obligation, there might be a potential loss of useful information (compared to the ED) about such financial liabilities.

29. Therefore, the staff acknowledge that for financial instruments that contain indirect obligations, there might still be a lack of information for users of financial statements if information about such instruments is provided only as part of the potential/maximum dilution disclosures. The staff note that the objective of the potential/maximum dilution disclosures is to provide information about the potential/maximum dilution of ordinary shares resulting from contracts entered into at the reporting date. However, users of financial statements still need information about:

[4] Paragraph 20(b) of IAS 32 explains that a financial instrument that does not explicitly establish a contractual obligation to deliver cash or another financial asset may establish an obligation indirectly through its terms and conditions. Although the entity does not have an explicit contractual obligation to deliver cash or another financial asset, the value of the share settlement alternative is such that the entity will settle in cash. Thus, those instruments are financial liabilities.

(a) the contractual terms that give rise to such indirect obligation and lead to financial liability classification (for example the value of the share settlement alternative that provides the holder with a guarantee of receiving the cash amount); and

(b) the nature, timing, amount and uncertainty of future cash flows (for example cash outflows to settle the instrument).

30. We therefore agree that it is necessary to retain financial liabilities that contain indirect obligations in the scope of the 'terms and conditions' disclosures as proposed in the ED.[5]

Compound financial instruments

31. For compound financial instruments, draft paragraph 17A(b) of IFRS 7 would require entities to disclose the amounts allocated on initial recognition to the liability and equity components. When developing the proposals in the ED, the IASB considered that it could be useful to users of financial statements if this information is provided in the reporting period in which the financial instrument is initially recognised. This is because after separation, it is difficult to know which financial liabilities and equity instruments are part of a compound financial instrument unless entities have chosen to present or disclose both components separately.

32. However, respondents said that the amounts allocated on initial recognition to the liability and equity components were already included in the statement of financial position and that the benefits of providing the proposed disclosure may not outweigh the costs. This is because they focus on the carrying amounts at subsequent reporting dates (see paragraph 22 of Agenda Paper 5C for the October 2024 IASB meeting). As part of our analysis of the feedback, we considered deleting that proposed requirement.

[5] Liabilities that will be settled by delivering a variable number of own equity instruments would continue to be excluded from the terms and conditions disclosures (see paragraphs 28–29 of Agenda Paper 5D for the October 2024 meeting)

33. However, a few IASB members were of the view that it would be useful to provide information about the amounts on initial recognition to users of financial statements at least once ie in the reporting period in which the financial instrument is initially recognised because the values may fluctuate in subsequent periods.

34. In the staff's view, users of financial statements primarily seek information on the terms and conditions of an instrument that determine its classification on initial recognition as a compound financial instrument. Providing this information would also help users of financial statements understand which financial liabilities and equity instruments are part of a compound financial instrument. The staff think these information needs would be sufficiently met by the proposed disclosure requirement in draft paragraph 17A(a) of IFRS 7 (which the staff proposed in the October 2024 IASB meeting to relocate to draft paragraph 30D of IFRS 7).

35. In addition, the staff considered that even if providing this information is not costly because disclosure would not be required on a recurring basis, the information would be difficult to find as time goes on. The reporting period of initial recognition could have been many years ago, so users of financial statements would have to search prior financial statements to get this information. The staff also question the relevance of information about the amounts allocated on initial recognition to the liability and equity components especially because financial liabilities are subsequently measured at amortised cost or at fair value.

36. For the reasons discussed in paragraphs 34–35 of this paper and considering feedback from respondents, the staff continue to believe that the requirement in draft paragraph 17A(b) of IFRS 7 should be deleted.

Terms and conditions about priority on liquidation for financial instruments with both financial liability and equity characteristics

37. To address the concerns of respondents relating to the operational complexity of preparing information about terms and conditions relating to priority on liquidation (see paragraphs 48–61 of Agenda Paper 5D for the October IASB meeting), the staff

suggested deleting the proposed disclosure requirements in draft paragraphs 30E(a)–30E(c) of IFRS 7 and only requiring the information in draft paragraph 30E(d) of IFRS 7 about any intra-group arrangements.

38. However, an IASB member asked whether the information required by draft paragraph 30E(a) of IFRS 7—terms and conditions that indicate priority on liquidation, including those that could lead to a change in priority on liquidation—could be maintained because information about liquidation priority can be extracted from the contracts and thus providing this information would not be burdensome and would be useful to users of financial statements.

39. The staff note that respondents provided similar feedback about the cost and complexity of providing information for both the proposals on 'terms and conditions about priority' and the proposals on the 'nature and priority of claims on liquidation' (see paragraph 25 of Agenda Paper 5C for the October 2024 IASB meeting). Consistent with the proposed refinement to change the focus of the proposed disclosures on 'nature and priority of claims' away from liquidation, the staff think changing the focus of these terms and conditions disclosures would resolve most of those concerns raised by respondents. See paragraphs 9–12 of this paper.

40. The staff acknowledge that the intent of the proposed disclosure in draft paragraph 30E(a) of IFRS 7 was to merely indicate the contractual priority of instruments that have both financial liability and equity characteristics upon the *respective issuing company's* liquidation. This is because liquidation occurs on a legal entity basis and not a consolidated basis. For example, the Illustrative Example in draft paragraph IG14E of the Guidance on Implementing IFRS 7 indicates that perpetual subordinated notes rank junior to all present and future unsubordinated claims against *respective issuing companies* on liquidation.

41. Even if the focus of the proposed requirements is changed away from liquidation, the staff still think it would be difficult to provide accurate and relevant information that indicates priority on a consolidated basis. For example, even if it is true for all entities in a group that perpetual subordinated notes rank junior to all present and future

unsubordinated claims against *respective issuing companies*, some entities in that group might have other instruments that rank above the perpetual subordinated notes but below the unsubordinated claims.

42. In addition, if the focus was no longer on liquidation, the staff think it would not be necessary to require information about the terms and conditions of financial instruments that indicate their priority to meet the needs of users of financial statements. This is because users of financial statements generally ask for more granular information about the actual ranking of financial instruments and order of priority on liquidation—not while the entity is still a going concern.

43. However, the staff agree that information about the terms and conditions that could lead to a change in priority (prior to liquidation) would provide useful information to users of financial statements, especially if events such as conversion, write-off or contingencies occur before liquidation. Because this information is factual and can be provided without considering financial instruments held by other entities within a consolidated group, the staff would not expect disclosing this information to result in significant incremental costs for preparers.

44. Therefore, the staff suggest retaining the requirement to disclose the terms and conditions of financial instruments that could lead to a change in priority (but not the terms and conditions of financial instruments that indicate their priority) in draft paragraph 30E(a) of IFRS 7. This information would be required in addition to the information in draft paragraph 30E(d) of IFRS 7 about any intra-group arrangements (which in line with paragraphs 39 of this paper would also have a focus away from liquidation).

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

45. To address respondents' concerns about the practical difficulties of disclosing the proposed information and the perceived overlap with the information provided by DEPS required by IAS 33, the staff considered further refinements to the

requirements, including additional information that could be disclosed (see paragraphs 87–99 of Agenda Paper 5D for the October 2024 IASB meeting).

Qualitative explanation on the difference between DEPS and potential dilution of ordinary shares

46. The staff initially considered whether it would be useful to require entities to provide a qualitative disclosure to explain the link or the difference between the potential/maximum dilution disclosures and calculation of DEPS as part of the transition disclosures. Such disclosure would have been provided only on transition (ie once-off) to avoid boilerplate disclosures in each reporting period and to enable users of financial statements to better understand the objectives of and differences between the two disclosures.

47. A few IASB members said that it was unclear what this transition disclosure would entail—whether entities would need to disclose a numerical reconciliation between the denominator used for DEPS and the potential/maximum dilution number or just provide descriptions of those two disclosure requirements—and whether it should only be required on transition.

48. An IASB member also said that because the denominator used for the calculation of DEPS and the potential/maximum dilution number are based on significantly different assumptions, listing all the differences might not be practical. Another IASB member did not agree with requiring a transition disclosure if it would merely explain why the potential/maximum dilution disclosures were included in IFRS 7.

49. The staff note that the intention was not to require a numerical reconciliation between the potential/maximum dilution and DEPS calculations. However, considering the comments from IASB members, the staff agree that it would be more useful if a qualitative explanation is included on a recurring basis, especially since the information could be different from one year to the next depending on the potential dilutive instruments that are included in the table.

50. The staff therefore suggest requiring entities to provide a qualitative explanation of the main differences between the DEPS calculation and the potential/maximum dilution number. Thus, users of financial statements could better understand the basis on which the different calculations are based.

51. However, the staff think it would not be necessary to require this disclosure for entities that do not apply IAS 33 because they would not have any relevant presentation or disclosures that would cause any confusion with the potential/maximum dilution number. Therefore, the staff think this disclosure would be required only for entities that present DEPS as per IAS 33.

52. The staff think information that an entity could provide as part of this disclosure includes:

    (a) the fact that the maximum number of additional ordinary shares the entity might be required to deliver illustrates a 'worst-case' scenario without considering the likelihood or the probability of dilution;

    (b) anti-dilutive instruments are included in calculating the maximum number of additional ordinary shares but excluded from the calculation of DEPS; and

    (c) calculating the maximum number of additional ordinary shares involves applying assumptions that are not used for calculating DEPS.

Cash inflows and debt reduction

53. As discussed in Agenda Paper 5C for the October 2024 IASB meeting (see paragraph 41), some respondents commented on the need for information about potential related cash inflows (for example issue proceeds from the exercise of stock options and the effects on debt reduction from the exercise of conversion rights). Without this information, the potential/maximum dilution disclosures would not provide accurate insights into how dilution could affect the interests of ordinary shareholders and might overstate the risk to users of financial statements. An IASB member also reiterated the importance of this information to users of financial statements and said that including this information would be helpful.

54. Although the staff do not disagree that such information would provide useful information to investors, we note that the objective of the potential/maximum dilution disclosure is to focus on the maximum number of additional ordinary shares that could be issued (worst-case scenario) as a starting point for further analysis. The purpose is not to provide information about the expected/most-likely outcome or a proxy for the valuation of ordinary shares. Therefore, the staff think it would be beyond the objective of the disclosure to require entities to disclose the cash inflows and other financial effects from issuing the additional ordinary shares.

55. However, the staff are of the view that users of financial statements would be able to obtain some information about related cash inflows from the other proposed disclosures. As noted in paragraph 93 of Agenda Paper 5D for the October 2024 IASB meeting, information regarding the other financial effects (eg proceeds) could be derived from the proposed terms and conditions disclosures in draft paragraph 30G(d) of IFRS 7—terms and conditions of contracts that are relevant in understanding the likelihood of the maximum dilution of ordinary shares for each class of potential ordinary shares outstanding at the end of the reporting period.

56. As noted in Agenda Paper 5D for the October 2024 IASB meeting (see paragraph 93), the staff suggested including the exercise price of instruments as an example of information that entities could provide for users of financial statements to understand the likelihood of the potential/maximum dilution. The staff think the information related to exercise prices would enable users of financial statements to understand the potential cash inflows that would arise from issuing the additional ordinary shares in most cases.

57. Similarly, for share options included in the potential/maximum dilution calculation, paragraph 45(d) of IFRS 2 *Share-based Payment* requires disclosure of the range of exercise prices for share options outstanding at the end of the period. If the range of exercise prices is wide, the outstanding options shall be divided into ranges that are meaningful for assessing the number and timing of additional shares that may be issued and the cash that may be received upon exercise of those options.

58. In the staff's view, preparers could consider disclosing ranges of exercise prices, for instruments not in the scope of IFRS 2, in a similar way instead of providing exercise prices on an instrument-by-instrument basis.

59. However, for convertible instruments, there would be no cash inflow but rather a reduction of existing debt. The staff think disclosing the nominal or par value amount of the bonds or the conversion ratios used to calculate the maximum number of additional ordinary shares as part of the terms and conditions would enable users of financial statements to calculate the amount of the debt reduction in most cases.

60. We also do not expect this to create additional costs for preparers because the information would be available from the contracts and would have to be used in any event to calculate the maximum number of additional ordinary shares. The staff therefore think the par value and conversion ratios of convertible instruments could also be included as examples of the information that could be disclosed. This would enable entities to apply judgement when determining which terms and conditions are relevant in understanding the potential/maximum dilution. In addition, entities would apply judgement when determining whether to disclose other relevant terms and conditions such as descriptions of any contingent events that could affect the conversion ratios.

Cost assessment

61. As discussed in Agenda Paper 5C for the October 2024 IASB meeting, many respondents raised concerns about costs for preparers and practical difficulties in preparing the proposed disclosures.

62. The staff acknowledge that preparers will incur additional costs especially if they have large volumes of contracts that are subject to the proposed disclosure requirements. Preparers would need to determine the appropriate classes of financial instruments to disclose, the level of aggregation and/or disaggregation and review financial

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instruments in the scope of the proposed disclosures to obtain the required information.

63. However, the staff expect that most of the costs to prepare the disclosures would relate to the review and analysis of existing financial instruments and would therefore be one-off costs incurred on initial application of the proposed disclosure requirements.

64. The proposed disclosures are based on the contractual terms and conditions and those contractual terms usually are not frequently altered or amended. After initial application, there might also be incremental costs to be incurred when new financial instruments in the scope of the proposed disclosures are issued, for example when there are new types of financial instruments that an entity has not entered into previously or the contractual terms and conditions are amended. However, these are not expected to be of the same magnitude as on initial application.

65. See Appendix A to this paper which includes the staff's assessment of the nature of the costs to prepare the proposed disclosures.

Appendix A—comparison between the ED proposals and the staff's preliminary views as well as a cost assessment

Topic	Paragraphs	Disclosure proposals in the ED	Nature of the costs to prepare	Staff's preliminary views
General	Scope (draft paragraph 3(f) of IFRS 7)	Maintain the scope exception for puttable instruments and obligations arising on liquidation classified as equity instruments applying paragraphs 16A–16D of IAS 32 and merely include them in the scope of IFRS 7 for the paragraphs proposed to be relocated from IAS 1 relating to disclosures about reclassification (draft paragraph 12E of IFRS 7) and puttable instruments (draft paragraph 30I of IFRS 7)	One-off costs to determine if there are instruments classified as equity in accordance with paragraphs 16A–16D of IAS 32 on transition.	In addition to the proposals, include puttable instruments and obligations arising on liquidation classified as equity instruments applying paragraphs 16A–16D of IAS 32 in the scope of the disclosures for 'nature and priority of claims on liquidation, arising from financial instruments' and 'terms and conditions'
	Cross-referencing	N/A	N/A	Allow cross-referencing to other documents by including the references to the proposed disclosures (draft paragraphs 30A–30H of IFRS 7) in paragraph B6 of IFRS 7
Terms and conditions (including compound financial instruments)	Scope (draft paragraph 30C of IFRS 7)	Provide information about financial instruments with both financial liability and equity characteristics • debt-like characteristics: result in fixed or determinable amounts, incentives to pay fixed or determinable amounts	One-off costs to determine whether the instruments are in the scope on transition and when new instruments are issued.	Provide information about financial instruments with both financial liability and equity characteristics but • Scope out particular equity-like characteristics in financial liabilities (1) subordination features and (2) settlement that will occur by delivering a variable number of own equity instruments.[6]

[6] Financial liabilities containing indirect obligations would remain in scope. See paragraphs 26-30 of this paper for an explanation of the changes to the staff's preliminary views in the October 2024 IASB meeting.

		• equity-like characteristics: result in variable or indeterminable amounts, loss-absorption, subordination, avoid transferring cash for a specified period of time, settle by transferring own equity instruments (including issuer choice to settle in cash or shares under indirect obligations)		• Scope in compound financial instruments
	Disclosures for financial instruments with both financial liability and equity characteristics (draft paragraph 30D of IFRS 7)	Disclose the terms and conditions of the instrument that determine its classification and cash flow characteristics that are not representative of the classification but that are relevant to an understanding of the nature of those financial instruments	One-off costs to group instruments into classes and determine the level of disclosures unless there are changes to the contractual terms. Minimal recurring costs to update any carrying amounts.	Same as the ED proposals
	Disclosures for compound financial instruments (draft paragraph 17A of IFRS 7)	For compound financial instruments, disclose • the terms and conditions of the instrument that determine its classification • the amounts allocated on initial recognition to the liability and equity components in the reporting period in which the financial instrument is initially	One-off costs on transition and when new compound financial instruments are issued.	For compound financial instruments, delete draft paragraph 17A of IFRS 7 and disclose as part of draft paragraph 30D of IFRS 7: • the terms and conditions of the instrument that determine its classification

		recognised[7]		
	Priority on liquidation (draft paragraph 30E of IFRS 7)	Disclose information for understanding priority on liquidation about financial instruments with both financial liability and equity characteristics: • the terms and conditions of financial instruments that indicate their priority on liquidation, including those that could lead to a change in priority on liquidation • information about multiple levels of contractual subordination in a class of financial instruments • information about any significant uncertainty about how laws or regulations could affect their priority on liquidation • a description of any intra-group arrangements	Significant one-off costs on transition and when new instruments are issued to determine the indication of priority taking into account all instruments issued by entities within the group and the relevant laws or regulations. One-off costs to identify intra-group arrangements on transition and when new arrangements are entered into.	For financial instruments with both financial liability and equity characteristics, disclose: • the terms and conditions of financial instruments that could lead to a change in priority (change the focus away from liquidation)[8] • a description of any intra-group arrangements, such as guarantees, that might affect the priority of financial instruments (change the focus away from liquidation)[9]
	Other	N/A	N/A	Provide: • application guidance on how to

[7] See paragraphs 31–36 of this paper for an explanation of the changes made to the staff's preliminary views in the October 2024 IASB meeting

[8] See paragraphs 37–44 of this paper for an explanation of the changes made to the staff's preliminary views in the October 2024 IASB meeting

[9] See paragraphs 37–44 of this paper for an explanation of the changes made to the staff's preliminary views in the October 2024 IASB meeting

				determine 'classes' ie the shared characteristics that would cause instruments to be aggregated into classes • an additional illustrative example of the terms and conditions of a financial liability with equity-like characteristics
Nature and priority of claims on liquidations, arising from financial instruments	General	Nature and priority of claims on liquidations, arising from financial instruments	N/A	Change the focus away from liquidation[10]
	Scope (draft paragraph 30A of IFRS 7)	Scope in all financial liabilities and equity instruments within the scope of IAS 32	One-off costs to determine whether the instruments are in the scope on transition and when new instruments are issued.	Scope in: • financial liabilities in the scope of IFRS 7 liquidity risk disclosures[11] • equity instruments issued to raise finance
	Disclosures (draft paragraph 30B of IFRS 7)	Disclose the carrying amounts of each class of claims arising from financial instruments that are in scope by distinguishing: • in its separate and consolidated financial statements, secured and unsecured	One-off costs to group claims into classes and to categorise claims on transition and when new	Same as the ED proposals

[10] See paragraphs 9–12 of this paper for an explanation of the changes made to the staff's preliminary views in the October 2024 IASB meeting

[11] See paragraphs 13–23 of this paper for an explanation of the changes made to the staff's preliminary views in the October 2024 IASB meeting

		claims and contractually subordinated and unsubordinated claims • in its consolidated financial statements, instruments issued by the parent and those issued by subsidiaries	instruments are issued. Minimal recurring costs to update the carrying amounts.	
Potential dilution of ordinary shares	Scope (draft paragraph 30G of IFRS 7)	Scope in all financial instruments issued at the reporting date that could result in the dilution of the entity's ordinary shares	One-off costs to determine whether the instruments are in the scope on transition and when new instruments are issued	In addition to the proposals, scope in off-balance sheet commitments that could result in the dilution of the entity's ordinary shares
	Disclosures (draft paragraph 30G of IFRS 7)	Disclose the maximum dilution of ordinary shares: • the maximum number of additional ordinary shares the entity might be required to deliver for each class of potential ordinary shares • a description of contracts or other commitments to repurchase ordinary shares and the minimum number of each class of ordinary shares the entity is required to repurchase	One-off costs to group instruments into classes and to determine the level of disclosures unless there are changes in the contracts. Recurring costs to provide a description of the causes of any important changes to the maximum number	In addition to the proposals, • provide examples of the terms and conditions of instruments an entity can disclose to enable users of financial statements to understand the maximum dilution of ordinary shares (eg the par value of convertible instruments, conversion ratios, descriptions of any contingent events that could affect the conversion ratios)[12] • provide information to understand the

[12] See paragraphs 53–60 of this paper for an explanation of the changes made to the staff's preliminary views in the October 2024 IASB meeting.

		• a description of the causes of any important changes from the prior reporting period • a description of the terms and conditions of contracts that are relevant in understanding the likelihood of the maximum dilution of ordinary shares	from period to period. Minimal recurring cost to update the notes about anti-dilutive instruments.	likelihood of the potential/maximum dilution (eg exercise prices and, anti-dilutive instruments) • require entities applying IAS 33 to disclose qualitative information about the main differences between DEPS and the potential/maximum dilution number[13] • require disclosure if the number of shares in share buy-back arrangements is unknown
	Other	• Title: potential dilution of ordinary shares	N/A	• Rename the title: maximum dilution of ordinary shares

[13] See paragraphs 46–52 of this paper for an explanation of the changes made to the staff's preliminary views in the October 2024 IASB meeting.