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Staff paper

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Accounting Standards Advisory Forum meeting

Date	**March 2025**
Project	**Financial Instruments with Characteristics of Equity**
Topic	**Redeliberation of the proposals—Presentation and Disclosures**
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Purpose of this session

- To recap the proposals and feedback related to the presentation and disclosure sections in the Exposure Draft *Financial Instruments with Characteristics of Equity* (the ED) and give an update on the IASB's discussion at its February 2025 meeting*
- To seek input from ASAF members on:
  - the potential changes to the proposed amendments related to presentation and some disclosures in response to the feedback—see the questions on slides 23 and 36
  - the timing of finalising the amendments related to presentation and some disclosures—see the question on slide 39

* This paper is built upon the discussion at the February 2025 IASB meeting. Please see Agenda Paper 5A for the proposed presentation requirements and Agenda Paper 5B for the proposed disclosure requirements for further details

Information for participants

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Questions for ASAF members

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Questions for ASAF members

1 Do you agree that the IASB's preferred approach would best balance the needs of investors with the costs to preparers of preparing the additional information?

Is there anything else the IASB needs to consider if it proceeds with this presentation approach?

2 Do you think the suggested changes (including reductions) to the proposed disclosure requirements would address most stakeholder concerns? Are there any remaining concerns the IASB needs to consider before finalising the amendments?

Questions for ASAF members

3 In your view, is there anything else the IASB should consider that would be relevant in assessing the timing of finalising the presentation and disclosure requirements discussed in this paper?

Background information

Overview of the project

Objectives

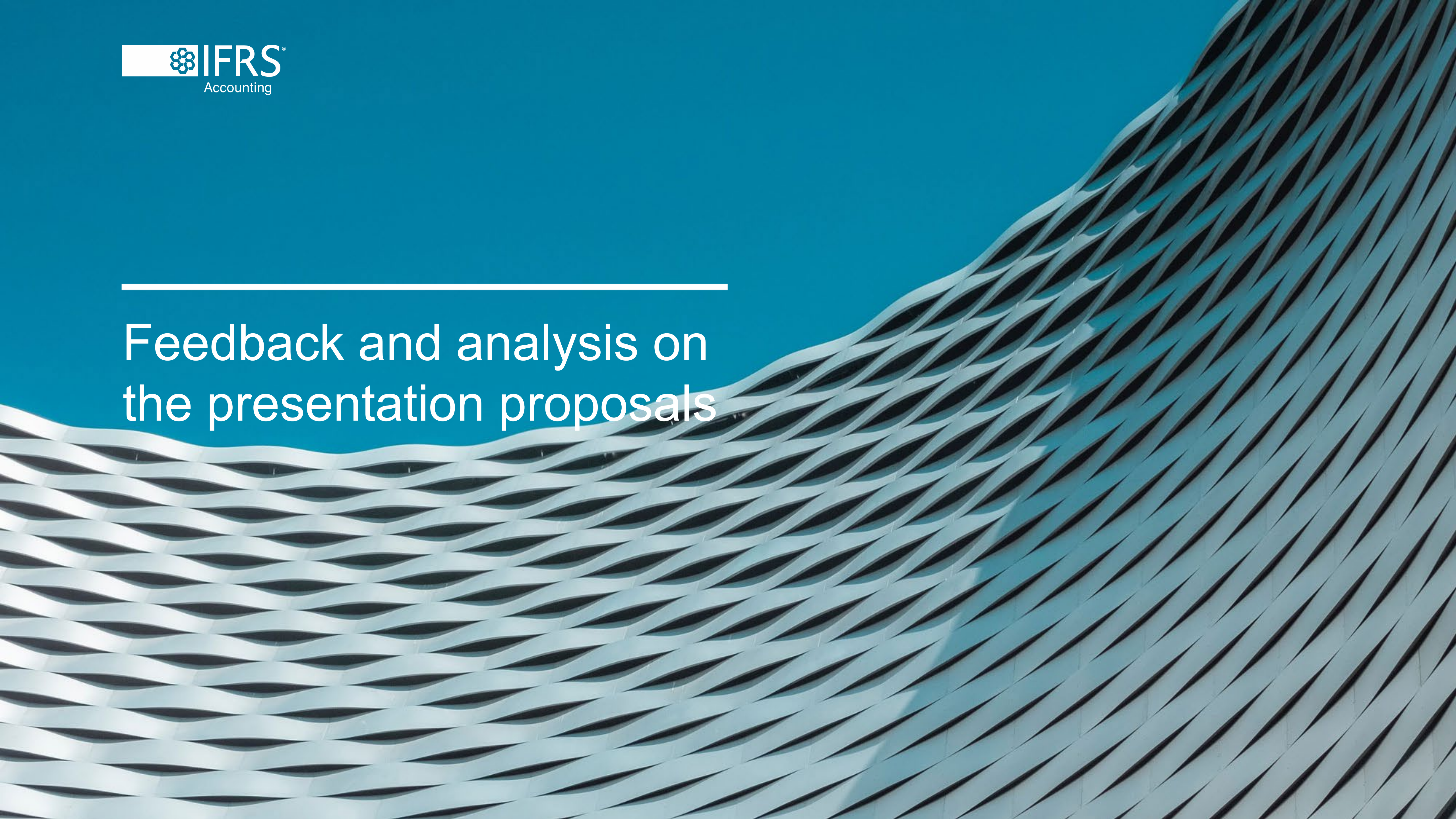
- Improve information entities provide in their financial statements about financial instruments they have issued
- Address challenges with applying IAS 32 *Financial Instruments: Presentation*

Approach

- Clarify IAS 32 classification principles to address practice issues:
  - → fixed-for-fixed condition
  - → effects of laws or regulations
  - → obligations to purchase own equity instruments
  - → contingent settlement provisions
  - → shareholder discretion
  - → reclassification
- Improve presentation and disclosure
- Provide application guidance and illustrative examples

Next milestone

- Redeliberate proposals in the Exposure Draft
- Final Amendments are expected in 2026



Feedback and analysis on the presentation proposals

Presentation—Proposed amendments to IAS 1

To improve information about amounts attributable to ordinary shareholders, the Exposure Draft proposed that an entity should be required to present:

Statement of financial position

Issued capital and reserves attributable to:

- ordinary shareholders of the parent
- other owners of the parent

Statement of profit or loss and other comprehensive income

profit or loss and comprehensive income attributable to:

- ordinary shareholders of the parent
- other owners of the parent

Statement of changes in equity or in the notes

the amount of dividends recognised as distributions to ordinary shareholders and to other owners

Main feedback on the ED

Overall positive feedback from investors
(See Agenda Paper 5A of the July 2024 IASB meeting)

- Most investors generally supported the presentation proposals saying they would highlight the complexity of an entity's ownership structure
- Many investors expressed concerns about a lack of application guidance on the basis and methods for determining amounts for separate presentation and some suggested additional disclosures
- Some investors anticipated a method consistent with the requirements in IAS 33 *Earnings per Share* to calculate profit attributable to other owners of the parent

Mixed feedback from other stakeholders
(See Agenda Paper 5A of the October 2024 IASB meeting)

- General appreciation for the IASB's efforts to enhance the presentation of equity instruments and provide additional information about amounts attributable to ordinary shareholders
- Main concern was lack of application guidance on the basis and methods for determining amounts for separate presentation, eg whether and how to align with the requirements in IAS 33
- Other concerns about distinction between ordinary shareholders and other owners (especially when equity instruments have characteristics similar to ordinary shares), and costs versus benefits of the proposals

Staff considered alternative approaches to address stakeholder concerns
(See Agenda Paper 5A of the February IASB meeting)

Developing a presentation approach

Before considering any potential refinements or alternatives to the proposals, the IASB is of the view that is important to take a step back and reassess what can be done within the scope of the FICE project while still achieving the objectives of the presentation proposals. The IASB considered the following key questions:

1. What is the problem to solve based on the **information needs** of users of the financial statements?
2. Are there any **simplifications** that can be made?
3. What are the **key factors** for developing a presentation approach?
4. Are **additional disclosure** requirements needed?

What is the problem—what do investors need?

Information on equity instruments issued by an entity that is more **accessible** and readily available

Information about **distribution of profits** between holders of different types of equity instruments so that investors can understand the effect other classes of equity instruments have on returns to ordinary shareholders

Transparency about **other equity-classified instruments** and how these instruments could affect the nature, timing and uncertainty of future cash flows

Information about the **key features that lead to the classification** of complex instruments as either equity or financial liabilities to assist with their own analyses and valuations

Simplifications that can be made

To address stakeholder concerns about the complexity and operationality of the proposals, the IASB considered making the following simplifications to any potential presentation requirements:

- Focus solely on presentation ie not change the measurement requirements for equity instruments
- Not require allocation of issued capital and reserves to different equity instrument holders
- Not require allocation of comprehensive income to different equity instrument holders
- Focus on attribution of profit or loss in the statement of profit or loss
- Not require specific presentation in the statement of financial position and statement of changes in equity (additional disclosures instead)

Key factors for developing a presentation approach

The IASB considered that any potential presentation approach should:

- establish clear and robust presentation principles
- focus on features of equity instruments
- be consistent with the reasons the IASB developed the presentation proposal in the ED and satisfy the information needs of investors
- address the key concerns raised by stakeholders in response to the ED
- not create inconsistencies with current requirements
- reduce the risk of other unintended consequences, eg new diversity in application
- apply to all entities, not only those in scope of IAS 33
- be consistent with the relevant principles of IAS 33 to the extent possible

Differentiation of equity instruments

Equity instruments could be differentiated based on their rights to participate in the residual interests and/or profit or loss of an entity:

- some instruments might have the right to participate in both (eg ordinary shares)
- some might only have the right to participate in either the residual interests or profits (but not both)
- others might participate in neither the residual interests nor profits (eg right to specified amount of dividends/coupons and specified amount on liquidation, eg return of initial amount plus accumulated unpaid coupons)

The IASB considered that if the focus is on **statement of profit or loss** only, participation should be defined only based on **rights to participate in profit or loss**. Therefore, instruments should be:

- *Participating* if they have the right to distributions that vary based on the entity's profit or loss for the period, ie the amount of distributions/dividends is unspecified and subject to changes in the entity's economic resources
- *Non-participating* if they have the right to specified distributions (eg fixed coupons) that do not vary based on the profit or loss for the period and could be cumulative or non-cumulative

Differentiation of equity instruments

Applying this differentiation to some equity instruments, examples of participating and non-participating rights include:

Equity instruments examples	Participate in profit or loss	Participate in residual interests	
Ordinary shares; preference shares that participate in dividends similar to ordinary shares	Yes	Yes	Participating
Equity instruments with rights to unspecified dividend amounts and specified redemption amounts on liquidation (eg repayment of initial investment amount)	Yes	No	
Equity instruments with a fixed coupon and rights to unspecified amounts on liquidation	No	Yes	Non-participating instruments
Equity instruments with a fixed coupon and rights to specified redemption amounts on liquidation	No	No	

Alternative presentation approaches

The IASB identified three potential approaches for the presentation of profit or loss attributable to different categories of equity instruments:

<table>
<tr><th>Statement of profit or loss (extract)</th><th>Approach A [1]</th><th>Approach B [1]</th><th>Approach C [1]</th></tr>
<tr><td>Profit attributable to:</td><td></td><td></td><td></td></tr>
<tr><td>Ordinary shareholders of the parent</td><td>X</td><td rowspan="2">X</td><td>X</td></tr>
<tr><td>Other participating instrument holders of the parent</td><td>X</td><td rowspan="2">X</td></tr>
<tr><td>Non-participating instrument holders of the parent</td><td>X</td><td>X</td></tr>
<tr><td>Non-controlling interests</td><td>X</td><td>X</td><td>X</td></tr>
<tr><td>Profit for the year</td><td>X</td><td>X</td><td>X</td></tr>
</table>

Amounts to be aggregated

1 Approach A, B and C are referred to as the Bridge approach, Revised October approach and Revised ED approach respectively in Agenda Paper 5A of the February 2025 IASB meeting

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IASB preferred approach

Approach A

Separate presentation for (1) *ordinary shareholders, (2) other participating instrument holders*, and (3) *non-participating instrument holders* in the statement of profit or loss

Pros

- Aligned to IAS 33 principles re definition of ordinary shares and profit-participation
- Satisfies investors' needs by providing the most relevant information associated with ordinary shares
- Enhances transparency about non-participating instruments and strengthens the connection with disclosures for equity instruments with debt-like characteristics

Cons

Requires allocation of profit or loss between ordinary shares and other participating equity instruments, which might require judgement, therefore:

- as similar judgements are required by IAS 33, some application issues could spill over into presentation requirements
- entities not applying IAS 33 would be mostly affected by new judgements

Approach A - additional disclosure requirements

In the absence of presentation requirements related to statement of financial position and statement of changes in equity, and to further enhance the usefulness of amounts presented in the statement of profit or loss, the IASB considered proposing additional disclosure requirements including:

- information to enable understanding of how equity instruments relate to the line items presented separately for ordinary shares, other participating instruments, and non-participating instruments
- terms and conditions affecting nature, amount, timing and uncertainty of cash flows of participating instruments (without debt-like features)
- cumulative undeclared dividends of non-participating instruments

Equity instrument with participating and non-participating interests

The IASB also considered that some equity instruments have complex profit participation rights eg entitled to a fixed coupon before sharing in the remaining profit or loss with ordinary shares

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

Equity instrument with both rights

Shared portion of profit with ordinary shareholders = participating interest

Fixed coupon = non-participating interest

Supplemented by disclosures in the notes

Information about which equity instruments relate to the line items

Terms and conditions of participating instruments

Terms and conditions of equity instruments with debt-like features

IASB preferred approach

At the February 2025 IASB meeting, most IASB members expressed a preference for this approach because it would:

- be most responsive to concerns raised about complexity and aggregating other participating instruments with non-participating instruments
- enable consistency between principles in IAS 33 with regards to ordinary shares and description of participating equity instruments, without extending the scope of IAS 33 or limiting the scope of proposals
- remain responsive to investor requests to separately present profit or loss attributable to ordinary shares from other equity instruments to provide more transparency about returns on ordinary shares
- remain responsive to investor requests to present amounts attributable to non-participating instruments so they can understand the effects of such instruments on the future cash flows/returns on ordinary shares

See Appendix A for an analysis of the other two presentation approaches

Question for ASAF members

1

Do you agree that the IASB's preferred approach would best balance the needs of investors with the costs to preparers of preparing the additional information?

Is there anything else the IASB needs to consider if it proceeds with this presentation approach?

Feedback and analysis on the disclosure proposals

Disclosures—Proposed amendments to IFRS 7

Not applicable to stand-alone derivatives

Terms & Conditions*

- Debt-like characteristics
- Equity-like characteristics
- Characteristics that determine the classification

Priority on liquidation*

- Nature and priority of claims against an entity
- T&Cs about priority on liquidation for particular instruments

Potential dilution*

- Maximum number of additional ordinary shares
- Reduced by minimum number of shares for repurchase

Other disclosures

- Reclassifications
- Remeasurement gains or losses on liabilities based on entity's performance/net assets
- Obligations to redeem own equity instruments
- Significant judgements
- Terms that become/stop being effective with passage of time
- **Compound instruments–initial allocation between components***

Scope of IFRS 7*

Equity instruments issued

* Topics the IASB is redeliberating at this stage. Other disclosures to be discussed at future meetings

Staff's approach to respond to stakeholder feedback

Considering the need to **balance** the **costs** to preparers with the **benefits** to investors, the staff explored **further refinements** to **simplify the proposed disclosures** and **reduce the burden on preparers, such as:**

- **allow cross-referencing to avoid duplications** (applying paragraph B6 of IFRS 7 *Financial Instruments: Disclosures*)
- **reduce the scope** of the proposed disclosures eg scope out particular equity-like characteristics in financial liabilities from the 'terms and conditions' disclosures and clarify the scope of the 'nature and priority of claims' disclosures includes liabilities in the scope of the IFRS 7 liquidity risk disclosures and equity instruments issued to raise finance
- **change the focus away from liquidation** for the 'terms and conditions about priority' disclosures and the 'nature and priority of claims' disclosures
- **delete** some of the proposals in the **'terms and conditions about priority'** disclosures and the proposed requirement to disclose amounts allocated on initial recognition to the components of **compound financial instruments**
- **provide** additional **application guidance** (eg what is meant by 'class') and **examples** of information that could be provided in the **'terms and conditions relevant in understanding the maximum dilution' disclosures**

Scope and objective of IFRS 7

Proposal

- **Expand** the objective to enable investors to understand **how an entity is financed and what its ownership structure is**, including **potential dilution** to the ownership structure
- **Extend** the scope to equity instruments

Summary of feedback

- **Most** respondents supported expanding the scope and objective of IFRS 7
- **Some** concerned about disclosure overload, commenting that
    a) the scope is too broad
    b) more clarity is needed on aggregation and materiality judgements
    c) cross-referencing should be allowed
    d) members' shares in cooperative entities classified as equity applying IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments* should be scoped out

Scope and objective of IFRS 7—Potential refinements

Staff suggestion	Staff analysis
• **Include puttable instruments and obligations arising on liquidation** classified as equity instruments applying paragraphs 16A–16D of IAS 32 in the disclosures for **’nature and priority of claims' and ‘terms and conditions’**	• Appropriate to scope in **puttable instruments and obligations arising on liquidation** because these equity instruments are also part of the **entity’s capital structure** and have **debt-like characteristics**
• **Allow cross-referencing** by including references to the proposed disclosure requirements in paragraph B6 of IFRS 7 but only if those cross-referenced reports are available to investors on the **same terms** as the financial statements and at the **same time**	• Allowing cross-referencing could would not only alleviate the potential burden on preparers but also ensure that material information in the financial statements are not obscured by duplicating information that is already provided elsewhere

Terms and conditions

Proposal

- For financial instruments with both financial liability and equity characteristics disclose:
  a) terms and conditions that **determine their classification**
  b) cash flow characteristics **not representative of the classification** but relevant to understanding their nature
  c) terms about **priority on liquidation**
- For compound financial instruments
  a) terms and conditions that **determine their classification**
  b) in the year of issuance, **the amounts allocated** to the liability and equity components on initial recognition

Summary of feedback

- **Some** respondents said these disclosures would help investors gain a better understanding of the nature of those instruments
- However, **most** respondents were concerned about
  a) potential disclosure overload (instrument-by-instrument basis)
  b) practical difficulties of providing information about priority on liquidation
  c) potential overlap with current requirements or other proposals
  d) disclosures for compound financial instruments could be covered by disclosures for financial instruments with both financial liability and equity characteristics

Terms and conditions—Potential refinements (1/2)

Staff suggestion	Staff analysis
• **Include** compound financial instruments in the scope of disclosures for financial instruments with both financial liability and equity characteristics • **Remove** the proposal to disclose amounts **allocated on initial recognition** to the components of compound financial instruments	• Combining disclosures for compound financial instruments and financial instruments with both financial liability and equity characteristics would **simplify the disclosures** and **reduce any perceived confusion about duplication.** Prior to separation, compound financial instruments have both financial liability and equity characteristics. • Information would only be available at initial recognition and might not be **relevant** because financial liabilities are subsequently remeasured while equity instruments are not
• **Scope out** particular equity-like characteristics (eg subordination and settlement that will occur by delivering a variable number of own shares)	• **Similar** information **would be obtained from other disclosure proposals** (‘nature and priority of claims’ and/or ‘maximum dilution’ disclosures) and it would reduce the potential **burden** on preparers

Terms and conditions—Potential refinements (2/2)

Staff suggestion	Staff analysis
• Change **the focus away from liquidation** and **remove particular proposals** relating to **priority** of financial instruments: ▪ terms and conditions that indicate priority ▪ multiple levels of contractual subordination in a class ▪ significant uncertainty from laws or regulations	• Address **practical difficulties** of providing information on a theoretical liquidation basis and improve cost vs benefit analysis, only retain two proposals relating to priority of financial instruments: ▪ terms and conditions that could lead to a change in priority eg conversion/write-off features ▪ information about intra-group arrangements
• **Provide application guidance** on what is meant by 'class' (eg shared characteristics) and an **illustrative example** on the terms and conditions of a financial liability with equity-like characteristics	• Providing application guidance and an illustrative example would **reduce concerns about granularity** of information and **provide more clarity**

Nature and priority of claims

Proposal

- Disclose nature and priority of claims on liquidation from **all financial liabilities and equity instruments** in the scope of **IAS 32**
- Categorise claims—distinguish between **secured/unsecured** and **contractually subordinated/unsubordinated**, and separately disclose instruments issued by **the parent** and those issued by **subsidiaries** in the consolidated financial statements

Summary of feedback

- **Some** respondents said the disclosure would help understand the entity's capital structure and its potential solvency
- **Most** respondents were concerned about operational challenges and questioned the usefulness such as
  - a) how to consider local legislation for entities operating in multiple jurisdictions
  - b) difficulty at a consolidated entity level to rank the instruments in order of priority
  - c) information about liquidation is available only for each individual entity
  - d) for regulated financial institutions, resolution is the most likely outcome

Nature and priority of claims—Potential refinements

Staff suggestion	Staff analysis
• Change **the focus away from liquidation,** to focus on the nature of claims based on contractual terms at the reporting date	• This would **more accurately reflect the objective of the disclosure and resolve most respondents' concerns** about practical difficulties of providing information on a theoretical liquidation basis
• **Align the scope** of claims classified as **financial liabilities** with that of **the IFRS 7 liquidity risk disclosures** • **Scope in equity instruments** issued to **raise finance**	• Aligning the scope of financial liabilities with those included in the liquidity risk disclosures would complement the liquidity risk disclosures and include financial liabilities relevant to assessing **an entity's liquidity** and their effects on future cash flows • Scoping out equity items such as equity reserves and equity derivatives **not issued to raise finance** would focus on relevant instruments only and reduce potential burden on preparers

Potential dilution of ordinary shares

Proposal

- **Disclose maximum dilution** of ordinary shares from financial instruments that could be settled in ordinary shares, **including key terms and conditions** to understand likelihood of maximum dilution and possibility for unknown dilution. Subtotals for
  - **a)** **total maximum number** of additional ordinary shares **the entity might be required to deliver**
  - **b)** **net maximum number** of additional ordinary shares the entity might be required to deliver, calculated after **subtracting the minimum number** of ordinary **shares the entity is required to repurchase**

Summary of feedback

- **Some** respondents supported the proposals to enable users of financial statements to assess potential dilution
- **Most** respondents were concerned about practical difficulties and questioned the usefulness such as:
  - a) proposals would overlap with IAS 33 and cause confusion
  - b) disclosing detailed information would impose significant burden on preparers
  - c) including anti-dilutive instruments and not disclosing information about the probability of maximum dilution could be misleading
- **Some** respondents suggested adding the proposals to IAS 33 for consistency

Potential dilution of ordinary shares—Potential refinements

Staff suggestion	Staff analysis
• Rename the title of the proposed disclosure to '**maximum dilution of ordinary shares**'	• Changing the focus to 'maximum dilution' would appropriately clarify that the proposals consider **a 'worst-case' scenario ignoring probability**
• Provide **examples of what** entities could disclose to increase understanding **of maximum dilution** and **likelihood** of maximum dilution (exercise prices, anti-dilutive instruments, par value, conversion ratio)	• Disclosing **additional information** would help investors assess the **likelihood** of the maximum dilution of ordinary shares and **other financial effects** (ie cash inflows and debt reduction)
• Clarify that **off-balance-sheet commitments** would be considered and disclose that the number of shares in **share buy-back arrangements** may be **unknown** in some cases	• **Any contract** entered into that could result in the issue of ordinary shares should be **considered** • In share buy-back arrangements **with maximum amounts to spend**, the number of shares may be **unknown**

Question for ASAF members

2 Do you think the suggested changes (including reductions) to the proposed disclosure requirements would address most stakeholder concerns? Are there any remaining concerns the IASB needs to consider before finalising the amendments?

Timing of finalising the amendments

Timing of finalising the amendments

- **Initial discussion of project plan** (July 2024 IASB meeting)
  - **Positive feedback from investors** on presentation and disclosures
  - Suggestion from an IASB member to explore whether it would be feasible to expedite the amendments related to **presentation and the disclosures** discussed in this paper before finalising the amendments related to classification and other disclosures so that entities could apply them at the same time as they first apply **IFRS 18** *Presentation and Disclosure in Financial Statements*

The staff considered whether these amendments need to be expedited and do not think there are compelling reasons to expedite them **because**:

- **Effective date of IFRS 18** (1 January 2027) is **fast approaching**
- **other disclosures** would **be finalised together with any classification amendments** (companies would apply two sets of new disclosures)
- if finalisation of other amendments result in **changes to the classification** of an instrument, it **could also affect the disclosures** provided in this package (eg equity instrument with debt-like features might become a liability with equity-like features)

Question for ASAF members

3

In your view, is there anything else the IASB should consider that would be relevant in assessing the timing of finalising the presentation and disclosure requirements discussed in this paper?

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Appendix A—other two presentation approaches

Approach B

Separate presentation for (1) *ordinary shareholders and other participating instrument holders together*; and (2) *non-participating instrument holders* in the statement of profit or loss

Pros

- Enhances transparency about non-participating instruments
- Strengthens the link with disclosures for equity instruments with debt-like characteristics
- Avoids complexity and potential extension of IAS 33 application issues by not splitting ordinary shares and participating instruments

Cons

- Does not fully satisfy investors' information needs related to returns of ordinary shareholders

Approach C (similar to the ED approach)

As in the ED, separate presentation for (1) *ordinary shareholders;* and (2) *other holders of equity instruments* in the statement of profit or loss

Pros

- Aligned to IAS 33 requirements re ordinary shareholders as much as possible
- Best satisfies investors' needs by providing the most relevant information associated with ordinary shares

Cons

- Potentially extend some IAS 33 application issues into FICE project, and introduce new judgements for entities not applying IAS 33
- Provides limited additional information for listed entities because IAS 33 requires disclosure of EPS numerator, ie profit attributable to ordinary equity holders of the parent

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