IFRS® Accounting

Update on the IASB's financial instruments projects

Breakout session

Presenters

Zach Gast
IASB member

Riana Wiesner
IASB
Technical Director

Angie Ah Kun
IASB
Technical Staff

Lira Feka
IASB Technical
Staff

IFRS Accounting

Agenda

1	Financial Instruments with Characteristics of Equity
2	Amortised Cost Measurement
3	Dynamic Risk Management

IFRS
Accounting

Financial Instruments with Characteristics of Equity

Purpose of this session

- To provide an update on the *Financial Instruments with Characteristics of Equity* project, including a recap of the overall stakeholder feedback on the Exposure Draft* and an update on the IASB's redeliberations to date.

* The Exposure Draft *Financial Instruments with Characteristics of Equity* was published in November 2023

Background information

IFRS Accounting

Project overview

Objectives

- to **improve information** entities provide in their financial statements about financial instruments they have issued; and
- to **address challenges** with applying IAS 32 *Financial Instruments: Presentation*

November 2023	Nov 2023 – Mar 2024	April 2024 – July 2024	Aug 2024– June 2025	From July 2025	Q4 2026*
The IASB published the Exposure Draft	Consultations including outreach with stakeholders	High-level feedback summary and investor feedback analysis	Redeliberations on presentation and some disclosures**	Redeliberations on classification and related disclosures • fixed-for-fixed condition • effects of laws or regulations** • obligations to purchase own equity instruments • contingent settlement provisions • shareholder discretion** • reclassification**	Final amendments

* Date subject to the project progressing as planned.

** The IASB made tentative decisions on these topics

Overview of feedback on the ED proposals

Topic	Feedback
Effects of relevant laws or regulations	
Fixed-for-fixed condition	
Obligations to purchase own equity instruments	
Contingent settlement provisions	
Shareholder discretion	
Reclassification of financial liabilities and equity instruments	
Disclosures	
Presentation of amounts attributable to ordinary shareholders	
Transition	
Disclosure requirements for subsidiaries without public accountability	

Proposals require significant clarification	Proposals require some clarification	Proposals require minor clarification

Proposed presentation requirements

* The IASB’s tentative decisions are highlighted in red boxes

IFRS Accounting

Illustrative presentations

ED proposals

Statement of profit or loss (extract)	20X7	20X6
Profit attributable to:		
Ordinary shareholders of the parent	82,000	39,400
Other owners of the parent	15,000	13,000
Non-controlling interests	24,250	13,100
Profit for the year	**121,250**	**65,500**

Statement of financial position (extract)	31 Dec 20X7	31 Dec 20X6
Share capital	642,000	600,000
Retained earnings	200,500	127,700
Other reserves	10,200	21,200
Equity attributable to ordinary shareholders of the parent	**852,700**	**748,900**
Equity attributable to other owners of the parent	51,000	34,000
Non-controlling interests	70,050	48,600
Total equity	**973,750**	**831,500**

IASB tentative decisions

Statement of profit or loss (extract)	20X7	20X6
Profit attributable to:		
Ordinary shareholders of the parent	82,000	39,400
Participating rights holders of the parent	3,000	2,000
Non-participating rights holders of the parent	12,000	11,000
Non-controlling interests	24,250	13,100
Profit for the year	**121,250**	**65,500**

No longer required but additional disclosures

IASB tentative decision—additional disclosure requirements

To enhance usefulness of presentation of profit or loss attribution, disclose:

- how equity instruments relate to attribution of profit or loss and dividends recognised during the reporting period
- terms and conditions affecting nature, amount, timing and uncertainty of cash flows of equity instruments with participating rights
- reconciliation of cumulative undeclared amounts for equity instruments with non-participating rights

* Agenda Paper 5A for the June 2025 IASB meeting includes further details

IFRS
Accounting

Proposed disclosure requirements

* The IASB's tentative decisions are highlighted in red boxes

IFRS Accounting

Disclosures—ED proposed amendments to IFRS 7

Not applicable to stand-alone derivatives

Scope of IFRS 7

Equity instruments issued

1 Terms & Conditions

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

2 Priority on liquidation

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

3 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**

* Other disclosures (except for compound financial instruments) to be redeliberated at future IASB meetings

1 Scope of terms and conditions disclosure

Equity instruments with debt-like characteristics	Financial liabilities with equity-like characteristics
Provide information about equity instruments (or equity components) with debt-like characteristics: - fixed or determinable amounts - incentives to pay fixed or determinable amounts	Provide information about financial liabilities (or financial liability components) with equity-like characteristics: - variable or indeterminable amounts - loss-absorption - avoiding transferring cash for a specified period of time - settlement by own equity instruments where the issuer has a choice to settle in cash or shares under indirect obligations

Scope out: financial liabilities with only subordination features and those that will be settled by delivering own equity instruments

* Agenda Paper 5B for the June 2025 IASB meeting includes further details

1 Terms and conditions illustrative disclosure

Perpetual subordinated notes

Application guidance on how to group financial instruments by ‘class’ (eg shared characteristics)

At 31 December 2020, the total perpetual subordinated notes outstanding amounted to CU3,986 million and are included in Company X’s **equity**. The table below includes the **key terms of these financial instruments.**

	Notional amount	Initial call date	Coupon reset after initial call date	2020 CU million	2019 CU million
5.5% Fixed Rate Subordinated Notes	USD 1,000m	January 2025	10.5%	690	714
4.5% Fixed Rate Subordinated Notes	EUR 750m	March 2028	Market rate	647	658
4% Fixed Rate Subordinated Notes	EUR 2,000m	October 2032	Market rate	1,724	-
3% Fixed Rate Subordinated Notes	GBP 1,000m	January 2027	Market rate	925	910
				3,986	**2,282**

1 Terms and conditions illustrative disclosure

Disclose debt-like features in equity instruments

Coupon

These notes bear a **fixed rate of coupon** until their initial call dates. After the initial call dates, if they are not redeemed, **the coupon on the notes reset.** The coupon on the USD subordinated notes reset to 10.5%. The coupon on the other notes are fixed periodically in advance for five-year periods, based on prevailing market interest rates plus credit spreads of Company X, fixed at issuance.

Company X has discretion to defer coupons on these notes. The deferred coupons accumulate and become payable at the call date if the notes are called, or when Company X is liquidated, if the notes are not called. Company X is **prevented from paying dividends** or other distributions in respect of its ordinary shares, or from repurchasing its ordinary shares, until the cumulative coupons on the perpetual subordinated notes have been paid in full.

1 Terms and conditions illustrative disclosure

Disclose debt-like features in equity instruments

Redemption option

These notes are redeemable at the option of Company X at the initial call date or any fifth anniversary after this date. The amount redeemable will be the **notional amount plus accumulated coupons**

Classification

These notes are classified as **equity instruments** because Company X has the **unconditional contractual right to defer** coupons and principal repayments until liquidation of Company X.

Disclose the terms and conditions of the financial instrument that determine its classification

IFRS Accounting

2 Nature of claims illustrative disclosure

Disclose nature of claims based on contractual terms at the reporting date

Nature ~~and priority~~ of claims ~~on liquidation~~

As at 31 Dec 2020 (CU million)			
		Issued / owed by	
	Consolidated	Parent	Subsidiaries
Secured and unsubordinated			
Senior secured debt (a)	1,200	–	1,200
Lease liabilities (a)	500	500	–
Unsecured and unsubordinated			
Trade and other payables	1,450	320	1,130
Senior unsecured debt (a)	450	–	450
Unsecured and subordinated			
Subordinated liabilities	590	480	110
Classified as financial liabilities	4,190	1,300	2,890
Unsecured and subordinated			
Perpetual notes	200	200	–
Irredeemable preference shares	400	400	–
Non-controlling interest	1,350	–	1,350
~~Other reserves~~	–	–	–
Ordinary share capital	8,500	8,500	–
Classified as equity	10,450	9,100	1,350
Total	**14,640**	**10,400**	**4,240**

Scope:
- non-derivative financial liabilities subject to IFRS 7 liquidity risk disclosures;
- non-derivative equity instruments that are issued

(a) Included in the “Borrowings” line item in the statement of financial position.

2 Nature of claims illustrative disclosure

Potential changes in nature—perpetual notes

According to the contractual terms, if Company X's Common Equity Tier 1 ratio drops below 5.125%, the perpetual notes classified as equity will either be converted into ordinary shares or written down.

Intra-group arrangements—subordinated liabilities

Parent company X has provided a guarantee to Z Bank for CU50 million of subordinated liabilities owed by Subsidiary A.

Information about terms and conditions that could lead to a change in nature and intra-group arrangements such as guarantees are required

3 Maximum dilution illustrative disclosure

Instruments	Maximum number of additional ordinary shares	Key terms and conditions
Convertible bonds (A and C)	600	Holder holds an option to convert the bond at a specified conversion date using a specified conversion ratio of CU15 per share and CU12 per share for Convertible Bonds A and C respectively. The par values are CU5,250 and CU3,000 respectively. Convertible bond C is not included in the diluted earnings per share calculation because it is anti-dilutive.
Convertible bonds B	250	In the event of a change of control of Company X prior to the conversion date, the conversion ratio is adjusted downwards to a pre-determined strike price of CU8 per share. The par value is CU2,000.
Convertible bonds D	350	Issuer holds an option to settle in shares at a conversion ratio of CU15 per share or cash (equal to the value of the shares). The par value is CU5,250.
Mandatorily convertible note G	100	Issuer to deliver shares equal to the par value of CU1,000. Subject to a cap of 100 shares and a floor of 10 shares.

Examples of information entities could disclose to increase understanding of information

IFRS Accounting

3 Maximum dilution illustrative disclosure

Instruments	Maximum number of additional ordinary shares	Key terms and conditions
Number of share options in the scope of IFRS 2 outstanding at reporting date	100	Refer to note x (IFRS 2 disclosures on share options).
Number of known unvested shares from share awards in the scope of IFRS 2 at reporting date	100	Refer to note y (IFRS 2 disclosures on share awards).
Standby facility agreement	200	Issuer and potential shareholders enter into an agreement where issuer can sell up to 200 shares.
Maximum number of additional ordinary shares	**1,700**	

Include 'off-balance sheet' commitments that could result in dilution of ordinary shares

IFRS Accounting

3 Maximum dilution illustrative disclosure

Instruments	Maximum number of additional ordinary shares	Key terms and conditions
Share-settled bond F	Unknown number of additional ordinary shares	The par value is CU500. The number of shares will depend on the share price at settlement date
Total maximum number of additional ordinary shares	**1,700 + unknown dilution from Share-settled Bond F**	
Less: minimum reduction in the number of ordinary shares		
Share buy-back arrangement H	Unknown reduction in ordinary shares	Commitment to buy shares up to CU5,000
Share buy-back arrangement I	(100)	Commitment to buy 100–500 shares
Net maximum number of additional ordinary shares	**1,600 + unknown dilution from Share-settled Bond F – unknown reduction from share buy-back arrangement H**	Disclose ‘unknown’ where number of shares is unknown due to cap on amount spent

Redeliberations on effects of relevant laws or regulations

IFRS Accounting

Effects of relevant laws or regulations—Recap of proposals

Consider only contractual rights and obligations that are enforceable by laws or regulations and are in addition to those created by relevant laws or regulations

Explicitly Stated Contractual Terms			
Generally applicable regulatory requirements	**Example:**	General regulator powers in bail-in instrument	**Not consider in classification**
Contract terms in addition to those required by regulation	**Example:**	Specific loss absorption feature of bail-in instrument	**Consider in classification**
Terms not found in the contract			
Laws prevent enforceability of contract terms	**Example:**	Law prohibits redemption feature	**Consider in classification**
Laws create obligations	**Example:**	Law mandates 10% of profits to be distributed as dividends	**Not consider in classification**

Recap of feedback

- Some support for an ‘all-inclusive approach’ with/without exceptions
- Some suggested keeping the status quo until a fundamental review of IAS 32
- Concerns raised included:
  - diversity across jurisdictions and potentially within the same consolidated group resulting in inconsistent classification for economically similar instruments
  - unintended consequences on classification
  - uncertainty about scope of laws or regulations
- Requests for illustrative examples, additional guidance and additional disclosures

Agenda Paper 5 for the May 2024 IASB meeting and Agenda Paper 5A for the July 2025 IASB meeting include further details

IFRS Accounting

July 2025 IASB tentative decision

- Not proceed with proposed requirements related to effects of relevant laws or regulations on the classification of financial instruments because:
  - lack of consensus on the underlying principles
  - solving concerns would involve addressing the matter in a more fundamental manner and would be beyond the scope of the FICE project.

Agenda Paper 5A for the July 2025 IASB meeting includes further details

Redeliberations on reclassification

Reclassification of financial liabilities and equity instruments—Recap of proposals

IAS 32 requirements	• Paragraph 15 requires an issuer of a financial instrument to classify the instrument, or its component parts, on initial recognition • No general reclassification requirements • Paragraphs 16E-16F contain specific requirements for reclassifying puttable instruments and obligations arising on liquidation

Diversity in practice when there is a change in the substance of the contractual arrangement without a modification of the contract

Change in circumstances external to the contractual arrangement

Reclassification required prospectively from the date the change in circumstances occurs

Changes when an existing contractual term becomes or stops being effective **with the passage of time**

Reclassification not permitted, disclosure required

Recap of feedback

- General support for:
  - reclassification when substance of contractual arrangement changes because of change in external circumstances
  - measurement and timing of reclassification
- Many suggested reclassifying when the substance of the contractual arrangement changes because contractual term starts/ceases to be effective with the passage of time
- Requests for more illustrative examples and additional guidance

Agenda Paper 5 for the May 2024 IASB meeting and Agenda Paper 5B for the July 2025 IASB meeting include further details

September 2025 IASB discussion—Staff recommendation

Finalise the proposed amendments subject to refinements

- reclassification only applies to changes in the substance of a contractual arrangement that occur without
  - creation or extinguishment of contractual rights or obligations; or
  - contract modification
- ‘circumstances external to the contractual arrangement’ are events that
  - arose subsequent to classification; and
  - are not expected to occur frequently, are significant to entity’s operations and demonstrable to external parties
- reclassify a financial liability when the substance of an obligation to deliver own equity changes with the passage of time

Agenda Paper 5A for the September 2025 IASB meeting includes further details

Redeliberations on shareholder discretion

Shareholder discretion—Recap of proposals

Paragraph 19 of IAS 32
If an entity does not have an **unconditional right to avoid** delivering cash or another financial asset to settle a contractual obligation, the obligation meets the definition of a financial liability […]

What is the question?
When settlement of a contractual obligation is at the discretion of the issuer's shareholders, **is a decision of shareholders treated as a decision of the entity?**

The IASB is proposing a factors-based approach to help entities apply judgement

- Factors required to consider:
    - decision is routine in nature
    - decision relates to an action proposed or transaction initiated by the entity's management for shareholder approval
    - different classes of shareholders benefit differently from a shareholder decision
    - exercise of a shareholder decision-making right enables a shareholder to require the entity to redeem or pay a return on its shares
- Weightings applied to each factor depend on specific facts and circumstances
- Different factors may provide more persuasive evidence in different circumstances

Recap of feedback

- Overall agreement that judgement is required
- General support for factors-based approach but concerns about
  - how judgement should be applied
  - practical difficulty
  - potential inconsistency in application
  - unintended consequences
- Requests for illustrative examples and additional guidance

Agenda Paper 5 for the May 2024 IASB meeting and Agenda Paper 5B for the September 2025 IASB meeting include further details

September 2025 IASB discussion—Staff recommendation

- Finalise the proposed factors-based approach subject to clarifications of the underlying principles and minor drafting improvements

Agenda Paper 5C for the September 2025 IASB meeting includes further details

Amortised Cost Measurement

Project overview

Objectives

- to **clarify principles** underlying the amortised cost measurement requirements in IFRS 9, addressing application issues that are widespread and have a material effect on entities' financial statements; and
- to **improve specific information** provided to **users** of financial statements about financial instruments measured at amortised cost

September 2024	November–December 2024	February 2025	March–June 2025	From September 2025	H2 2026
The IASB started the project	Consultations with IASB's consultative groups	The IASB set out the project plan	Outreach with stakeholders and feedback summary to the IASB	The IASB will deliberate potential solutions	Exposure Draft

Project plan

Key topics for IASB discussion

Determining EIR

How to calculate the effective interest rate (EIR) for financial instruments with conditions linked to interest rates?

Discussion: From September 2025
Outcome: TBD

Subsequent changes in EIR

Which changes in expected cash flows are accounted for applying paragraph B5.4.5 versus B5.4.6 of IFRS 9?

Discussion: From September 2025
Outcome: TBD

Modifications

How to assess if a modification is substantial, resulting in derecognition of a financial asset or a financial liability?

Discussion: Q4 2025
Outcome: TBD

Modification, derecognition and impairment

How to distinguish between modification versus derecognition versus impairment?

Discussion: Q4 2025

Outcome: TBD

Other matters

What about other matters that need clarification, such as accounting for transaction costs and fees?

Discussion: Q1 2026

Outcome: TBD

Dynamic Risk Management

IFRS Accounting

Project overview

Objectives

Develop a DRM model that better reflects:

- **effect** of **repricing risk management activities** on the financial statements; and
- how interest rate risk management **affects amount, timing and uncertainty** of cash flows.

May 2022
Project moved to 'Standard-setting'

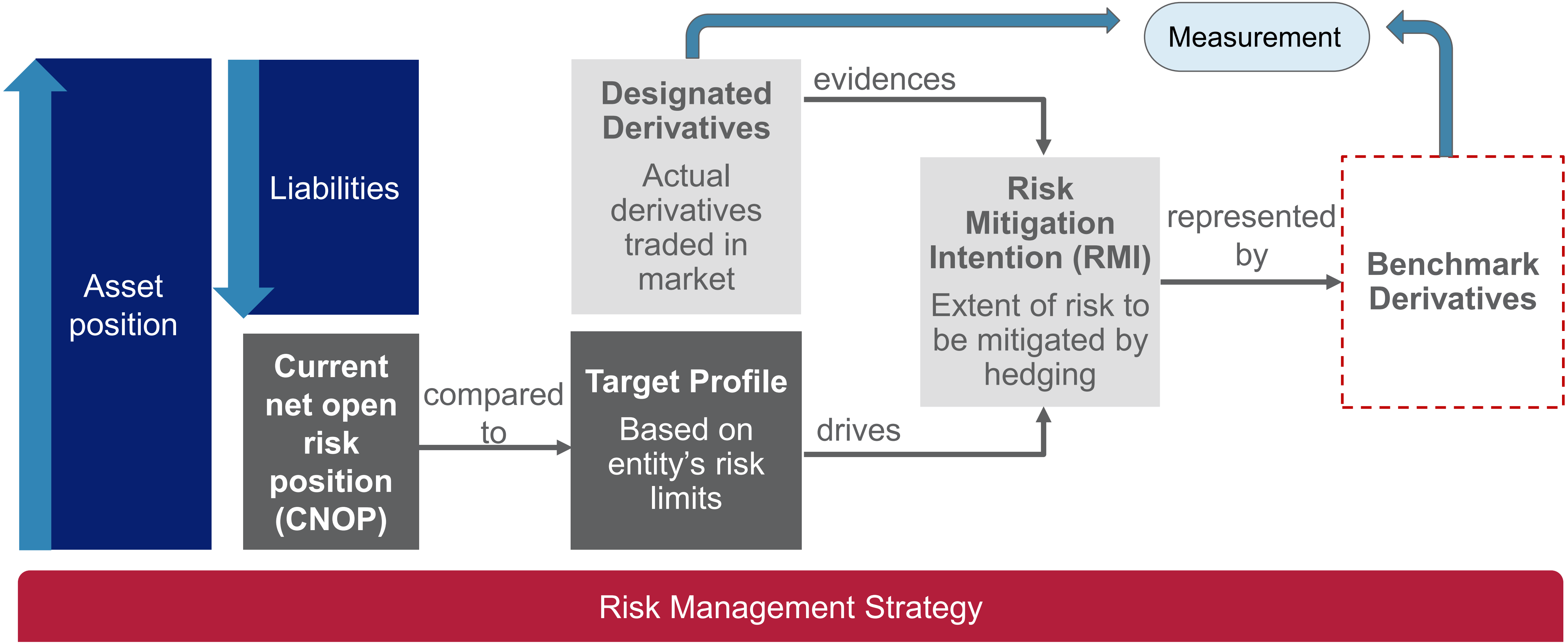
Q3 2022–Q4 2024
Development of technical proposals

Q1 2025–Q4 2025
Drafting the DRM ED

Q4 2025
Publish the DRM ED

- Extended comment period of **240 days**
- Field testing
- Aims to withdraw IAS 39

Elements of the DRM model



IFRS Accounting

Questions?

IFRS Accounting

Follow us online

ifrs.org

@IFRSFoundation

IFRS Foundation

International Accounting Standards Board