Staff paper

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IASB® meeting

Date	**December 2025**
Project	**Financial Instruments with Characteristics of Equity (FICE)**
Topic	**Fixed-for-fixed condition (Cover paper)**
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Purpose of this meeting

1. The purpose of this meeting is to begin the IASB's redeliberations on the proposals in the Exposure Draft *Financial Instruments with Characteristics of Equity* (the ED) issued in November 2023, related to the classification of financial instruments that will or may be settled in the issuer's own equity instruments, particularly when applying the 'fixed-for-fixed condition'.

2. In the agenda papers for this meeting, the staff summarises and analyses the feedback received from comment letters and outreach on the ED on this topic. This cover paper includes a summary of the general feedback. The specific feedback will be summarised and analysed by sub-topics in the following agenda papers:

    (a) Agenda Paper 5A *Fixed-for-fixed condition: Effects of foreign currency—feedback and analysis*;

    (b) Agenda Paper 5B *Fixed-for-fixed condition: Preservation adjustments—feedback and analysis*;

    (c) Agenda Paper 5C *Fixed-for-fixed condition: Passage-of-time adjustments—feedback and analysis*; and

(d) Agenda Paper 5D *Fixed-for-fixed condition: Share-for-share exchanges, settlement alternatives and other matters—feedback and analysis.*

3. The IASB is not asked to make any decisions at this meeting. At this meeting, the staff will seek direction and input from IASB members on potential refinements to the proposed amendments related to the fixed-for-fixed condition in response to the feedback on the ED.

4. In these agenda papers, we use the following terms to broadly indicate the portion of respondents that reported a particular view:

   (a) almost all—all except a very small minority;

   (b) most—large majority, with more than a few exceptions;

   (c) many—small majority or large minority;

   (d) some—small minority, but more than a few; and

   (e) a few—a very small minority.

5. This paper is structured as follows:

   (a) background and questions in the ED;

   (b) general feedback on the proposals; and

   (c) appendix A—proposed amendments to IAS 32 in the ED related to the fixed-for-fixed condition.

Background and questions in the ED

6. For a derivative to be classified as an equity instrument, paragraph 16(b)(ii) of IAS 32 *Financial Instruments: Presentation* requires it to be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of the issuer's own equity instruments. This requirement is sometimes referred to as the 'fixed-for-fixed' condition. Practice issues arise about whether—to meet the fixed-for-

fixed condition—any variation is permitted in the amount of consideration to be exchanged, or in the number of an entity's own equity instruments to be delivered.

7. IAS 32 does not specifically include requirements for share-for-share exchanges—contracts that will or may be settled by the exchange of a fixed number of one class of an entity's own non-derivative equity instruments for a fixed number of another class of its own non-derivative equity instruments.

8. The IASB's objective with the proposals on settlement in an entity's own equity instruments, as for the project generally, was to address known application questions about the classification of financial instruments applying IAS 32 without fundamentally changing the requirements. The IASB decided to add an explanation of the principles underlying the fixed-for-fixed condition in IAS 32 and supplement the principles with application guidance and illustrative examples to facilitate consistent application.

9. The IASB asked these questions in the ED:

Question 2— Settlement in an entity's own equity instruments (paragraphs 16, 22, 22B–22D, AG27A and AG29B of IAS 32)

The IASB proposes to clarify when the fixed-for-fixed condition in paragraph 16(b)(ii) of IAS 32 is met by specifying that the amount of consideration to be exchanged for each of an entity's own equity instruments is required to be denominated in the entity's functional currency, and either:

(a) fixed (will not vary under any circumstances); or

(b) variable solely because of:

(i) preservation adjustments that require the entity to preserve the relative economic interests of future shareholders to an equal or lesser extent than those of current shareholders; and/or

(ii) passage-of-time adjustments that are predetermined, vary with the passage of time only, and have the effect of fixing on initial recognition

Question 2— Settlement in an entity's own equity instruments (paragraphs 16, 22, 22B–22D, AG27A and AG29B of IAS 32)
the present value of the amount of consideration exchanged for each of the entity's own equity instruments (paragraphs 22B–22C). The IASB also proposes to clarify that if a derivative gives one party a choice of settlement between two or more classes of an entity's own equity instruments, the entity considers whether the fixed-for-fixed condition is met for each class of its own equity instruments that may be delivered on settlement. Such a derivative is an equity instrument only if all the settlement alternatives meet the fixed-for-fixed condition (paragraph AG27A(b)). The IASB further proposes to clarify that a contract that will or may be settled by the exchange of a fixed number of one class of an entity's own non-derivative equity instruments for a fixed number of another class of its own non-derivative equity instruments is an equity instrument (paragraph 22D). Paragraphs BC31–BC61 of the Basis for Conclusions explain the IASB's rationale for these proposals. Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

General feedback on the proposals

10. Most respondents that submitted comment letters on the ED included comments on the proposals about the fixed-for-fixed condition. Of these respondents:

    (a) some (mainly preparers and regulators) agreed with the proposals. They believe that the proposed clarification on the amount of consideration exchanged for each of the entity's equity instruments to be in its functional currency, and the distinction between preservation adjustments or passage-of-time adjustments, are significant steps towards reducing diversity in practice and improving consistency across entities. They also mentioned that these clarifications are largely consistent with current practice and provide a more robust framework to support it.

(b) many (mainly standard-setters, accountancy bodies, accounting firms and preparers) provided mixed views. They supported the IASB's efforts to provide additional guidance on whether a financial instrument meets the 'fixed-for-fixed' condition, acknowledging that the proposed requirements address particular practice questions. However, they disagreed with some of the proposals or mentioned that the proposed amendments would be complicated to apply and asked for further clarification or application guidance.

(c) some others (across the main stakeholder groups) disagreed with the proposals saying they are overly restrictive and would disrupt current practice because many adjustments which they believe should pass the fixed-for-fixed condition, will instead fail it. A few are of the view that the proposals lead to more rules and would prefer that the fixed-for-fixed condition be reconsidered in its totality because it results in classification outcomes that are not consistent with the *Conceptual Framework for Financial Reporting* or US GAAP.

11. Only a small number of users of financial statements commented on classification topics.[1] A standard-setter said users in their jurisdiction viewed foreign currency pro-rata rights issues and foreign currency convertible bonds or warrants as similar instruments. A regulator noted that the failure of conversion rights with down-round features to meet the fixed-for-fixed condition may lead to distorted investment decisions by general investors because classifying these derivatives as financial liabilities would create counterintuitive results in profit or loss that would distort important financial metrics such as return on equity and price-to-earnings ratio. In contrast, a user group supported the proposals related to preservation and passage-of-

[1] Agenda Paper 5A for the July 2024 IASB includes a summary of the feedback from users of financial statements on the proposals in the ED.

time adjustments on the basis that they would improve overall comparability among entities. This user group said the benefits to users would outweigh the costs for those preparers that had interpreted the fixed-for-fixed condition broadly and would need to change the classification of their derivatives applying the proposals.

12. There were requests for more illustrative examples especially illustrating cases that would qualify as passage-of-time or preservation adjustments or amending some of the illustrative examples to explain the underlying principles for satisfying the fixed-for-fixed condition. Respondents also asked for additional application guidance because there are some new concepts in the ED that are not currently included in IAS 32.

Appendix A—Proposed amendments to IAS 32 in the ED related to the fixed-for-fixed condition

A1. The IASB proposed amending or adding the following paragraphs to IAS 32 related to the fixed-for-fixed condition:[2]

Paragraph 16 (new text is underlined):

> When an issuer applies the definitions in paragraph 11 to determine whether a financial instrument is an equity instrument rather than a financial liability, the instrument is an equity instrument if, and only if, both conditions (a) and (b) below are met.
>
> (a) The instrument includes no contractual obligation:
>
> (i) to deliver cash or another financial asset to another entity; or
>
> (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.
>
> (b) If the instrument will or may be settled in the issuer's own equity instruments, it is:
>
> (i) a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or
>
> (ii) a derivative that will be settled only by the issuer exchanging a fixed amount of cash, a fixed amount of ~~or~~ another financial asset, or settling a fixed amount of its financial liability for a fixed number of its own equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro

[2] Paragraphs 16 and 22. In the amended paragraphs and heading, new text is underlined and deleted text is struck through. Paragraphs 22B–22D, AG27A and AG29B are added.

rata to all of its existing owners of the same class of its own non-derivative equity instruments. Also, for these purposes the issuer's own equity instruments do not include instruments that have all the features and meet the conditions described in paragraphs 16A and 16B or paragraphs 16C and 16D, or instruments that are contracts for the future receipt or delivery of the issuer's own equity instruments.

A contractual obligation, including one arising from a derivative financial instrument, that will or may result in the future receipt or delivery of the issuer's own equity instruments, but does not meet conditions (a) and (b) above, is not an equity instrument. As an exception, an instrument that meets the definition of a financial liability is classified as an equity instrument if it has all the features and meets the conditions in paragraphs 16A and 16B or paragraphs 16C and 16D.

Paragraph 22 (new text is underlined):

Except as stated in paragraph 22A, for the purposes of applying paragraph 16(b)(ii), a contract that will be settled by the entity (receiving or) delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash, a fixed amount of or another financial asset, or settling a fixed amount of its financial liability (often referred to as the 'fixed-for-fixed' condition) is an equity instrument. For example, an issued share option that gives the counterparty a right to buy a fixed number of the entity's shares for a fixed price or for a fixed stated principal amount of a bond is an equity instrument. Changes in the fair value of a contract arising from variations in market interest rates that do not affect the amount of cash or other financial assets to be paid or received, the amount of the entity's financial liability to be exchanged, or the number of equity instruments to be received or delivered, on settlement of the contract do not preclude the contract from being an equity instrument. Any consideration received (such as the premium received for a written option or warrant on the entity's own shares) is added directly to equity. Any consideration paid (such as the premium paid for a purchased option) is deducted directly from equity. Changes in the fair value of an equity instrument are not recognised in the financial statements.

Paragraph 22B:

For a contract to meet the requirements in paragraph 22 to be classified as an equity instrument, the amount of consideration to be exchanged for each of an entity's own equity instruments is required to be denominated in the entity's functional currency (subject to paragraphs 16(b)(ii), AG27A(a) and AG29B) and either:

(a) fixed (will not vary under any circumstances); or

(b) variable solely because of a preservation adjustment or a passage-of-time adjustment or both (as specified in paragraph 22C).

Paragraph 22C:

For the purposes of paragraph 22B(b):

(a) a preservation adjustment is an adjustment to the amount of consideration exchanged for each of an entity's own equity instruments (made by adjusting either the amount of consideration to be exchanged or the number of the entity's own equity instruments used to settle the derivative) that:

(i) is made upon the occurrence of a contractually specified event(s) that affects the economic interests of the current holders of the entity's own equity instruments (current equity instrument holders); and

(ii) preserves the economic interests of the future holders of the entity's own equity instruments (the future equity instrument holders) to an equal or lesser extent, relative to the economic interests of the current equity instrument holders; and

(b) a passage-of-time adjustment is an adjustment to the amount of consideration exchanged for each of an entity's own equity instruments (made by adjusting either the amount of consideration to be exchanged or the number of the entity's own equity instruments used to settle the derivative) that:

(i) is predetermined at the inception of the contract;

(ii) varies with the passage of time only; and

(iii) has the effect of fixing on initial recognition the present value of the amount of consideration exchanged for each of the entity's own equity instruments—any difference in the amounts of consideration to be exchanged on each possible settlement date represents compensation proportional to the passage of time.

Paragraph 22D:

In applying paragraphs 16(b)(ii) and 22, a contract that will or may be settled only by the exchange of a fixed number of one class of an entity's own non-derivative equity instruments for a fixed number of another class of the entity's own non-derivative equity instruments is an equity instrument.

Paragraph AG27A:

Paragraphs 22B and 22C specify requirements for assessing whether a derivative is an equity instrument. In applying those requirements:

(a) in accordance with paragraph 16(b)(ii), regarding rights, options or warrants to acquire a fixed number of an entity's own equity instruments that the entity offers pro rata to all existing owners of the same class of its own non derivative equity instruments, the amount of consideration to be received on exercise of the instruments may be a fixed amount of any currency. For such instruments, the currency in which the amount of consideration is denominated does not affect their classification.

(b) if a derivative gives one party a choice of settlement between two or more classes of an entity's own equity instruments (such as a choice between settlement in ordinary shares or in preference shares, both of which are equity instruments), the requirements in paragraphs 22B and 22C are applied to each class of own equity instruments that may be delivered on settlement. Such a derivative is an equity instrument only if all the settlement alternatives meet these requirements.

(c) an example of a preservation adjustment, as described in paragraph 22C(a), is an adjustment to the amount of consideration to be received on exercise of a warrant over an entity's ordinary shares to compensate the future shareholder fully or partly for dividends paid on ordinary shares while the warrant is outstanding. However, if any such adjustment benefits the future shareholder to a greater extent than a current shareholder, that adjustment is not a preservation adjustment.

Paragraph AG29B:

Paragraph 22B specifies requirements for classifying as an equity instrument a contract that will be settled by an entity exchanging a fixed number of its own equity instruments for a fixed amount of consideration. One of these requirements is that the amount of consideration to be exchanged for each of the entity's own equity instruments be in the entity's functional currency. In consolidated financial statements, in applying the requirements in paragraph 22B, an entity classifies a financial instrument as equity if the consideration amount is in the functional currency of the entity within the group whose equity instruments will be delivered on settlement (subject to the other requirements in paragraph 22B).