
IASB[®] meeting

Date **December 2025**

Project **Financial Instruments with Characteristics of Equity (FICE)**

Topic **Fixed-for-fixed condition: Effects of foreign currency—feedback and analysis**

Contacts Eun Young Park (epark@ifrs.org)
Angie Ah Kun (aahkun@ifrs.org)
Riana Wiesner (rwiesner@ifrs.org)

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS[®] Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB[®] *Update*.

Introduction

1. In this paper, the staff summarises and analyses the feedback received from comment letters and outreach on 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 how to consider the effect of foreign currency when applying the 'fixed-for-fixed condition'. The staff also considers whether further clarifications or changes to the proposed requirements would be necessary in response to the feedback.
2. This paper is structured as follows:
 - (a) [summary of staff's preliminary views](#);
 - (b) [question for the IASB](#);
 - (c) [feedback on the effect of foreign currency](#); and
 - (d) [staff analysis](#).

Summary of staff's preliminary views

3. Considering the feedback on the ED, the staff is of the view that the IASB should finalise the proposed requirements related to the effect of foreign currency when applying the 'fixed-for-fixed condition', subject to a potential refinement and minor drafting improvements.
4. We think there are merits in considering a potential refinement that—when a group entity issues a derivative on another group entity's shares—the consideration amount should be denominated in either the functional currency of the issuer of the derivative or the entity whose shares are being delivered. In our view, such a refinement could respond to shareholder feedback while staying consistent with the project objectives (see paragraphs 21–24 of this paper). However, our preliminary view is that further changes or clarifications might risk resulting in a fundamental rethink of the principles underlying the fixed-for-fixed requirement.

Question for the IASB

Question for the IASB

Does the IASB have any questions or comments on the matters discussed in this paper?

Feedback on the effect of foreign currency (proposals in draft paragraphs 22B, AG27A(a) and AG29B of IAS 32)

5. The ED proposed that to meet the fixed-for-fixed condition:
 - (a) the amount of consideration to be exchanged is required to be denominated in the entity's functional currency; and
 - (b) in the consolidated financial statements when a group entity issues a derivative on another group entity's shares, the consideration amount is in the functional

currency of the entity within the group whose equity instruments will be delivered on settlement.

6. Many respondents who commented on the fixed-for-fixed condition provided feedback on this topic.¹ Some respondents (including regulators and preparers) were supportive of the proposed clarifications and a few respondents specifically commented that they welcomed the IASB maintaining the current exception in paragraph 16(b)(ii) of IAS 32 *Financial Instruments: Presentation*. Under this exception, rights, options or warrants to acquire a fixed number of shares for a fixed amount of any currency are equity instruments if the instruments are offered pro rata to all if its existing owners of the same class of equity instruments.
7. However, most respondents (including accountancy bodies, standard setters, accounting firms and preparers) expressed significant concerns and/or disagreed with the proposals because they think the proposals would result in many instruments currently classified as equity being restated as financial liabilities. In their view:
 - (a) equity is a non-monetary item and therefore the functional currency of the entity issuing the shares is not relevant to the classification of a financial instrument; and
 - (b) the proposals are too restrictive for multinational corporations which may be issuing derivatives on own equity through foreign subsidiaries and/or in foreign markets. Some entities, especially those in emerging markets, rely on foreign currency funding (such as convertible bonds) because the market in their own functional currency is not sufficiently liquid to provide financing at a reasonable cost. Other examples include situations in which the law may require a conversion option to be denominated in a particular currency (that might not be the entity's functional currency), a contract might be

¹ Please refer to Agenda Paper 5 for this meeting for explanations of the terms used to broadly indicate the portion of respondents that reported a particular view. The feedback analysis on specific matters is based on the comments specifically made on that matter. Therefore, the terms that are used to indicate the portion of respondents that expressed a view are based on the population of respondents who specifically commented on each topic.

denominated in the functional currency of the investor rather than that of the issuer, or an entity that is listed on a foreign stock exchange might be issuing shares for consideration denominated in a currency that is not its functional currency.

8. A standard-setter mentioned that some users of financial statements in their jurisdiction viewed foreign currency convertible bonds or warrants as economically similar to foreign currency pro-rata rights issues that should also be classified as equity in both cases, the entity is exposed to foreign currency risk. They said if the conversion option is classified as a derivative liability, its fair value would mainly depend on the underlying share price. If the share price goes down, the fair value of the financial liability will also decrease resulting in a gain in profit or loss, which is counterintuitive. In their view, it is unlikely that the bondholders would opt for conversion in that case and recognising a gain would be similar to recognising gains in respect of 'own credit risk' on financial liabilities designated as at fair value through profit or loss.
9. Therefore, respondents suggested that the IASB be less restrictive and suggested some principles of when they believe derivatives should satisfy the fixed-for-fixed condition. Their suggestions included derivatives for which:
 - (a) in the consolidated financial statements, the consideration to be exchanged is denominated in the functional currency of either the issuer of the instrument or the issuer of the underlying shares. For example, where a subsidiary issues a bond denominated in its own functional currency which is convertible into a fixed number of the parent's shares. Respondents consider the functional currency of the issuer of the instrument to be equally relevant to that of the entity that will issue the shares because a gross settled derivative includes both the receipt of consideration and delivery of the underlying equity instruments. They also said this treatment is appropriate on conceptual grounds as the group is a single economic entity under IFRS 10 *Consolidated Financial Statements* and there is no such thing as a group functional currency. In contrast, other

respondents considered the appropriate reference point to be only the functional currency of the group entity that is a party to the contract with the third party and will receive the cash consideration on settlement.

- (b) the holder of the derivative has the right to convert the bonds denominated in the parent's functional currency into either a fixed number of shares of the parent or a fixed number of shares of the subsidiary regardless of whether the parent and subsidiary have different functional currencies.² Respondents noted that, based on draft paragraph 22D of IAS 32, foreign currency is not a consideration when the number of shares to be exchanged is fixed in a share-for-share exchange.
 - (c) the contract establishes a fixed conversion exchange rate, or if the foreign currency risk is negligible (because of short duration of a contract or low volatility of the foreign currency).
 - (d) the foreign currency component would be considered to be 'closely-related' to the host contract in accordance with the requirements in paragraph B4.3.8(d) of IFRS 9 *Financial Instruments*. For example, an embedded foreign currency derivative would be classified as equity if it is not leveraged, does not contain an option feature and requires settlement in the functional currency of a party to that contract.
10. Other circumstances in which a few respondents suggested the proposed amendments should not be applied include if entities hedge their foreign currency exposure (regardless of whether they apply hedge accounting) when issuing instruments for consideration denominated in foreign currency.
11. A few other respondents suggested the IASB require/permit the currency effect to be bifurcated. For example, a written call option embedded in a gross-settled foreign currency denominated convertible bond could be bifurcated into an equity instrument

² Similar to draft Example 13B of the Illustrative Examples accompanying IAS 32 in the Exposure Draft

(contract to issue shares at a functional currency fixed price) and a synthetic foreign currency derivative liability (embedded forward contract to buy foreign currency).

12. A few respondents also asked the IASB to clarify other aspects of the proposals such as whether pegged currencies would meet the fixed-for-fixed condition. For example, when foreign currencies involve a fixed exchange rate between the entity's functional currency and the foreign currency in which the amount of consideration to be exchanged is denominated. Another example included foreign currencies for which the exchange rate fluctuated in a very narrow range so that any variability would be immaterial.

Staff analysis

13. As noted in draft paragraph 22B of IAS 32, the IASB clarified in the ED that for a contract to meet the fixed-for-fixed condition, 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. Otherwise, the consideration would vary due to changes in the applicable foreign currency exchange rate which would expose the entity to foreign currency risk.
14. The feedback summarised in paragraph 7 of this paper, indicates that most respondents who commented on this topic, are concerned about the practical implications of the proposed amendments, particularly in emerging markets where funding is issued in foreign currency. Most respondents are of the view that the amount of consideration to be received is fixed even if the amount is fixed in foreign currency.
15. The staff notes that this issue has long been discussed by the IASB. In [June 2005](#) the IASB decided to explore a potential amendment to IAS 32 to permit contracts to meet the fixed-for-fixed condition if they will be settled for a fixed amount of foreign currency. Such instruments would include the conversion option in a foreign currency

denominated convertible bond. However, in [September 2005](#), the IASB decided not to proceed with an amendment and noted that:

- (a) the proposed amendment would result in equity and foreign exchange features whose values are interdependent being recognised in equity;
- (b) excluding from equity the value attributable to the foreign exchange features would require arbitrary rules; and
- (c) allowing dual-indexed contracts (indexed to share price and foreign exchange rates) to be classified as equity would require additional and detailed guidance to avoid structuring opportunities aimed at obtaining a desired accounting result.

16. For the purposes of our analysis, we identified the following themes from the feedback summarised in paragraphs 6–12 of this paper:

- (a) derivatives involving different entities in the consolidated group (see paragraphs 17–26 of this paper);
- (b) foreign currency rights issues vs foreign currency bonds (see paragraphs 27–31 of this paper);
- (c) pegged currencies (see paragraphs 32–33 of this paper); and
- (d) foreign exchange risk mitigation (see paragraph 34 of this paper).

Derivatives involving different entities in the consolidated group

17. The IASB proposed in the ED that, for the purposes of the fixed-for-fixed condition, in the consolidated financial statements, the consideration amount needs to be in the functional currency of the entity *whose equity instruments will be delivered on settlement*. However, as indicated by the feedback in paragraph 9(a) of this paper, some respondents questioned the rationale for this clarification and said that the IASB should allow the functional currency of the issuer of the derivative instrument to be considered when determining whether the entity is exposed to foreign currency risk.

Background to proposals in the ED

18. As discussed in [Agenda Paper 5](#) for the December 2019 IASB meeting (see paragraph 55 of that paper), when developing the 2018 Discussion Paper *Financial Instruments with Characteristics of Equity* (2018 DP), the IASB was of the view that the functional currency of the entity whose equity instruments form the underlying of the derivative, should be the reference point. For example, consider a subsidiary with a GBP functional currency that issued a derivative with the strike price denominated in GBP and will be settled by delivering the equity instruments of its parent whose functional currency is USD. In this case, applying the proposals in the ED, the parent's function currency (being USD) is the reference point, and as this is different from the amount in which the strike price is denominated, the derivative would be classified as a financial liability (because the group is exposed to foreign currency risk).
19. The IASB's rationale for this was based on the Gamma approach which was the basis for the proposals in the 2018 DP. Under this approach, to be classified as equity, an entity had to determine whether the only variable affecting the amount of derivative is the value of the equity instruments to be delivered (in other words, the derivative solely depends on the residual amount). This would be the case if the derivative requires an amount of cash or other financial assets that is fixed in the entity's functional currency and to deliver a fixed number of 'own equity' instruments. This assessment was determined by reference to the variability in the amount of the receivable-leg and the payable-leg of the derivative because the amount of the derivative is comprised of the total of both legs.
20. The residual interest in an entity (as with all other items in the financial statements) is measured in the entity's functional currency. If a derivative relates to a claim on the residual amount of a *specific entity*, then the exposure to a currency other than the functional currency of that entity is a variable that does not solely depend on the residual amount (ie the residual amount that is *relevant* to the derivative). Therefore, applying the Gamma approach, if a derivative is a promise to deliver equity

instruments of a *specific entity within a group*, then the relevant functional currency is the functional currency of that entity whose equity instruments are being delivered.

Potential refinement

21. Considering the example in paragraph 18 of this paper:
 - (a) in the subsidiary's separate financial statements, the derivative is classified as a financial liability because the underlying instruments are not the subsidiary's own shares.
 - (b) in the parent's separate financial statements, the instrument is not recognised because the parent is not a counterparty to the contract.
 - (c) in the consolidated financial statements, the group has issued an instrument containing an obligation to deliver own equity instruments because both the parent shares and the subsidiary shares are regarded as the group entity's own equity instruments.
22. When developing the 2018 DP, the focus was on the 'amount feature' representing a claim on the residual amount of a *specific entity* whose shares are being delivered. However, in light of the feedback, the staff thinks it could be appropriate to consider the 'specific entity' in a broader sense by referring to the consolidated group because it is the group's equity instruments that are being delivered.
23. The effect of this would be that, for the purposes of applying the fixed-for-fixed condition in the consolidated financial statements, there should be a determination of whether *the group* is exposed to foreign exchange risk. Because the contract consists of a receivable leg and a payable leg, analysing both legs of the gross-settled derivative:
 - (a) the payable leg (representing group shares to be delivered)—does not generate any foreign exchange gains or losses because shares are non-monetary items and are not subject to translation at the reporting date; and

- (b) the receivable leg (representing the consideration required)—as the group is seen as a single economic entity which does not have a functional currency, the consideration denominated in either the parent's functional currency (USD) or the subsidiary's functional currency (GBP), would not expose the group to foreign exchange risk. The group would only be exposed to foreign currency risk if the consideration was denominated in a third currency that is not the functional currency of either entity in the consolidated group.
24. Based on this analysis, the staff thinks that refining the proposals for the purposes of the consolidated financial statements could still be consistent with the principles underlying the fixed-for-fixed condition. Therefore, the IASB could clarify that when a group entity issues a derivative on another group entity's shares, the consideration could be denominated in the functional currency of either the issuer of the derivative or the entity whose shares are being delivered to meet the fixed-for-fixed condition.
25. With regards to the feedback in paragraph 9(b) of this paper, the staff thinks that, if the potential refinement explained in paragraph 24 of this paper is made, such a conversion option would also be considered an equity instrument. This is because the holder has a choice of settlement between two or more classes of an entity's own equity instruments and in the consolidated financial statements, all the settlement alternatives meet the fixed-for-fixed requirements.
26. The staff agrees that it would also make sense to classify such a conversion option as equity because using similar logic to that described in paragraph BC38 of the Basis for Conclusions on the ED, the contract could be seen as economically similar to an arrangement comprising two separate instruments that each meet the fixed-for-fixed condition:
- (a) a contract to receive a fixed number of the parent's shares in exchange for a fixed amount in the parent's functional currency; and
 - (b) a contract to exchange a fixed number of the parent's shares for a fixed number of the subsidiary's shares.

Foreign currency rights issues vs foreign currency convertible bonds

27. In 2009, the IASB amended IAS 32 to provide an exception to the fixed-for-fixed condition for foreign currency rights, options and warrants. A pro rata issue of rights to all existing shareholders to acquire additional shares is a transaction with an entity's owners in their capacity as owners, partially resembling dividends paid in shares. Importantly, the IASB deliberately decided not to extend this conclusion to other instruments that grant the holder the right to purchase the entity's own equity instruments such as the conversion feature in convertible bonds. This is because such conversion options are not transactions with an entity's owners in their capacity as owners, but are transactions with the holders of the entity's bonds, in their capacity as investors in debt instruments.
28. The staff acknowledges respondents' concerns described in paragraph 7(b) of this paper, that in some jurisdictions, the market for funding in local currency is not sufficiently liquid to provide financing at a reasonable cost and therefore entities rely on foreign currency funding. However, the feedback provided on the ED did not provide any new or additional information and views that the IASB has not already considered on this matter.
29. With regards to the feedback described in paragraph 8 of this paper, the staff notes that the IASB previously concluded that foreign currency rights issues are different from foreign currency convertible bonds because of the following differences in characteristics:
- (a) the rights must be allocated pro-rata to existing shareholders in their capacity as shareholders; convertible bonds are a separate instrument that may be issued to any investor.
 - (b) the rights are priced in the various currencies to treat all shareholders in their capacity as shareholders equally at the date of issue, regardless of the exchange on which the shares are traded. In other words, shareholders typically receive rights with an exercise price denominated in the currency in which the entity's shares trade. Convertible bonds could be denominated in

any currency the entity chooses and are not necessarily denominated in the currency in which the entity's shares trade.

30. The staff also does not agree with the feedback described in paragraph 11 of this paper. Regarding a conversion option in a foreign currency denominated convertible bond as an equity instrument and a synthetic forward exchange contract, would impute additional terms and cash flows (the fixed amount in the functional currency) into the contract that are not actually there. The Guidance on Implementing IFRS 9 (*C.1 Embedded derivatives: separation of host debt instrument*) clearly prohibits this. It states:

...However, an entity may not identify a component that is not specified or may not establish terms of the host debt instrument in a manner that would result in the separation of an embedded derivative that is not already clearly present in the hybrid contract, that is to say, it cannot create a cash flow that does not exist...

31. The staff continues to believe that to meet the fixed-for-fixed condition, 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. Allowing foreign exchange risk as an acceptable variable to meet the fixed-for-fixed condition would represent a fundamental change to the classification requirements in IAS 32 that would go beyond the scope of this project. However, the exception for foreign currency denominated pro rata rights issues should be maintained for the reasons noted in paragraphs BC4C–BC4K of the basis for conclusions on IAS 32.

Pegged currencies

32. With regards to the feedback described in paragraph 12 of this paper and based on the staff's limited research into pegged currencies, the staff understands that in some

situations there is a ‘soft peg’ policy and in other cases, there is a ‘hard peg’ policy.³ Both a soft peg and a hard peg policy require that the central bank intervene in the foreign exchange market to minimise exchange rate volatility. A ‘hard peg’ policy is put in place by a government and attempts to preserve a fixed exchange rate at all times. A soft peg policy is a mechanism whereby the exchange rate between two currencies fluctuates within a narrow band. The exchange rate is typically allowed to move up and down by relatively small amounts in the short term, and to move by larger amounts over time, but the policy seeks to avoid extreme short-term fluctuations. Therefore, even with pegged currencies, there may still be slight fluctuations in the currency value.

33. The staff does not consider it appropriate to explicitly clarify whether pegged currencies would meet the fixed-for-fixed condition because this still requires judgement based on facts and circumstances. Therefore, entities would still be required to assess whether an instrument containing an obligation to deliver own shares exposes them to foreign currency risk.

Foreign exchange risk mitigation

34. Although the staff acknowledges stakeholder views noted in paragraph 10 of this paper, we disagree that the application of hedge accounting or economic hedging should determine the classification of the derivative. We can agree that a foreign currency option might mitigate the foreign currency effects embedded in a foreign currency denominated convertible bond. However, the two instruments arise from separate contractual arrangements and as such are:
- (a) classified and recognised separately; and
 - (b) also presented separately in the entity’s financial statements.

³ Examples of pegged currencies are found in Hong Kong (currency pegged to the US Dollar), several Middle-Eastern countries (including Saudi Arabia and Qatar that have currencies pegged to the US Dollar), some African countries (currencies pegged to the US Dollar or Euro) and Denmark (currency pegged to the Euro)