IFRS Accounting

Staff paper

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IASB® meeting

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Project	**Financial Instruments with Characteristics of Equity (FICE)**
Topic	**Proposed amendments—disclosures**
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Background and purpose of the paper

1. At its October 2024 and February 2025 meetings, the IASB discussed potential changes, in response to the feedback received, to the proposed disclosure requirements in the Exposure Draft *Financial Instruments with Characteristics of Equity* (the ED) related to:

   (a) the objective and scope of IFRS 7 *Financial Instruments: Disclosures* (draft paragraphs 1 and 3 of IFRS 7);

   (b) disclosures about compound financial instruments (draft paragraph 17A of IFRS 7);

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

   (d) the terms and conditions of financial instruments with both financial liability and equity characteristics (draft paragraphs 30C–30E of IFRS 7); and

   (e) the potential dilution of ordinary shares (draft paragraphs 30G–30H of IFRS 7).

2. The potential changes discussed were primarily aimed at reducing the burden on preparers in providing the proposed information while still providing users of the

financial statements with more useful information compared to what is required currently.

3. While IASB members were generally of the view that the potential changes would be responsive to stakeholders' concerns about these proposed requirements, some IASB members asked the staff to consider whether further clarifications could be made to some aspects of the disclosures.

4. During March and May 2025, the IASB consulted on these potential changes to the proposed disclosure requirements, with its consultative groups, such as Capital Markets Advisory Committee (CMAC), Accounting Standards Advisory Forum (ASAF), Global Preparers Forum (GPF) and Emerging Economies Group (EEG).[1] In addition, the staff discussed the potential changes with financial institutions represented at the Institute of International Finance's International Accounting and Reporting Forum (IARF) meeting and with the European Securities and Markets Authority (ESMA). This paper analyses the feedback from these stakeholder and consultative group meetings.

5. The purpose of this paper is to summarise and analyse the feedback from the outreach we performed, and to recommend clarifications to the proposed disclosure requirements in the relevant sections of the staff analysis below. At this meeting we will also ask the IASB whether it agrees with the staff recommendations for the proposed amendments to IFRS 7.

6. The paper is structured as follows:

   (a) summary of staff recommendations;

   (b) questions for the IASB;

   (c) overall feedback on the proposals;

   (d) summary of feedback from stakeholders and staff analysis on:

[1] The project page includes links to the agenda papers and meeting summaries.

(i) scope and general principles;

(ii) nature of claims as at the reporting date;

(iii) terms and conditions; and

(iv) maximum dilution of ordinary shares; and

(e) Appendix A—comparison between the ED proposals and the staff recommendations.

Summary of staff recommendations

7. The staff recommends finalising the proposed disclosure requirements related to the objective, scope and general principles as set out in the ED (see draft paragraphs 1 and 3 of IFRS 7), subject to:

(a) including 'puttable instruments and obligations arising on liquidation' classified as equity instruments applying paragraphs 16A–16D of IAS 32 *Financial Instruments: Presentation* in the scope of the 'nature of claims as at the reporting date' and 'terms and conditions' disclosures;

(b) allowing cross-referencing by including the references to the proposed disclosure requirements within paragraph B6 of IFRS 7;[2] and

(c) providing application guidance on how to group instruments by class.

8. The staff recommends finalising the proposed disclosure requirements related to the ***nature of claims as at the reporting date*** as set out in the ED (see draft paragraphs 30A–30B of IFRS 7), subject to:

(a) requiring the disclosure to be based on the nature of the claims at the reporting date instead of on liquidation;

(b) clarifying that the disclosure requirement would apply to:

[2] The disclosures required by paragraphs 31–42 of IFRS 7 (nature and extent of risks arising from financial instruments) shall be either given in the financial statements or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.

(i) non-derivative financial liabilities that are within the scope of the liquidity risk disclosures required by IFRS 7; and

(ii) non-derivative equity instruments issued by the entity.

9. The staff recommends finalising the proposed disclosure requirements related to ***terms and conditions*** as set out in the ED (see draft paragraphs 17A, 30C–30E and B5B–B5H of IFRS 7), subject to:

(a) including the requirement to disclose the terms and conditions of compound financial instruments (where relevant), in the scope of draft paragraphs 30C–30E of IFRS 7 and removing the requirement to disclose the amounts allocated on initial recognition to the liability and equity components;

(b) excluding particular financial liabilities with equity-like characteristics from the terms and conditions disclosure requirements, such as those with only subordination features (draft paragraph B5F(a)(iii) of IFRS 7) and those that will be settled by delivering own equity instruments (draft paragraph B5F(b) of IFRS 7); and

(c) combining the requirement to disclose the terms and conditions about an instrument's priority on liquidation with the requirements about the nature of claims as at the reporting date, and limiting the information to be disclosed, to:

(i) the terms and conditions of financial instruments that could lead to a change in their nature; and

(ii) a description of any intra-group arrangements such as guarantees that might affect the nature of financial instruments.

10. The staff recommends finalising the proposed disclosure requirements related to ***maximum dilution of ordinary shares*** as set out in the ED (draft paragraphs 30G–30H and B5I–B5L of IFRS 7), subject to:

(a) clarifying that off-balance sheet commitments that could result in dilution are included in the scope.

(b) requiring disclosure of the fact that the number of shares in share buy-back arrangements is unknown when there is a cap on the maximum spend amount.

(c) including examples of the terms and conditions an entity could disclose to enable users of financial statements to understand the maximum dilution of ordinary shares and the likelihood of it occurring. Such examples include the exercise prices, information about whether instruments are anti-dilutive, the par value of convertible instruments, conversion ratios, descriptions of any contingent events that could affect the conversion ratios.

Questions for the IASB

Questions for the IASB
1. Does the IASB agree with the staff's recommendations in relation to the objective, scope and the general principles as summarised in paragraph 7 of this paper? 2. Does the IASB agree with the staff's recommendations in relation to the nature of claims as at the reporting date disclosures as summarised in paragraph 8 of this paper? 3. Does the IASB agree with the staff's recommendations in relation to the terms and conditions disclosures as summarised in paragraph 9 of this paper? 4. Does the IASB agree with the staff's recommendations in relation to the maximum dilution of ordinary shares disclosures as summarised in paragraph 10 of this paper?

Overall feedback on the proposals

11. Most stakeholders expressed strong support for the suggested changes to the proposed disclosure requirements and appreciated the IASB's efforts to respond to stakeholders' concerns in response to the ED. They said that those suggested changes would reduce their concerns about the increased volume, cost and complexity of preparing the required disclosures while still meeting the information needs of users of financial statements.

12. However, some stakeholders, including those who supported the suggested changes, asked for clarification of particular aspects of the suggested changes to further

enhance the understandability of the disclosure requirements. On the other hand, a few other stakeholders were either still concerned that some of the required information would be burdensome to prepare or questioned the usefulness of some disclosures.

13. Based on the overall support for the changes to the proposed disclosure requirements, the staff has not repeated in this paper the previous detailed analysis for the potential changes that were generally supported by stakeholders. These potential changes were previously analysed in Agenda Paper 5D for the October 2024 and Agenda Paper 5B for the February 2025 IASB meetings. The staff has however, included recommendations relating to these changes for example, in paragraphs 18–19, 65 and 70 of this paper.

14. In addition, to address the remaining stakeholder concerns and the feedback from IASB members during the February 2025 meeting (see paragraph 3 of this paper), we explore in our staff analysis further clarifications or refinements that could be made to finalise these disclosure requirements.

Scope and general principles

Summary of feedback from stakeholders including consultative groups

15. Stakeholders did not raise significant concerns about the potential changes to the scope of IFRS 7 or the changes related to the general principles in applying the proposed disclosure requirements, except for practical difficulties about aggregating financial instruments into classes (see paragraphs 16–17 of this paper). The staff believes this indicates overall support for the suggested changes.

Aggregating financial instruments into classes

16. Similar to feedback on the ED, a few stakeholders were still concerned about the potential significant costs for preparers due to practical difficulties in aggregating instruments by class. In particular they noted that terms and conditions vary by instrument and entities might have to provide the terms and conditions disclosures on

an instrument-by-instrument basis. Stakeholders said it would be helpful to clarify that the proposed disclosures could be provided by class of instruments that share similar characteristics.

17. In addition, during the February 2025 IASB meeting, an IASB member said that it would be helpful to provide application guidance on how to group instruments for the purpose of the 'nature and priority of claims' disclosures because it is not clear how to group claims into classes and entities might determine the classes differently.

Staff analysis and recommendations

Scope

18. As discussed in Agenda Paper 5D for the October 2024 IASB meeting (see paragraphs 9–10 of that paper), puttable instruments and obligations arising on liquidation classified as equity instruments (applying paragraphs 16A–16D of IAS 32) instruments are part of the entity's capital structure and should be included in the scope of the disclosures for 'nature of claims' and 'terms and conditions'. Therefore, the staff recommends refining the scope of IFRS 7 to include these instruments within the scope of those disclosure requirements.

Cross-referencing

19. As discussed in Agenda Paper 5D for the October 2024 IASB meeting (see paragraphs 11–12 of that paper), cross-referencing to other documents that are available to users of the financial statements on the same terms as the financial statements and at the same time could reduce the volume of disclosures and avoid duplications. Thus, the staff recommends the IASB add the references to the relevant paragraphs such as draft paragraphs 30A–30E and 30G–30H of IFRS 7 to paragraph B6 of IFRS 7.

Aggregating financial instruments into classes

20. The staff acknowledges that there were still concerns from a few stakeholders about the overall reporting burden if entities are required to disclose information on an instrument-by-instrument basis.

21. However, as discussed in Agenda Paper 5D for the October 2024 IASB meeting (see paragraphs 15–20 and 38–42 of that paper), the staff believes that:

    (a) it is not the IASB's intention to require any proposed disclosures to be provided on an instrument-by-instrument basis—there are explicit references to 'each class of claims' (draft paragraph 30B of IFRS 7) and 'each class of potential ordinary shares' (draft paragraph 30G of IFRS 7).

    (b) entities should refer to the general principles for aggregating and disaggregating information in IFRS 18 *Presentation and Disclosure in Financial Statements* when preparing the proposed new disclosures.

    (c) application guidance could be included to help entities determine what a 'class' of financial instrument refers to, for example that debt and equity-like characteristics are shared characteristics that would cause instruments to be aggregated into a 'class' of financial instruments.

22. These principles were already illustrated in the Exposure Draft in draft paragraph IG14E of the Guidance on implementing IFRS 7 which showed 'subordinated notes' as a class of financial instruments with shared 'debt-like characteristics' even though each note has different terms (interest rates, currency, call dates, notional amounts).

23. The staff therefore recommends that, as part of the relevant application guidance, examples of shared characteristics for distinguishing classes of financial instruments are included. For example:

    (a) for the terms and conditions disclosures—debt-like/equity-like characteristics;

    (b) for the nature of claims disclosures—types of contractual terms such as secured/unsecured, subordinated/unsubordinated; and

(c) for the maximum dilution of ordinary shares disclosures—types of conversion features.

Nature of claims as at the reporting date

Summary of feedback from stakeholders including consultative groups

24. Most stakeholders gave positive feedback on the suggestions to change the focus of the proposed requirements to the reporting date instead of liquidation and aligning the scope with the IFRS 7 liquidity risk disclosures for financial liabilities. They said that these changes would reduce the complexity and challenges with providing the information based on a hypothetical liquidation at a consolidated entity level—especially when the group consist of subsidiaries operating across multiple jurisdictions—while still providing useful information for users of financial statements, including credit analysts.

25. However, some stakeholders, including those who agreed with the suggested changes, asked for further clarifications or enhancements to improve the understandability of the disclosure requirements. The areas on which stakeholders asked for further clarifications or enhancements, included:

(a) the basis on which the information would be disclosed if the focus is not on liquidation and whether factors such as regulatory requirements and intra-group arrangements (for example guarantees) are considered.

(b) the scope of the disclosure requirement, in particular which equity instruments are included (ie the meaning of equity instruments issued for the raising of finance) and whether financial liabilities such as lease liabilities are included.

(c) whether entities need to distinguish between the reasons for potential increases in ordinary shares because some ordinary shares might arise from share-based payment transactions where the entity issued shares in exchange for goods or services.

26. Despite their overall support, a few stakeholders raised concerns and reiterated similar feedback as respondents to the FICE 2018 Discussion Paper or the ED, such as:

    (a) users of financial statements, in their jurisdiction, prefer information based on liquidation ranking to help them understand their relative positions as claimants within an entity's capital structure when making investment decisions;

    (b) the scope is incomplete because it excludes other contractual obligations such as those arising from pension liabilities and lease liabilities; and

    (c) the proposed requirements may not be future-proofed for new instruments used in financing transactions and entities could structure transactions to evade the proposed disclosure requirements.

27. A few stakeholders disagreed with requiring the proposed disclosure about the nature of claims because in their view:

    (a) this information would not be useful for equity analysts because ordinary shares bear the residual risk so information about the nature of claims would not be used for their research analyses;

    (b) the disclosures could mislead users of financial statements and give them a false sense of security because they would not be provided with information beyond the contractual terms, for example, qualitative factors regulatory authorities might consider in determining whether to exercise their regulatory powers; and

    (c) preparers would have practical difficulties in providing the information for groups with many financial instruments.

Staff analysis and recommendations

To which claims would the requirement apply?

28. As discussed in Agenda Paper 5B for the February 2025 IASB meeting (see paragraphs 13–23 of that paper), developing a principle to determine to which

financial instruments the requirement would apply, will help to ensure greater consistency in application and comparability of information. The staff suggested aligning the scope of the proposed disclosure requirements with that of the liquidity risk disclosures in IFRS 7 for financial liabilities and including equity instruments issued to raise finance. However, considering feedback from stakeholders (see paragraphs 26–27 of this paper), the staff further considered the questions asked.

Lease liabilities

29. A few stakeholders questioned whether lease liabilities should be included in the scope of these disclosures because they are financial liabilities. The staff notes that paragraph BC222 of IFRS 16 states that the lessee accounting model in IFRS 16 is based on the premise that a lease liability is a financial liability. In addition, the staff acknowledges that lease liabilities are not explicitly scoped out of IFRS 7 unlike other financial instruments such as employers' obligations arising from employee benefit plans.

30. Paragraph 58 of IFRS 16 requires disclosure of a maturity analysis of lease liabilities applying paragraphs 39 and B11 of IFRS 7, separately from the maturity analyses of other financial liabilities. Paragraphs BC220–BC222 of the Basis for Conclusions on IFRS 16 explain that these requirements provide a lessee with the flexibility to present the maturity analysis that is most relevant to its particular lease portfolio.

31. Although the requirement to disclose a maturity analysis of lease liabilities arises from IFRS 16, the requirements in paragraph 39 and B11 of IFRS 7 are applied. Furthermore, paragraph B11D(a) of IFRS 7 explains that the contractual amounts disclosed in the maturity analyses are the contractual undiscounted cash flows, such as gross lease liabilities (before deducting finance charges). It is therefore clear that lease liabilities are in the scope of the IFRS 7 liquidity risk disclosures and therefore no further clarification is needed on this matter.

Derivatives

32. The liquidity risk disclosures in paragraphs 39 and B11 of IFRS 7 apply to both non-derivative and derivative financial liabilities. When the staff suggested aligning the scope of the financial liability claims included in the 'nature of claims' disclosure with the scope of the 'liquidity risk' disclosures in IFRS 7 (see paragraphs 13–23 of Agenda Paper 5B for the February 2025 IASB meeting), we had in mind non-derivatives in paragraph 39(a) of IFRS 7.

33. The staff acknowledges that derivative financial liabilities are part of the claims against an entity. However, derivatives are measured at fair value at the reporting date, which could result in them being reported as a financial liability in one period and as a financial asset in the next. This would result in the derivative being included in the scope of the disclosure only in the periods when it is reported as a financial liability.

34. Given stakeholders' concerns about the cost of preparing the information that would be required by the proposals, the staff continues to be of the view that the proposed requirement should not apply to derivative financial liabilities.

35. This would also be consistent with the staff's suggestion to scope out equity derivatives. As explained in Agenda Paper 5D for the October 2024 IASB meeting (see paragraph 76 of that paper), equity derivatives would be scoped out because information about derivatives on own equity would be included in the maximum dilution of ordinary shares disclosures.

36. The staff notes that the scope exclusion for derivatives (both liabilities and equity derivatives) would only apply to stand-alone derivatives, equity derivative components of compound financial instruments and embedded derivatives that are separated from the financial liability host contracts. A hybrid contract containing an embedded derivative that is not separated, remains within the scope of the proposed disclosure requirements.

Equity items

37. As explained in Agenda Paper 5D for the October 2024 IASB meeting (see paragraph 76 of that paper), equity instruments issued for the raising of finance would be included in the scope but equity reserves and equity derivatives would be scoped out. Several stakeholders asked the IASB to define 'equity instruments issued for the raising of finance' because the term 'raising of finance' is not explained in IAS32.

38. The proposed disclosures were in response to requests from users of financial statements for information to understand the entity's capital structure. After considering the matter again, the staff is of the view that any equity instrument issued by an entity, is part of the entity's capital structure regardless of the reasons for issuing it and should be included in the scope of the disclosure. Therefore, the staff thinks it would be appropriate to include all equity instruments issued by the entity.

39. On the other hand, there are other equity items such as equity reserves, for example foreign currency translation reserves, gains or losses on financial assets measured at fair value through other comprehensive income, and share-based payment reserves. These items are not financial instruments as such and do not meet the definition of an equity instrument in paragraph 11 of IAS 32—although they form part of an entity's net assets, they are not contracts that have been issued to particular holders.[3]

The nature of claims arising from financial instruments

40. As noted in Agenda Paper 5B for the February 2025 IASB meeting (see paragraphs 9–12 of that paper), the staff suggested changing the focus of the proposed disclosure requirements to the nature and priority of the claims at the reporting date, instead of on liquidation, as a way of addressing the concerns raised by respondents.

[3] An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

41. Although most stakeholders welcomed the change as a way to resolve the concerns raised, some were not clear about what this meant and on what basis the information would be required, if not on liquidation.

42. The staff thinks it is important to clarify that the intention—an entity would be required to disclose information that enables users of financial statements to understand the nature of claims against the entity that arise from its financial liabilities and equity instruments, as at the reporting date. Therefore, except for this suggested change from liquidation to the reporting date, the remainder of the proposed disclosure requirements in draft paragraphs 30A–30B of IFRS 7 would be retained. In other words, entities need to differentiate between

    (a) subordinated and unsubordinated claims;

    (b) secured and unsecured claims;

    (c) claims issued by the parent and those issued by subsidiaries.

43. For added clarity, the staff also thinks the term '*priority*' should be removed from the title of the proposed disclosure requirements because it could still imply that entities are required to disclose the actual order of priority or the relative ranking of claims.

44. In the staff's view, focusing on the nature of claims at the reporting date would:

    (a) require the nature of claims to be disclosed based on the contractual terms at the reporting date and not as expected or anticipated based on a theoretical liquidation event;

    (b) resolve any potential confusion about whether information should be disclosed based on the actual order of priority or relative ranking of individual financial instruments at an individual entity level;

    (c) not require consideration of the effects local laws and regulations could have for group entities operating in multiple jurisdictions;

    (d) require information to be disclosed consistent with the financial statements being prepared on a going concern basis; and

(e) address concerns that liquidation may not be the most relevant event in determining the nature of claims in all industries, for example in the banking sector, resolution events may occur before liquidation and might be more relevant to understanding the nature of claims against the entity.

45. Although a few stakeholders said that users of financial statements in their jurisdictions would prefer information about priority on liquidation, others confirmed that information disclosed based on the suggested change to focus on the reporting date instead of on liquidation, would still be useful in making investment decisions.

Terms and conditions

Summary of feedback from stakeholders including consultative groups

46. Stakeholders did not specifically comment on the suggested changes to the proposed terms and conditions disclosures except for practical difficulties that would arise if entities are required to disclose information on an instrument-by-instrument basis (see paragraph 16 of this paper). Since stakeholders did not raise any other concerns, the staff believes this indicates overall support for the suggested changes.

Staff analysis and recommendations

Scope of terms and conditions disclosures

47. As discussed in Agenda Paper 5D for the October 2024 IASB meeting (see paragraphs 25–30 of that paper) and Agenda Paper 5B for the February 2025 IASB meeting (see paragraphs 26–30 of that paper), excluding particular financial liabilities with equity-like characteristics from the terms and conditions disclosure requirements would help to reduce the potential burden on preparers.

48. Therefore, the staff recommends scoping out financial liabilities with only subordination features (draft paragraph B5F(a)(iii) of IFRS 7) and those that will be settled by delivering own equity instruments (draft paragraph B5F(b) of IFRS 7).

Compound financial instruments

49. Based on our analysis in Agenda Paper 5D for the October 2024 meeting (see paragraphs 31–37 of that paper) and Agenda Paper 5B for the February 2025 IASB meeting (see paragraphs 31–36 of that paper)), the staff recommends:

    (a) including the terms and conditions of compound instruments within the other terms and conditions disclosure requirements (ie draft paragraphs 30C–30E of IFRS 7); and

    (b) removing the requirement to disclose the amounts allocated on initial recognition to the liability and equity components.

50. This would simplify and streamline the disclosure requirements and reduce the perceived confusion about duplication, by effectively deleting draft paragraph 17A of IFRS 7.

51. Entities would therefore still be required to disclose the terms and conditions:

    (a) that led to instruments being classified as compound financial instruments; and

    (b) that could lead to a change in the nature of the compound financial instruments, such as conversion features (see paragraph 58(a) of this paper).

52. Furthermore, the staff notes that draft paragraph 30D(b) of IFRS 7 would be applicable to the liability or equity components of the compound financial instruments if the components have cash flow characteristics that are not representative of their classification. This is different from draft paragraphs 30C(a), 30D(a) and 30E(a) of IFRS 7 which apply to the entire compound financial instrument. The staff will clarify this distinction when drafting the final amendments.

Terms and conditions about priority

53. As noted in Agenda Paper 5B for the February 2025 IASB meeting (see paragraphs 37–44 of that paper), to address the concerns of respondents relating to the operational complexity of preparing information about terms and conditions relating to priority on

liquidation, the staff suggested deleting some of the proposed requirements in draft paragraph 30E of IFRS 7 and only requiring disclosure of:

(a) the terms and conditions that could lead to a change in priority (prior to liquidation); and

(b) a description of any intra-group arrangements, such as guarantees, that might affect the priority of these financial instruments.

54. A stakeholder questioned whether intra-group arrangements should be disclosed at the consolidated entity level. In the staff's view, intra-group arrangements that might affect the nature of claims, such as guarantees and collateral agreements should be disclosed in the consolidated financial statements because they affect the claims of external parties. Such guarantees differ from intra-group loan agreements which are eliminated during the consolidation process.

55. A few stakeholders also suggested that factors such as regulatory requirements and intra-group arrangements (for example guarantees) should be considered when preparing the nature of claims disclosures (see paragraph 25(a) of this paper).

56. The staff notes that the information suggested to be retained in draft paragraph 30E of IFRS 7 would provide the additional information requested by stakeholders when considering the nature of claims. The staff therefore recommends retaining the disclosures described in paragraph 53 of this paper.

57. However, for added clarity, the staff thinks the term '*priority*' should be replaced with 'nature' in these disclosure requirements to reflect the change in focus of the terms and conditions on the nature of claims at the reporting date instead of priority on liquidation.

58. In addition, the staff recommends these disclosures be relocated as part of, and to supplement, the 'nature of claims as at the reporting date' disclosures because they provide information about:

(a) contractual terms and conditions that could change the nature of claims. For example, Additional Tier 1 instruments could be written down or converted into ordinary shares upon resolution and compound financial instruments such as a convertible debt may be converted into ordinary shares when the holder exercises its conversion option.

(b) any intra-group arrangements that might affect the nature of claims. For example, if a parent company guarantees a loan granted to one of its subsidiaries, the financial liability is secured. Similarly, a subsidiary might pledge its assets as collateral for a loan granted to a parent company. Such intra-group arrangements are important for users of financial statements because they affect the nature of the claims and may provide useful information about structural subordination.

59. Relocating the disclosures as part of the nature of claims disclosures would also align the scope of these terms and conditions disclosures with the scope of the nature of claims disclosure requirement. In addition, the relocation will also respond to stakeholder feedback on the ED that the level of aggregation of the 'nature and priority of claims' and 'terms and conditions about priority' should be consistent (see paragraph 27(a) of Agenda Paper 5C for the October 2024 IASB meeting).

Maximum dilution of ordinary shares

Summary of feedback from stakeholders including consultative groups

60. Most stakeholders, especially CMAC members, were in favour of the proposed disclosure requirements, including the suggested changes. They said that this disclosure would provide a good overview of the magnitude of possible dilution to ordinary shares and the reasons for the dilution. An ASAF member commented that users of financial statements in their jurisdiction fully understand the differences between the disclosures required by IAS 33 *Earnings per Share* and this proposed disclosure.

61. However, a few stakeholders expressed concerns about providing information about the maximum number of additional ordinary shares that could be issued or worst-case scenarios:

    (a) the worst-case scenario might be either be very unlikely or almost certain to happen, depending on the conversion price so might not have much informational value.

    (b) some financial instruments are not likely to be converted into ordinary shares unless specified events occur (for example, insolvency or resolution) or unless management has no intention to call or redeem those instruments while the entity is a going concern. In their view, the maximum number of shares that could be issued, would be misleading without providing detailed information about the likelihood of conversion occurring.

    (c) ordinary shareholders are not always negatively affected by such arrangements and there could be a material value transfer to the current shareholders. In their view, only instruments that have an unfavourable effect on current ordinary shareholders should be included in the disclosure. For example, Additional Tier 1 instruments may be structured to have a conversion price equal to the prevailing share price with a floor. The existence of the floor would prevent extreme dilution of ordinary shares. Additionally, this would result in a value transfer to the current ordinary shareholders because the instruments would be converted at a much higher price eg if the floor is 80% of the share price at issuance even though the shares would generally have no value when the entity is in resolution.

62. To enhance the usefulness of the information, these stakeholders suggested the IASB require disclosure of information related to the likelihood or probability of dilution—such as current market circumstances and sensitivities of share prices. This would not only alleviate the concern about including the worst-case scenario but would be a more holistic approach because dilution can happen unexpectedly depending on share price movements and market conditions.

63. Furthermore, a few CMAC members said that including share buy-back arrangements could also be misleading if 'commitment to buy shares' is not defined. This is because those arrangements could be subjective and uncertain if there is not a clear explanation of how the entity plans to carry out the share buy-back.

Staff analysis and recommendations

Scope of maximum dilution of ordinary shares disclosures

64. As discussed in Agenda Paper 5D for the October 2024 IASB meeting (see paragraph 99 of that paper), the staff thinks it would be more appropriate to label the disclosure as 'maximum dilution of ordinary shares' to avoid unintended confusion that 'potential' could imply the probability of the dilution should be considered.

65. In addition, based on our analysis in Agenda Paper 5D for the October 2024 IASB meeting (see paragraph 98 of that paper), the staff thinks it is clear that the requirement applies to any contract that could result in the issue of ordinary shares, regardless of whether such a contract is recognised in the financial statements. This would include off-balance sheet commitments such as standby facility agreements where an entity can sell shares to investors up to a specified amount.

Likelihood of maximum dilution of ordinary shares

66. As explained in Agenda Paper 5D for the October 2024 IASB meeting (see paragraph 93 of that paper) and Agenda Paper 5B for the February 2025 IASB meeting (see paragraphs 53–60 of that paper), the staff suggested including examples of contractual terms and conditions that would enable users of financial statements to understand the likelihood that the maximum dilution of ordinary shares might occur.

67. As noted in Agenda Paper 5B for the February 2025 IASB meeting (see paragraph 54 of that paper), the maximum number of additional ordinary shares that could be issued in a worst-case scenario should be regarded as a starting point for further analysis. The purpose of this proposed disclosure requirement was neither to provide

information about the expected or most likely outcome, nor is it intended to serve as a proxy for the valuation of ordinary shares. The requirement was therefore meant to be based on the contractual terms, rather than management's judgement about the likelihood of dilution occurring. Requiring disclosure of the likelihood of dilution or probability of conversion would therefore not be consistent with this purpose.

68. In the staff's view, including some examples of information that entities could provide in the description of the terms and conditions, could alleviate these concerns. For example, to assess whether convertible bondholders are likely to exercise an option to convert, the exercise price or range of exercise prices could be compared to the share price at the reporting date. We therefore think that disclosing the exercise prices or range of exercise prices of a class of convertible bonds could assist users of financial statements in assessing the impact and/or probability of conversion. Additionally, providing information about contingent events, such as events triggering a bank resolution or pre-specified events outlined in the contract, would help users of financial statements understand the circumstances in which dilution could occur.

69. Therefore, the staff recommends the IASB provide examples of terms and conditions an entity can disclose to enable users of financial statements to understand the maximum dilution of ordinary shares and the likelihood of it, such as exercise prices, information about whether instruments are anti-dilutive, the par value of convertible instruments, conversion ratios, descriptions of any contingent events that could affect the conversion ratios. Entities would apply judgement when determining which terms and conditions to disclose to enable users of financial statements to understand the maximum dilution of ordinary shares and the likelihood of it occurring.

Share buy-back arrangements

70. As discussed in Agenda Paper 5D for the October 2024 IASB meeting (see paragraph 97 of that paper), in some cases, the number of shares in share buy-back arrangements may be unknown, especially when share buy-back transactions are subject to a cap on the maximum amount the entity can spend. Therefore, the staff recommends the IASB

require disclosure that the number of shares in share buy-back arrangements is unknown in such cases.

71. The staff notes that a few stakeholders raised concerns that disclosing share buy-back arrangements could be subject to manipulation if 'commitment to buy shares' is not defined. These members observed that such arrangements could be subjective and uncertain unless accompanied by a clear explanation of how the entity plans to achieve them.

72. In draft paragraph 30G(b) of IFRS 7, an entity would be required to disclose a description of *contracts or other commitments* to repurchase ordinary shares and the minimum number of each class of ordinary shares the entity is *required* to repurchase. In the staff's view, the wording in this paragraph is sufficiently clear. If the entity is *required* to repurchase ordinary shares, then this implies a commitment that is a binding agreement, ie it is more than a mere intention or subject to entity discretion. Buy-back commitments are usually given as part of a buy-back programme that sets out the specific terms for example the number of shares, exercise price, dates or maximum amount to be spent.

73. Further, the staff thinks 'commitments' are well understood in practice. IFRS 9 *Financial Instruments* defines a 'firm commitment' as a binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates. Paragraph BCZ2.2 of the Basis for Conclusions on IFRS 9 describes loan commitments as 'firm commitments to provide credit under pre-specified terms and conditions.' Therefore, the staff does not recommend any further changes.

Appendix A—comparison between the ED proposals and the staff's recommendations

A1. This appendix provides a comparison between the disclosure proposals in the ED and the staff's recommendations for the amendments to IFRS 7. Additions to the proposals in the ED are underlined. Deletions from the proposals in the ED are struck through. Please note that this table does not represent the proposed drafting of the amendments.

Topic	Paragraphs in the ED	Disclosure proposals in the ED	Staff's recommendations	Paragraphs in this paper
Scope and general principles	Scope (draft paragraph 3(f) of IFRS 7)	'Puttable instruments and obligations arising on liquidation' classified as equity instruments applying paragraphs 16A–16D of IAS 32 are specifically scoped into IFRS 7 for the purposes of • paragraph 12E about reclassification • paragraph 30I related to puttable instruments	'Puttable instruments and obligations arising on liquidation' classified as equity instruments applying paragraphs 16A–16D of IAS 32 are specifically scoped into IFRS 7 for the purposes of • paragraph 12E about reclassification • paragraph 30I related to puttable instruments • nature of claims disclosures • terms and conditions disclosures	Paragraph 18
	Cross-referencing	N/A	Allow cross-referencing to other documents that are available to users of the financial statements on the same terms as the financial statements and at the same time by including the references to the proposed disclosures (draft paragraphs 30A–30H of IFRS 7) in paragraph B6 of IFRS 7	Paragraph 19
	Application guidance	N/A	Provide application guidance on how to group financial instruments by class	Paragraphs 20–23
Nature and priority of	General	Title: Nature and priority of claims on liquidation, arising from financial instruments	Title: Nature ~~and priority~~ of claims ~~on liquidation~~, arising from financial instruments as at the reporting date	Paragraphs 40–45

claims on liquidation, arising from financial instruments	Scope (draft paragraph 30A of IFRS 7)	Scope in all financial liabilities and equity instruments within the scope of IAS 32	Scope in ~~all financial liabilities and equity instruments within the scope of IAS 32~~ • non-derivative financial liabilities in the scope of IFRS 7 liquidity risk disclosures • non-derivative equity instruments that are issued	Paragraphs 28–39
	Disclosures (draft paragraph 30B of IFRS 7)	Disclose the carrying amounts of each class of claims arising from financial instruments that are in scope by distinguishing: • in its separate and consolidated financial statements, secured and unsecured claims and contractually subordinated and unsubordinated claims • in its consolidated financial statements, instruments issued by the parent and those issued by subsidiaries	Disclose the carrying amounts of each class of claims arising from financial instruments that are in scope by distinguishing based on the contractual terms at the reporting date: • in its separate and consolidated financial statements, secured and unsecured claims and contractually subordinated and unsubordinated claims • in its consolidated financial statements, instruments issued by the parent and those issued by subsidiaries	Paragraphs 40–45
Terms and conditions	Scope (draft paragraphs 30C and B5F of IFRS 7)	Provide information about financial instruments with both financial liability and equity characteristics: • equity instruments with debt-like characteristics have terms and conditions that result in fixed or determinable amounts, incentive to pay fixed or determinable amounts • financial liabilities with equity-like characteristics have terms and conditions that result in variable	Provide information about financial instruments (including components of compound financial instruments) with both financial liability and equity characteristics: • equity instruments (or equity components) with debt-like characteristics have terms and conditions that result in fixed or determinable amounts, incentive to pay fixed or determinable	Paragraphs 47–52

		or indeterminable amounts, loss-absorption, subordination, avoiding transferring cash for a specified period of time, settlement by transferring own equity instruments (including issuer has a choice to settle in cash or shares under indirect obligations)	amounts • financial liabilities (or financial liability components) with equity-like characteristics have terms and conditions that result in variable or indeterminable amounts, loss-absorption, ~~subordination~~, avoiding transferring cash for a specified period of time, settlement by transferring own equity instruments where the ~~(including~~ issuer has a choice to settle in cash or shares under indirect obligations~~)~~	
	Disclosures for financial instruments with both financial liability and equity characteristics (draft paragraph 30D–30E of IFRS 7)	Disclose the terms and conditions of the financial instrument that determine its classification and cash flow characteristics that are not representative of the classification as a financial liability or equity instrument but that are relevant in understanding the nature of those financial instruments	Disclose the terms and conditions of the financial instrument (including compound financial instrument) that determine its classification and cash flow characteristics that are not representative of the classification as a financial liability (or financial liability component) or equity instrument (or equity component) but that are relevant in understanding the nature of those financial instruments	Paragraphs 47–52
		Disclose information for understanding priority on liquidation: • the terms and conditions of financial instruments that indicate their priority on liquidation, including those that could lead to a change in priority on liquidation (for example conversion or contingent features) • information about multiple levels of contractual subordination in a class of financial instruments	Disclose information for understanding ~~priority on liquidation~~ the nature of claims as part of the ‘nature of claims’ disclosures (draft paragraphs 30A–30B of IFRS 7): • the terms and conditions of financial instruments (including compound financial instruments) ~~that indicate their priority on liquidation, including those~~ that could lead to a change in nature ~~priority on liquidation~~ (for example conversion or contingent features)	Paragraphs 49–59

		• information about any significant uncertainty about how laws or regulations could affect their priority on liquidation • a description of any intra-group arrangements, such as guarantees, that might affect the priority of these instruments on liquidation of the entity that has issued them	• ~~information about multiple levels of contractual subordination in a class of financial instruments~~ • ~~information about any significant uncertainty about how laws or regulations could affect their priority on liquidation~~ • a description of any intra-group arrangements, such as guarantees, that might affect the nature of the claims ~~priority of these instruments on liquidation of the entity that has issued them~~	
	Disclosures for compound financial instruments (draft paragraph 17A of IFRS 7)	For compound financial instruments, disclose • the terms and conditions of the instrument that determine its classification • the amounts allocated on initial recognition to the liability and equity components in the reporting period in which the financial instrument is initially recognised	~~For compound financial instruments, disclose~~ • ~~the terms and conditions of the instrument that determine its classification~~ • ~~the amounts allocated on initial recognition to the liability and equity components in the reporting period in which the financial instrument is initially recognised~~	Paragraphs 49–52
Potential dilution of ordinary shares	General	Title: Potential dilution of ordinary shares	Title: Maximum ~~Potential~~ dilution of ordinary shares	
	Scope (draft paragraph 30G of IFRS 7)	Scope in all financial instruments issued at the reporting date that could result in the dilution of the entity's ordinary shares	Scope in all ~~financial instruments issued~~ contracts entered into at the reporting date (including off-balance sheet commitments such as standby facility agreements) that could result in the dilution of the entity's ordinary shares	Paragraph 65

	Disclosures (draft paragraph 30G of IFRS 7)	Disclose the maximum dilution of ordinary shares: • the maximum number of additional ordinary shares the entity might be required to deliver for each class of potential ordinary shares • a description of contracts or other commitments to repurchase ordinary shares and the minimum number of each class of ordinary shares the entity is required to repurchase • a description of the causes of any important changes from the prior reporting period • a description of the terms and conditions of contracts that are relevant in understanding the likelihood of the maximum dilution of ordinary shares	Disclose the maximum dilution of ordinary shares: • the maximum number of additional ordinary shares the entity might be required to deliver for each class of potential ordinary shares • a description of contracts or other commitments to repurchase ordinary shares and the minimum number of each class of ordinary shares the entity is required to repurchase <u>or the fact that the number of shares in share buy-back arrangements is unknown when there is a cap on the maximum spend amount</u> • a description of the causes of any important changes from the prior reporting period • a description of the terms and conditions of contracts that are relevant in understanding <u>the maximum dilution of ordinary shares and</u> the likelihood of ~~the maximum dilution of ordinary shares~~ <u>it occurring, such as the exercise prices, information about whether instruments are anti-dilutive, the par value of convertible instruments, conversion ratios and descriptions of any contingent events that could affect the conversion ratios</u>	Paragraphs 66–73