FASB | IASB Education Meeting

Date	**3 October 2025**
Project	**Financial Instruments with Characteristics of Equity**
Topic	**Update on the project**
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Purpose of these slides

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

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

Background information

Project overview

Objectives

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

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

* Date subject to the project progressing as planned.

** The IASB made tentative decisions on these topics

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Overview of feedback on the ED proposals

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

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

* Agenda Paper 5 for the May 2024 IASB meeting includes further details

Proposed presentation requirements

IASB tentative decisions

Illustrative presentation

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

No separate presentation requirements for the statement of financial position and statement of changes in equity

- Ordinary share: same meaning as used in IAS 33 *Earnings per Share* and the Glossary—'an equity instrument that is subordinate to all other classes of equity instruments'
- Participating right: right to participate in profit or loss with ordinary shares—amount varies based on the entity's profit or loss for the period
- Non-participating right: right to contractually specified amounts (for example, fixed dividends or coupons) before determining amounts allocated to ordinary shareholders and participating rights holders
- If an equity instrument has both participating and non-participating rights—present amounts allocated in both line items for participating and non-participating rights holders

IASB tentative decision—additional disclosure requirements

To enhance usefulness of amounts presented in the statement of profit or loss, disclose:

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

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

Proposed disclosure requirements

New disclosures—proposed amendments to IFRS 7

Terms and conditions

- Scope: financial instruments with both financial liability and equity characteristics (incl. compound instruments and excl. stand-alone derivatives)
- Disclose:
  - terms and conditions that determine classification
  - cash flow characteristics that are not representative of classification

1 Slides 11–14

Nature of claims

- Scope: non-derivative financial liabilities in the scope of IFRS 7 liquidity risk disclosures and non-derivative issued equity instruments
- Disclose:
  - nature of claims based on contractual terms at reporting date
  - terms and conditions that could change nature of claims
  - intra-group arrangements that might affect nature of claims

2 Slides 15–16

Maximum dilution

- Scope: all contracts entered into at reporting date that could result in dilution of ordinary shares
- Disclose:
  - maximum number of additional ordinary shares
  - reduced by minimum number of ordinary shares for repurchase

3 Slides 17–19

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

1 Scope of terms and conditions disclosure

Equity instruments with debt-like characteristics

Provide information about equity instruments (or equity components) with debt-like characteristics:

- fixed or determinable amounts
- incentives to pay fixed or determinable amounts

Financial liabilities with equity-like characteristics

Provide information about financial liabilities (or financial liability components) with equity-like characteristics:

- variable or indeterminable amounts
- loss-absorption
- avoiding transferring cash for a specified period of time
- settlement by transferring own equity instruments where the issuer has a choice to settle in cash or shares under indirect obligations

1 Terms and conditions illustrative disclosure

Perpetual subordinated notes

Financial instruments grouped by 'class'
(eg shared characteristics)

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

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

1 Terms and conditions illustrative disclosure

Disclose debt-like features in equity instruments

Coupon

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

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

1 Terms and conditions illustrative disclosure

Disclose debt-like features in equity instruments

Redemption option

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

Classification

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

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

2 Nature of claims illustrative disclosure

Nature of claims

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

Disclose carrying amounts of each class of claims, distinguishing based on the contractual terms at the reporting date:

- secured and unsecured claims
- contractually subordinated and unsubordinated claims
- instruments issued by the parent and issued by subsidiaries

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

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2 Nature of claims illustrative disclosure

Potential changes in nature—perpetual notes

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

Intra-group arrangements—subordinated liabilities

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

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

3 Maximum dilution illustrative disclosure

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

Disclose maximum number might be required to deliver for each class of potential ordinary shares

Examples of information entities could disclose to increase understanding of information

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3 Maximum dilution illustrative disclosure

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

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

3 Maximum dilution illustrative disclosure

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

Disclose 'unknown' where number of shares is unknown

Disclose a description of contracts and commitments to repurchase ordinary shares and the minimum number of each class of ordinary shares required to repurchase

Proposed disclosure requirements for eligible subsidiaries

New disclosures—proposed amendments to IFRS 19

Principles for reducing disclosures	Proposed amendments to IFRS 19

• IFRS 19 permits eligible subsidiaries* to apply IFRS Accounting Standards with reduced disclosure requirements
 	
• The IASB considers cost–benefit and applies the principles for reducing disclosure requirements:
  ○ liquidity and solvency
  ○ short-term cash flows, obligations, commitments and contingencies
  ○ measurement uncertainty
  ○ disaggregation of amounts
  ○ accounting policy choices
	• Disclosures that eligible subsidiaries would be required to disclose
	  ○ disclosures related to the presentation of equity instruments (see slide 8)
	  ○ terms and conditions (see slides 11–14)
	  ○ nature of claims (see slides 15–16)
	
	• Maximum dilution disclosures would not be required for eligible subsidiaries

* A subsidiary is an eligible subsidiary if (i) it does not have public accountability and (ii) it has an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Accounting Standards

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

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