Staff paper

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IASB® meeting

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Project	**Financial Instruments with Characteristics of Equity (FICE)**
Topic	**Proposed amendments—reclassification of financial liabilities and equity instruments**
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Introduction

1. At the July 2025 IASB meeting, the IASB discussed the feedback from comment letters and outreach on the proposed requirements related to reclassification of financial liabilities and equity instruments in the Exposure Draft *Financial Instruments with Characteristics of Equity* (the ED) issued in November 2023.

2. In this paper the staff analyses the stakeholder feedback and considers potential refinements to the proposed requirements on reclassification of financial liabilities and equity instruments.

3. At this meeting we will ask the IASB whether it agrees with the staff recommendations for the proposed amendments to IAS 32 *Financial Instruments: Presentation* related to reclassification of financial liabilities and equity instruments requirements.

4. This paper is structured as follows:

    (a) summary of staff recommendations;

    (b) questions for the IASB; and

(c) staff analysis and recommendations.

Summary of staff recommendations

5. The staff recommends that the IASB proceed to finalise the amendments related to reclassification of financial liabilities and equity instruments, subject to some targeted refinements:

   (a) clarify that the reclassification requirements would only apply to changes in the substance of a contractual arrangement that occur without:

      (i) creation or extinguishment of contractual rights or obligations; or

      (ii) modification to the contractual terms.

   (b) further clarify that 'circumstances external to the contractual arrangement' are events that:

      (i) arose subsequent to classifying a financial instrument; and

      (ii) are not expected to occur frequently, are significant to the entity's operations and demonstrable to external parties.

   (c) require an entity to reclassify a financial instrument containing an obligation to deliver own equity instruments from financial liability to equity when the substance of the contractual arrangement changes due to a contractual term ceasing to be effective with the passage of time.

Questions for the IASB

Questions for the IASB
Do you agree with the staff's recommendations on the proposed reclassification requirements as summarised in paragraph 5 of this paper?

Staff analysis and recommendations

6. In Agenda Paper 5B of the July 2025 IASB meeting, the staff summarised the stakeholder feedback on the proposed requirements related to reclassification of financial liabilities and equity instruments in the ED.

7. The staff acknowledges general support from stakeholders for the objectives of the proposed reclassification requirements. Based on the stakeholder feedback, the staff continues to believe that the reclassification proposals in the ED are directionally sound and would generally provide clarity on *when* and *how* reclassifications between financial liabilities and equity instruments would occur, thereby reducing diversity in practice.

8. The main concerns raised by the stakeholders included:

   (a) the interaction between the reclassification proposals and other requirements in IFRS Accounting Standards such as the derecognition requirements in IFRS 9 *Financial Instruments* (see paragraphs 15-22 of this paper for the staff analysis);

   (b) the meaning and scope of 'circumstances external to the contractual arrangement' (see paragraphs 23-30 of this paper for the staff analysis); and

   (c) the reclassification prohibition from financial liability to equity when the substance of the contractual arrangement changes due to a contractual term becoming or ceasing to be effective with the passage of time ('passage-of-time changes') (see paragraphs 31-52 of this paper for the staff analysis).

9. The comments and concerns raised by respondents have highlighted the need to clarify what constitutes a reclassification and the need to consider the types of changes that would require reclassification. The staff is of the view that targeted refinements to the reclassification proposals would increase stakeholders' understanding of the proposed reclassification requirements and increase consistent application across entities.

Objective of the reclassification proposals

10. The IASB's objective with the proposals on reclassification of financial liabilities and 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.

11. The absence of general requirements in IAS 32 on reclassification has led to diversity in practice regarding (i) whether an entity must reassess the classification after initial recognition and (ii) the accounting treatment if reassessment is required. The IASB therefore decided to develop principles for reclassification of financial instruments when the contractual terms are not modified.

12. The IASB's starting point when developing the proposals in the ED was the premise that reclassification after initial recognition is generally prohibited. This is consistent with the requirements in paragraph 4.4.2 of IFRS 9 which states that an entity shall not reclassify any financial liability. Furthermore, the IASB noted that paragraph 96B of IAS 32 notes that the requirements in paragraph 16A–16F of that Standard introduced a limited scope exception—which includes the requirements to reclassify particular instruments under specified circumstances. Paragraphs BC136 and BC137 of the Basis

for Conclusions on the ED explain the rationale for an approach that would generally prohibit reclassification.[1]

13. In developing the proposed reclassification requirements, the IASB considered two alternative approaches which would be less prohibitive. In the one alternative reclassification would be required for all changes in the substance of the contractual arrangement. In the other alternative, reclassification would be generally prohibited unless the substance of the contractual arrangement changes due to a change in circumstances external to the contractual arrangement. The Board tentatively decided to propose the latter approach because it would provide an appropriate balance between the benefits to users of financial statements and the costs to preparers, as well as take into account the project's scope.

14. Furthermore, the IASB intended to apply the reclassification requirements only to changes in the classification of issued financial instruments after initial recognition—not when the requirements are met for the derecognition, recognition or modification of financial liabilities or equity instruments. This scope limitation was explained in paragraph BC128 of the Basis for Conclusions on the ED.[2]

What is a reclassification of financial liabilities and equity instruments

15. The stakeholder feedback evidenced misunderstandings of what constitutes a reclassification and how a reclassification differs from derecognition and recognition. A number of comments indicated:

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[1] Paragraph BC136 of the Basis for Conclusions on the ED notes that the approach that would generally prohibit reclassification is based on a view that the requirements in IAS 32 are intended to generally prohibit subsequent reclassification of a financial instrument. Paragraph BC137 of the Basis for Conclusions on the ED further explains that this intention of generally prohibiting reclassification is supported by the requirements in paragraphs 16E–16F of IAS 32 that set out specific requirements that apply to the reclassification of puttable instruments and instruments that impose an obligation on an entity to deliver to another party a pro rata share of the net assets of the entity only on liquidation, if those instruments meet specified criteria. One of the reasons the Board added paragraph 96B of IAS 32, which states that the puttable instruments and obligations arising on liquidation exception cannot be applied by analogy, was to avoid it being used for reclassifications in other cases.

[2] Paragraph BC128 of the Basis for Conclusions on the ED explains that reclassification refers to a change in the classification of an issued financial instrument if:

(a) the requirements for derecognition of a financial instrument are not met;

(b) the entity has not become a party to a new contract to be recognised; and

(c) the nature of the obligation has substantially changed without any modification to the contractual terms.

(a) a perceived inconsistency between:

(i) the reclassification proposals that prohibit reclassification from financial liability to equity when an obligation no longer exists; and

(ii) the IFRS 9 derecognition requirements;[3] and

(b) a perceived prohibition of recognising a financial liability when a new obligation arises during the life of a financial instrument.

16. When a financial instrument is reclassified from the issuer's perspective, there is a change in its classification. For example, a financial instrument that was previously classified as a financial liability is subsequently classified as an equity instrument (or vice versa). The staff acknowledges that, on the face of it, a change in classification might appear similar to derecognition of one financial instrument and the recognition of a new financial instrument. However, in our view it is important to emphasise again that reclassification is **not** akin to derecognition and re-recognition.

17. As discussed in Agenda Paper 5 of the March 2022 IASB meeting (see paragraphs 40-41 of that paper), reclassification would arise when a financial instrument continues to exist albeit in a different form. A reclassification of an existing financial instrument would not involve the recognition of a new financial instrument. Reclassification is a way to reflect that the nature of the financial instrument has substantially changed.

18. This is confirmed through the reclassification requirements for financial assets in IFRS 9 being completely separate from any requirements relating to recognition and derecognition of financial assets. That is also why no gains or losses are recognised in profit or loss upon reclassification as opposed to modifications or derecognition and re-recognition scenarios.

[3] Paragraph 3.3.1 of IFRS 9 requires an entity to remove a financial liability (or a part of a financial liability) from its statement of financial potion when, and only when, it is extinguished—ie when the obligation specified in the contract is discharged or cancelled or expires.

19. The staff notes that various types of changes in the substance of contractual arrangements could occur subsequent to initial recognition of financial liabilities and equity instruments, including:

(a) contractual terms are renegotiated or modified.

(b) new contractual obligations arise during the life of an existing instrument through specific actions of the issuer, eg when an entity declares dividends (paragraph AG13 of IAS 32) or exercises its call option on an equity instrument (paragraph AG25 of IAS 32).[4&5]

(c) contractual rights or obligations cease to exist during the life of an instrument with the passage of time or due to an action of the issuer, for example:

(i) a contractually specified contingent event occurring/not occurring within a specified period of time.

(ii) a redemption feature or a written put option expires after a specified date.

(iii) a conversion right into a fixed number of ordinary shares expires after a specified date.

(iv) a linked obligation expires through the specific actions of the issuer. For example, an entity issues a financial instrument ('base instrument') with contractual terms that require dividend payments when mandatory interest payments are made on another instrument that has already been issued ('linked instrument'). If the linked instrument is redeemed, the base instrument ceases to impose any obligations on the entity.

[4] Paragraph AG13 of IAS 32 explains that an issuer of non-puttable ordinary shares assumes a liability when it formally acts to make a distribution and becomes legally obliged to the shareholders to do so. This may be the case following the declaration of a dividend or when the entity is being wound up and any assets remaining after the satisfaction of liabilities become distributable to shareholders.

[5] Paragraph AG25 of IAS 32 clarifies that an obligation may arise when an issuer exercises its call option to redeem preference shares for cash, although this call option does not initially give rise to a financial liability. Specifically, an obligation may arise when the issuer exercises its option to redeem its preference shares, usually by formally notifying the shareholders of an intention to redeem the shares.

(d) the substance of the contractual arrangement changes without any modifications to the contractual terms being made and without creation or extinguishment of contractual rights or obligations, for example, due to changes in the entity's functional currency or the number of shares to settle a contract becoming fixed after a specified date.

20. The staff notes that the circumstances in paragraph 19(a) and 19(b) of this paper relate to the modification and/or recognition and derecognition requirements in IFRS 9 and are not in the scope of this project. Therefore, we do not further analyse these circumstances. The staff notes that the circumstances in paragraph 19(c) of this paper relate to the derecognition assessment and are also not in the scope of this project. However, some stakeholders questioned whether they could result in a reclassification. The staff explains why some of these circumstances are not in the scope of the reclassification requirements in paragraphs 38–41 of this paper.

21. The circumstances described in paragraph 19(d) of this paper are in the scope of this project and were considered by the IASB when developing the proposals in the ED.

22. To ensure consistency in stakeholders' understanding of the requirements, the staff recommends the IASB clarify that the reclassification requirements would apply only to changes in the substance of a contractual arrangement that occur without:

(a) creation or extinguishment of contractual rights or obligations; or

(b) modification to the contractual terms.

Reclassification for changes in external circumstances

23. The ED proposed that an entity would reclassify financial liabilities or equity instruments if the substance of the contractual arrangement changes because of a change in circumstances external to the contractual arrangement. While most stakeholders agreed with this proposal, many questioned the meaning and scope of

'external circumstances' (see paragraphs 14–18 of Agenda Paper 5B for the July 2025 IASB meeting).

24. Draft paragraph 32C of IAS 32 in the ED explains that changes in circumstances external to the contractual arrangement arise from events that are not specified in the contract and therefore have not been considered in classifying the financial instrument on initial recognition. Such events are not specific to a particular instrument, but would affect an entity's business activities and operations more broadly, for example, a change in an entity's functional currency or a change in an entity's group structure.

25. The staff acknowledges questions from stakeholders about whether events or circumstances such as changes in laws or regulations could be considered as changes in external circumstances.

26. The staff however notes that although a change in functional currency and a change in the group structure were mentioned as examples, the IASB's intention was not to limit external circumstances to only these two circumstances. During our engagement with stakeholders that led to the proposals in the ED, these were the two scenarios most commonly raised by stakeholders. For this reason, draft paragraph AG35A of IAS 32 in the ED used these examples to illustrate the type of circumstances that would require reclassification.

27. The staff thinks that changes in laws or regulations might also represent changes in external circumstances if the change meets the criteria in draft paragraph 32C of IAS 32. This would be consistent with paragraph 9 of IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments*, which requires that a change in the redemption prohibition imposed by local law, regulation or the entity's governing charter leads to a transfer between financial liabilities and equity.[6]

[6] Paragraph 9 of IFRIC 2 states: 'An unconditional prohibition may be absolute, in that all redemptions are prohibited. An unconditional prohibition may be partial, in that it prohibits redemption of members' shares if redemption would cause the number of members' shares or amount of paid-in capital from members' shares to fall below a specified level. Members' shares in excess of the prohibition against redemption are liabilities, unless the entity has the unconditional right to refuse redemption as described in paragraph 7 or the members' shares have all the features and meet the conditions in paragraphs 16A and 16B or paragraphs 16C and 16D of IAS 32. In some cases, the number of shares or the amount of paid-in capital

28. With regard to stakeholders' requests to clarify the meaning of 'circumstances external to the contractual arrangement', we think the proposed requirements were already clear that such circumstances are not directly attributable to terms specified in the contract. This means that changes related to contractually-specified contingent events and changes related to the issuance or redemption of particular instruments referred to in the contract, would not be regarded as changes in external circumstances. Events or actions that are specified in the contract and the effects of which are confined to a particular instrument—without influencing the entity's broader business activities—do not constitute circumstances external to the contractual arrangement.

29. However, to ensure consistent understanding of the proposed requirements, the staff recommends that the IASB further clarify that 'circumstances external to the contractual arrangement' are events that:

    (a) arose subsequent to classifying a financial instrument. In other words, if these circumstances existed at the date of classification, an instrument would have been classified differently.

    (b) are not expected to occur frequently, are significant to the entity's operations and demonstrable to external parties. This description is similar to the description in paragraph B4.4.1 of IFRS 9 for reclassifying financial assets when the business model changes.

30. We think that these clarifications would address concerns that the requirement to identify which external circumstances were considered upon classification and to monitor changes in those circumstances is burdensome. We also think the clarifications would indicate that the IASB does not expect a financial instrument to be reclassified more than once during its contractual life.

subject to a redemption prohibition may change from time to time. Such a change in the redemption prohibition leads to a transfer between financial liabilities and equity.'

Reclassification for 'passage-of-time' changes

31. As noted in paragraphs 19–23 of Agenda Paper 5B for the July 2025 IASB meeting, many stakeholders raised concerns about not requiring or not allowing reclassification from financial liabilities to equity instruments when the underlying obligations no longer exist because a contractual term starts or stops being effective with the passage of time. They said not requiring or not allowing reclassification in such cases would cause a disruption in practice, given many have adopted accounting policies to reclassify for passage-of-time changes.

32. The IASB previously discussed, as noted in paragraph 11 of this paper, that there are no general reclassification requirements in IAS 32, which has contributed to diversity in practice developing. Therefore, any attempts to clarify the underlying principles in IAS 32 to reduce diversity in practice would invariably lead to some entities having to change their accounting policies.

33. However, the staff acknowledges that continuing to classify a financial instrument as a financial liability when the contractual terms that gave rise to such classification no longer affect for example, the variability of future cash flows of the instrument, would not necessarily provide useful information to users of financial statements. The staff therefore considered whether the proposed reclassification requirements could be extended to contractual terms that are affected by the passage of time.

34. The staff considered that the contractual terms of many financial instruments may place multiple obligations on an entity, but not all obligations result in an instrument being classified as a financial liability. For example, an entity might have an obligation to deliver its own shares to another entity, but whether that obligation is classified as a financial liability or equity instrument depends on the nature of the obligation (such as the number of shares or circumstances under which the shares have to be delivered).

35. We can illustrate this distinction by contrasting:

(a) instruments containing contractual settlement obligations to deliver cash or another financial asset; and

(b) instruments containing contractual settlement obligations to deliver the entity's own equity instruments.

36. Stakeholders were concerned that the ED's wording would preclude derecognition even when an obligation to deliver cash had clearly expired. As noted in paragraphs 16–18 of this paper, reclassifying a financial liability is not equivalent to derecognising a financial liability. Therefore, we think it is important to only consider those passage-of-time events that do not lead to the derecognition of the financial liability; in other words, the event subject to the passage of time alters only the nature of the entity's obligation but does not extinguish it.

37. The staff therefore emphasises that:

(a) obligations in paragraph 35(a) of this paper are outside the scope of the reclassification requirements—their extinguishment would be assessed for derecognition in accordance with paragraph 3.3.1 of IFRS 9 (see paragraphs 38-41 of this paper); and

(b) obligations in paragraph 35(b) of this paper would be within the scope of the reclassification requirements—their classification may change, eg when the contractual obligation meets the fixed-for-fixed condition after a specified period of time, without any new or extinguished contractual rights or obligations (see paragraphs 42-52 of this paper).

Extinguishment of obligations to deliver cash or another financial asset

38. Common examples of such circumstances include when a redemption option held by the holder expires unexercised or a contingent obligation is removed due to a contingent event specified in the contract not occurring within a specified period of time.

39. The staff notes that these features are typically included in financial instruments alongside other features and therefore are likely to be compound financial instruments with both a liability component (for example, a written put option or obligation to pay cash if the specified contingent event occurs) and an equity component (for example, discretionary dividends). If the written put option is not exercised or the specified contingent event does not occur within the specified period of time, the entity's obligation to deliver cash is extinguished, ie the liability component is derecognised, while the original equity component continues to exist over the life of the instrument. This is not a case of the nature of the obligation changing; the obligation is extinguished.

40. The staff acknowledges that a few stakeholders said that derecognising the liability component as described in paragraph 39 of this paper, would result in the recognition of gains in profit or loss without being representative of the economic substance of the transaction.[7] They said they would prefer such circumstances to be accounted for as a reclassification where no gain is recognised in profit or loss—ie the carrying amount of the liability component is transferred to equity.

41. However, the staff disagrees with this view—the extinguishment of the liability component represents the economic substance because the entity no longer has an obligation to deliver cash. As noted in paragraph 20 of this paper, the derecognition of financial liabilities is outside the scope of this project.

Obligation to deliver own equity instruments

42. In contrast to the extinguishment of obligations to deliver cash or another financial asset (as discussed in paragraphs 38-41 of this paper), the staff thinks that, with regard to financial instruments containing obligations to deliver an entity's own equity

[7] Paragraph 3.3.3 of IFRS 9 requires an entity to recognise, in profit or loss, the difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid.

instruments, a change in the substance of the contractual arrangement could arise if a contractual term ceases to be effective with the passage of time.

43. The staff considered an example of a convertible bond where the number of shares into which the bond will convert if the option is exercised, is variable until the date specified in the contract when the exercise price becomes fixed. In this case, after the specified date, the obligation to deliver the entity's own shares remains outstanding, but the contractual term that gave rise to financial liability classification ceases to be effective. From that date, although the entity still has an obligation to deliver its own equity instruments, there will be no variability with regard to the number of shares to be delivered (similar to a conversion option which satisfies the fixed-for-fixed condition in paragraph 16 of IAS 32).

44. The staff previously assessed the merits of requiring reclassification for such changes (see Agenda Papers 5A and 5B of the June 2022 IASB meeting). We agree with the stakeholder feedback that requiring reclassification for the above example has many benefits such as:

    (a) better reflecting the substance of the contractual obligation at the reporting date which enhances information for users of financial statements. When the conversion ratio becomes fixed, the derivative no longer meets the definition of a financial liability (because the contractual terms that resulted in this classification no longer apply) and the fixed-for-fixed condition for equity classification is met. The nature of the obligation is therefore substantially changed from an obligation to deliver a variable number of shares (being a financial liability) into an obligation to deliver a fixed number of shares (being an equity instrument). The classification as financial liability or equity instrument will affect key ratios used by investors in their analyses such as leverage or return on equity thus reclassification would provide more useful information to users of financial statements. Reclassification to reflect the substance of the contractual arrangement over its remaining life would also improve comparability with similar instruments.

(b) not causing too much disruption to practice. Many entities have already reclassified financial instruments to reflect such changes in the substance of the contractual arrangement.

(c) not requiring significant costs to implement because such a financial instrument would not be subject to any remeasurement requirements as it was before reclassification. For example, a derivative that is reclassified from financial liability to equity, would not require ongoing fair value measurement through profit or loss.

45. The staff also heard feedback from many stakeholders (through comment letters and outreach) that assessing at each reporting date, whether the contractual terms cease to be effective with the passage of time, would not add significant cost or effort to preparers. Therefore, the staff is of the view that the benefits of requiring reclassification for such changes would likely outweigh any incremental costs of applying the requirements.

46. The staff also considered the examples mentioned by stakeholders (see Agenda Paper 5B of the July 2025 IASB meeting) of circumstances in which financial instruments should be reclassified from equity to financial liabilities. However, the staff thinks that most of these cases would either involve new or extinguished contractual rights or obligations rather than continuing obligations. These examples would therefore not be in the scope of the proposed reclassification requirements.

Symmetrical vs asymmetrical reclassification

47. The staff considered the initial views expressed by some IASB members during the July 2025 IASB meeting that reclassification should be symmetrical, in other words, financial instruments should not only be reclassified from financial liabilities to equity, but also from equity to financial liabilities.

48. However, we note the IASB's observations when developing the requirements in paragraphs 16A–16F of IAS 32 pertaining to puttable instruments and obligations

arising on liquidation. At the time, the IASB noted that one of the costs and risks of introducing exceptions to the definition of a financial liability, is the structuring opportunities that might result (as explained in paragraph BC72 of the Basis for Conclusions on IAS 32). The IASB concluded that in the case of puttable instruments and obligations arising on liquidation, financial structuring opportunities are minimised by the detailed criteria required for equity classification.

49. We are of the view that the same considerations about the need to minimise structuring opportunities would apply in this case. Requiring symmetrical reclassification would require a fundamental change to the underlying classification principles in IAS 32. This is because the principles in IAS 32 require classification of financial instruments based on **all** contractual terms over the life of an instrument. In other words, if there are any contractual terms that could give rise to a financial liability over the remaining life of the instrument, the instrument is classified as a financial liability. Therefore, such an instrument would not be classified as equity in the first place.

50. To require symmetrical reclassification would require classification on initial recognition to be based, not on all contractual terms, but only those that are effective at that date. In our view, this would not only represent a fundamental change to the requirements in IAS 32 (which would be inconsistent with IASB's objective with this project), but would also give rise to significant risk of unintended consequences in the form of structuring opportunities. In addition, it would also be inconsistent with the requirements in IFRS 9 which consider all contractual terms over the life of the instrument when classifying financial assets.

51. We are therefore of the view that the reclassification requirements apply only in one direction–from a financial liability to an equity instrument. Any contractual terms over the remaining contractual life that could result in a future outflow of cash (eg net cash settlement) or variability in the number of shares to be delivered, would result in classification as a financial liability.

Staff conclusion

52. In light of the benefits outlined in paragraph 44 of this paper and subject to the discussion in paragraphs 45–51 of this paper, the staff recommends that the IASB refine the proposed requirements in the ED to require reclassification of a financial instrument containing an obligation to deliver own equity instruments from financial liability to equity when the substance of the contractual arrangement changes due to a contractual term ceasing to be effective with the passage of time. This would improve faithful representation of the financial instrument and reflect the substance of the contractual arrangement at the reporting date.

Measurement on and timing of reclassification

53. As all stakeholders that provided feedback on the measurement requirements pertaining to a reclassification, agreed with the proposals, the staff recommends finalising these requirements without change.

54. With regard to the timing of reclassification, we note that most stakeholders agreed with the proposal to reclassify instruments prospectively from the date when a change in circumstances occurs and did not anticipate any practical difficulties.

55. Although a few stakeholders suggested allowing reclassification at the end of the reporting period if the exact date of change is indeterminable, the staff thinks this is unnecessary. Reclassification of financial liabilities and equity instruments would be triggered either by demonstrable external circumstances, or in the case of financial liabilities containing obligations to deliver own equity instruments, when contractual terms cease to be effective with the passage of time (see paragraph 52 of this paper).

56. These types of events or circumstances typically occur on an exact date which is inherently determinable or needs to be determined for applying other IFRS Accounting Standards such as IAS 21 *The Effects of Changes in Foreign Exchange Rates* or IFRS 10 *Consolidated Financial Statements*. In addition, we think requiring reclassifications at the end of the reporting period, would result in the usefulness of

information provided to users of financial statements being dependent on the frequency of an entity's external reporting. We continue to agree with the reasons stated in paragraph BC155 of the Basis for Conclusions on the ED which explains the IASB's rejection of such an approach.[8]

57. Therefore, the staff recommends that the IASB proceed with the proposed timing requirements for reclassifying financial liabilities and equity instruments.

Other feedback and clarifications

58. A few stakeholders noted that the reclassification proposals would not address some practical issues they encountered, such as contract modifications to equity or compound instruments, and holders' accounting for financial assets upon reclassifications by the issuer.

59. As noted in Agenda Paper 5 of the March 2022 IASB meeting, modifications to the contractual terms of a financial instrument are outside the scope of this project. Instead, the IASB's focus is on changes in the substance of the contractual arrangement without a modification to the contract, which is the area to which most practice questions relate. Similarly, the objective of the FICE project is to improve information entities provide in their financial statements about financial instruments they have issued and to address challenges with applying IAS 32. Addressing the holder's accounting would therefore be outside the scope of the FICE project.

[8] Paragraph BC128 of the Basis for Conclusions on the ED states: 'The Board discussed but rejected the approach in paragraph BC150(d) requiring reclassification at the date of the change in circumstances if that date is determinable, or, if not, at the end of the reporting period. Applying that approach, reclassification at the end of the reporting period would be expressed as a 'backstop' if an entity could not determine the date of the change in circumstances. Allowing a 'backstop' would be too subjective and it would be difficult to achieve consistent application in practice using such an approach.'