IASB® meeting

Date	**September 2025**
Project	**Financial Instruments with Characteristics of Equity (FICE)**
Topic	**Proposed amendments—shareholder discretion**
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Background and purpose of the paper

1. In this paper the staff analyses the feedback from comment letters and outreach on the proposals about shareholder discretion that are detailed in Agenda Paper 5B for this meeting.

2. The staff also recommends refinements to the proposed requirements and will ask whether the IASB agrees with the staff recommendations for the proposed amendments to IAS 32 *Financial Instruments: Presentation* related to shareholder discretion.

3. The paper is structured as follows:
    (a) summary of staff recommendations;
    (b) question for the IASB;
    (c) staff analysis and recommendations on:
        (i) objectives of the proposals and overall feedback;
        (ii) specific feedback on the factors-based approach;
        (iii) requests to clarify other matters;
        (iv) requests for illustrative examples; and

(v) other suggestions.

Summary of staff recommendations

4. The staff recommends that the IASB finalise the proposed factors-based approach for assessing at initial recognition whether shareholder decisions are treated as entity decisions, subject to minor drafting improvements. The staff also recommends the IASB clarify the principles underlying the proposed factors-based approach—an entity applies judgement when considering:

   (a) the contractual terms of the particular financial instrument;

   (b) the specific facts and circumstances applicable to the reporting entity;

   (c) the capacity in which shareholders act when making their decisions by applying the proposed factors and any other relevant factors;

   (d) the weightings to be applied to each factor taking into account that each factor is not determinative or conclusive on its own; and

   (e) the interaction of multiple shareholder decision-making rights and their effect on the classification of the particular financial instrument.

Question for the IASB

Question for the IASB
Does the IASB agree with the staff's recommendations in relation to the proposed requirements about shareholder discretion as summarised in paragraph 4 of this paper?

Staff analysis and recommendations

Objective of the proposals and overall feedback

5. The objective of the IASB's proposals about shareholder discretion, as for the project generally, was to address known application questions about the classification of

financial instruments applying IAS 32, without fundamentally changing the underlying principles. With regards to shareholder discretion specifically, the IASB aimed to provide application guidance to help entities assess if and when, shareholder decision-making rights affect whether the entity has an unconditional right to avoid settling an instrument in cash or another financial asset (or otherwise in such a way that the instrument would be a financial liability).

6. The staff notes that most stakeholders expressed support for the factors-based approach proposed in draft paragraph AG28A of IAS 32. In their view, the factors are reasonable, appropriate and relevant to consider in most circumstances. They also noted that entities must consider other relevant factors in assessing whether a shareholder decision is treated as an entity decision as mentioned in draft paragraph AG28B of IAS 32.

7. The differing views on the approach to shareholder discretion (summarised in paragraph 12 of Agenda Paper 5B for this meeting) indicated that a few respondents still support an 'all or nothing' approach, albeit as a rebuttable presumption. Either they think decisions subject to shareholder approval would not be entity decisions because shareholders would always vote for their own benefit or they think decisions taken at shareholders' meetings should generally be considered as entity decisions.

8. As explained in paragraph BC118 of the Basis for Conclusions on the ED, the IASB concluded that applying an 'all or nothing' approach to all financial instruments would represent a fundamental change to the classification requirements in IAS 32 and would be outside the scope of the project. It would also cause significant disruption to the current application of IAS 32 and would not necessarily provide more useful information to users of financial statements. The staff notes that there is no compelling reason or new information that would necessitate reconsidering either of the extreme views, even as rebuttable presumptions.

9. The other suggestion (see paragraph 12(c) of Agenda Paper 5B for this meeting) was to solely evaluate if the contract gives an individual shareholder a *unilateral* decision-making right ie a right on its own (without needing agreement of others) to require the

entity to redeem shares or other instruments for cash or another financial asset. This suggestion would not address all financial instruments in practice. In addition, often the right to request redemption is not unilateral—it is still subject to approval at a general shareholder meeting. The staff thinks the principle behind this suggested approach is however aligned with the proposed factor in draft paragraph AG28A(d) of IAS 32—e*xercise of a shareholder decision-making right enables a shareholder to require the entity to redeem–or pay a return on–its shares*— which is required to be considered.

10. The staff therefore recommends the IASB proceed with the proposed factors-based approach. However, based on the feedback received, the staff considered whether potential clarifications or refinements to the proposed factors or the application of the factors-based approach could enhance the understandability of the proposed requirements for preparers and users of the financial statements. Because most respondents requested more application guidance or illustrative examples, the staff thinks stakeholders would benefit from the IASB clarifying the principles underlying the proposed factors-based approach.

11. The staff recommends the IASB clarify that in assessing at initial recognition whether a shareholder decision would be treated as an entity decision, an entity would apply judgement when considering:

    (a) the contractual terms of the particular financial instrument;

    (b) the specific facts and circumstances applicable to the reporting entity;

    (c) the capacity in which shareholders act when making their decisions by applying the proposed factors and any other relevant factors;

    (d) the weightings to be applied to each factor taking into account that each factor is not determinative or conclusive on its own; and

    (e) the interaction of multiple shareholder decision-making rights and their effect on the classification of the particular instrument.

Specific feedback on the factors-based approach

Routine in nature

12. The staff agrees with those respondents that said that what could be considered 'routine' decisions may be different from entity to entity and would require judgement based on the entity's specific facts and circumstances. One entity might regularly issue a particular type of financial instrument that requires decisions by shareholders to made as part of the ordinary course of business. However, another entity might only issue that particular type of financial instrument as a part of a special measure and therefore decisions by shareholders on this instrument might not be considered routine.

13. In developing the proposed approach, the IASB decided not to solely focus on this factor for precisely these reasons—that doing so might be too restrictive and that the assessment of shareholder decision-making rights as either routine or non-routine could change over time.

14. As suggested by a few respondents, the staff thinks it would be beneficial to include some of the explanations currently provided in paragraph BC119 of the Basis for Conclusions on the ED, as part of the application guidance. These explanations include:

    (a) routine decisions typically include decisions on recurring items on the entity's annual general meeting agenda, which relate to ordinary year-on-year business matters and usually require approval of a simple majority of shareholders present at the meeting.

    (b) non-routine decisions generally involve special business matters, such as changing the entity's founding documents or approving a change of control of the entity. In many of these non-routine decisions, shareholders might be regarded as making investment decisions—acting in their capacity as holders of particular financial instruments. These non-routine decisions typically require a higher level of approval (such as 75% of the votes) and might take place at a special meeting outside the annual general meeting.

15. In addition, the staff thinks it would be helpful to enhance these explanations with some commonly occurring examples, for example routine decisions include shareholders' approval of interim and annual dividends on ordinary shares at a general meeting. This is because such decisions would typically be collective decisions made by shareholders as a group reaching a consensus in the ordinary course of business.

16. However, the staff thinks it is important to note that these explanations and examples would merely be indicative and that each financial instrument should be assessed based on its contractual terms and the entity's specific facts and circumstances. In addition, there could also be other factors that are relevant to a particular financial instrument that an entity should consider, irrespective of whether the decision is regarded as routine or non-routine. For example, shareholders in different jurisdictions may have different rights regarding dividends. In some jurisdictions, individual shareholders could require an entity to pay dividends to them. Such a scenario is however different from the typical case where shareholders can only collectively as a group approve dividends proposed by management at a general meeting.

17. The staff therefore thinks it would be beneficial to improve the application guidance in draft paragraph AG28A(a) of IAS 32 by adding further explanations and examples of routine and non-routine decisions. The staff will consider this when drafting the final amendments.

Action proposed by the entity's management for shareholder approval

18. A few respondents provided feedback on this factor (see paragraph 16 of Agenda Paper 5B for this meeting). As discussed in Agenda Paper 5B for the February 2022 IASB meeting (see paragraphs 13–14 of that paper), it is usually the board of directors (or similar governing body) and management that are responsible for day-to-day decision-making in the normal course of business. The staff believes the board of directors and management can generally be seen as an extension of the entity, which

is consistent with paragraph 9 of IAS 24 *Related Party Disclosures*.[1] The staff therefore does not think it is necessary to provide further guidance about the scope of management.

19. The staff notes that a few respondents said that identifying which party proposed the action or initiated the transaction for shareholder approval is not always straightforward. The shareholders may be part of the management or control management. In the staff's view, none of the factors are determinative on their own and factors should not be considered in isolation. Therefore, if it is not clear which party proposes an action or the capacity in which the shareholder is acting in when making decisions about a particular financial instrument, an entity should place more emphasis on the other factors.

20. In our view, it is therefore important for entities to consider other relevant factors in conjunction with this factor such as whether the decision is routine in nature, whether the preference shareholders would benefit differently compared to the ordinary shareholders and whether the shareholders have the right to require the entity to redeem the instruments they hold. This supports having a factors-based approach that considers other relevant information and the particular facts and circumstances of the entity.

21. Additionally, the staff notes that a few respondents interpreted this factor to mean that if a transaction is initiated or proposed by the entity's management for approval by shareholders, the decision would automatically be considered an entity decision. However, in our view, this conclusion is not always appropriate because management and the board of directors may not be able to avoid an outflow of cash from the entity by proposing or not proposing an action.

22. The staff thinks it is worth noting that the purpose of the assessment is to determine whether the entity has an unconditional right to avoid delivering cash or another

[1] Paragraph 9 of IAS 24 defines key management personnel as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

financial asset to settle a contractual obligation, as required by paragraph 19 of IAS 32.

23. Draft paragraph AG28A(b) of IAS 32 explains that if the entity's management can avoid an outflow of cash from the entity by not proposing an action requiring shareholder approval, shareholder discretion would have no bearing on the classification of the instrument because the shareholders would not have to make a decision.

24. An example presented in Agenda Paper 5B for the February 2022 IASB meeting (see paragraph 41 of that paper) illustrates a situation where it would be inappropriate to assume that all decisions initiated by management and the board of directors that are subject to shareholders' approval are entity decisions. Consider a financial instrument that requires settlement in cash or a fixed number of the issuer's shares but the issuance of new shares requires shareholders' approval. The only way to avoid the outflow of cash is for the board of directors to propose settlement of the instrument in a fixed number of shares. In this scenario, the shareholders could reject the issuance of new shares thus preventing the entity from settling the instrument in shares and requiring cash settlement. Management and the board of directors would therefore not be able to avoid an outflow of cash from the entity by merely proposing an action.

25. In the staff's view, there is little to no risk of structuring opportunities because including contractual terms that require initiation of transactions by management would not automatically achieve equity classification. All relevant factors and the entity's specific facts and circumstances would need to be considered.

26. Consequently, the staff thinks the proposed requirements related to this factor are sufficiently clear and does not recommend any further clarification.

Different classes of shareholders benefit differently

27. The staff notes that a few respondents specifically requested the IASB to clarify this factor with further guidance and/or illustrative examples (see paragraph 17 of Agenda Paper 5B for this meeting).

28. The staff thinks by clarifying the principles underlying the proposed factors-based approach (see paragraph 11 of this paper), it would not be necessary to include any examples of how different classes of shareholders could benefit differently. The assessment depends on the contractual terms of the particular financial instrument and the facts and circumstances specific to the reporting entity. In some cases, preference shareholders and ordinary shareholders would both be entitled to vote at the same meeting. The outcome of the decision would affect the settlement terms of the preference shares. For example, the preference shareholders might be entitled to a specified fixed amount of cash whereas ordinary shareholders would be entitled to only the residual amount. This factor considers whether the fact that the returns to different groups of shareholders are not proportionate could indicate that the preference shareholders are making independent decisions as investors in or holders of a particular class of shares.

29. In other cases, a decision may require approval from different classes of shareholders for example, ordinary and preference shareholders separately. This could indicate that preference shareholders are voting independently of the ordinary shareholders and independently of the entity. It would be important to understand the reason for requiring separate approval. It may be that different classes of shareholders stand to gain differently from the decision or that the decisions are special business matters of a non-routine nature.

Exercise of a shareholder decision-making right enables a shareholder to require the entity to redeem—or pay a return on—its shares

30. Feedback on this factor (see paragraph 18 of Agenda Paper 5B for this meeting) indicates a perceived confusion from respondents regarding the application of this factor. A few respondents interpreted this factor to apply in the following circumstances:

    (a) the shareholder approval of interim and annual dividends which involves entities paying a return on ordinary shares; and

    (b) the subsequent repurchase of ordinary shares by entities, which requires shareholder approval in the general shareholders' meeting.

31. As discussed in paragraphs 14–15 of this paper, the approval of interim and annual dividends by shareholders is usually considered and treated as an entity decision because it is a routine decision made by shareholders as a group (ie collectively*)* in the ordinary course of business.

32. As discussed in Agenda Paper 5A for the February 2022 IASB meeting (see paragraph 45 of that paper), in developing these proposals, the IASB considered situations where shareholders of an entity might also be holders of a financial instrument being assessed for classification. Therefore, such shareholders might be voting on decisions that ultimately affect the payment made on, or settlement of, that financial instrument. These shareholders may be able to require the entity to pay cash or another financial asset (or otherwise to settle their own instrument in such a way that it would be a financial liability) for their own benefit through exercising their decision-making power. In such cases, it might be indicative that the shareholder decisions are unlikely to be entity decisions.

33. For example, consider preference shares that give their holders the right to demand redemption in cash if the preference shareholders vote against a specified event such as an acquisition of another business. In such cases, preference shareholders can require the entity to redeem their instruments through the exercise of their decision-

making rights. The entity would likely conclude that this factor indicates the shareholder decision would not be treated as an entity decision.

34. The IASB's intention behind this factor was to consider whether the contractual terms provide the shareholders (or a particular group of shareholders) with a decision-making *right* to require the entity to make payments in cash or another financial asset or in such a way that the instrument would be a financial liability. In this case, the shareholder would likely be making decisions in their capacity as holders of the instrument being assessed for classification and the entity would likely not have the unconditional right to avoid such settlement. Draft paragraph AG28A(d) clarifies that such decision-making rights indicate that the shareholders would make their individual decisions as investors in the financial instruments, and the shareholder decision is unlikely to be treated as an entity decision.

35. The staff considered the application of this factor to the scenario described in paragraph 30(b) of this paper—ordinary shares that subsequent to initial recognition can be repurchased by the issuer subject to shareholder approval at a general meeting. In the staff's view, when the ordinary shares are assessed for classification at initial recognition, the contractual terms do not indicate that a shareholder or shareholder group has a right to require the entity to redeem its shares in cash or another financial asset or in such a way that it would be a financial liability. When the shareholders subsequently approve the repurchase of ordinary shares, a financial liability would arise, similar to when dividends are subsequently declared and approved by shareholders at a general meeting.[2]

36. To address the perceived confusion about the application of this factor, the staff thinks that the IASB could clarify the wording in draft paragraph AG28A(d) of IAS 32 so that it is clear that the factor would consider whether a shareholder or shareholder group *has the right* to require the entity to redeem—or pay a return on—*a particular*

[2] 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.

instrument it holds, in cash or another financial asset or to otherwise settle it in such a way that it would be a financial liability. The staff will consider this when drafting the final amendments.

Other comments regarding the factors-based approach

Description of the approach

37. The staff considered whether it was necessary to retain the directional indicators, such as 'unlikely' and 'likely' when explaining the outcome of the factors. A few respondents were concerned that these terms might suggest that the factors are determinative.

38. In developing the ED, stakeholders advocated against providing the factors in 'neutral' form—without steering in any direction or spelling out what the implications for the assessment are. In their view, the application guidance would be helpful to entities if it explains whether the factors are indicative or supportive of a decision of the entity or not.

39. The staff continues to be of the view that simply listing factors without indicating their likely outcomes would not be helpful. In addition, indicating likelihood is not determinative as the assessment would still depend on the weightings assigned to the factors and the entity's application of judgement based on the specific facts and circumstances. Therefore, the staff recommends retaining the directional indicators.

40. In addition, the staff notes that a few respondents said that *requiring* all factors to be considered would be too prescriptive. However, in the staff's view, those factors are the minimum factors that entities are required to consider which would be relevant in most cases. If any of these factors are less relevant, entities would apply lower weightings to those factors.

41. The staff agrees with respondents that an assessment based on the factors might lead to different results when the entity assesses the factors individually, as opposed to an

overall assessment of the various factors; or that the classification in practice could change based on the interpretation of a single factor.

42. Therefore, the staff believes it is important to clarify that none of the factors are determinative or conclusive on their own. This clarification will help reduce the risk of structuring opportunities or of entities relying solely on a single factor they deem relevant and making classification decisions based on that factor alone. The staff has included this clarification in its recommendation to clarify the principles underlying the proposed factors-based approach (see paragraph 11 of this paper).

Interdependency between shareholder decision-making rights

43. A few respondents requested further guidance on how to assess any interdependencies between shareholder decision-making rights and it was suggested to move the example in paragraph BC123 of the Basis for Conclusions on the ED to the application guidance. This paragraph provides an explanation and example of how to assess interdependencies between shareholder decision-making rights.

44. Paragraph BC123 of the Basis for Conclusions states:

> BC123 Some instruments might provide shareholders with more than one right to decide whether an entity settles the instrument in cash or another financial asset (or otherwise in such a way that the instrument would be a financial liability). In the Board's view, each shareholder decision-making right is assessed separately. However, the Board decided that an entity should also consider whether any interdependencies between shareholder decision-making rights would affect whether, overall, the entity has an unconditional right to avoid delivering cash or another financial asset (or otherwise settling a financial instrument in such a way that it would be a financial liability). An example is a financial instrument that pays coupons if the issuer pays dividends on ordinary shares. Management could decide not to propose dividends on ordinary shares and thus avoid paying coupons on the financial instrument. However, the holders of that financial instrument also have the power to force the entity to liquidate, at which point the

financial instrument would become repayable in cash at its par value. Assuming no other obligations, the entity is required to have the right to avoid cash settlement in both scenarios for the financial instrument to be classified as equity.

45. The staff notes that the intention of the IASB was for an entity to consider the overall effect of multiple shareholder decision-making rights specified as part of the terms and conditions of a particular financial instrument to determine whether the entity has an unconditional right to avoid delivering cash or another financial asset (or otherwise to settle a financial instrument in such a way that it would be a financial liability). The focus should therefore be on the *interaction* of these multiple shareholder decision-making rights rather than on their *interdependency*. The staff thinks by clarifying the underlying principles behind the factors-based approach (see paragraph 11 of this paper), there is no need to incorporate this example in the application guidance.

Restriction on applying the proposals by analogy

46. In developing the proposals, the IASB acknowledged that the proposed approach might be considered inconsistent with the approaches taken in other IFRS Accounting Standards. Therefore, to avoid any unintended consequences, the IASB decided that the proposed approach cannot be applied by analogy when applying the requirements in other IFRS Accounting Standards to transactions involving shareholders or management.

47. The staff notes that some respondents expressly supported restricting entities from applying the proposed approach by analogy. A few respondents also asked the IASB to confirm that the holder of a financial instrument applying IFRS 9 *Financial Instruments* does not need to apply these factors for assessing whether the contractual cash flows of financial assets are solely payments of principal and interest on the principal amount outstanding (‘SPPI criterion’).

48. The proposed wording in draft paragraph AG28C states: “…An entity shall not apply these requirements by analogy in applying the requirements in other IFRS Accounting Standards.” Therefore, the staff thinks it is already clear that the holder will not need

to apply these factors when applying IFRS 9 and does not think further clarification would be necessary. In addition, the staff notes that IFRS 9 does not require the holder to assess the classification of a financial instrument from the perspective of the issuer to determine how to account for a financial asset. The holder applies the requirements related to the business model assessment and SPPI criterion in IFRS 9 to classify the financial asset.

Requests to clarify other matters

49. A few respondents asked for clarification on other matters (see paragraph 23 of Agenda Paper 5B for this meeting). One of these matters was how to apply the factors to situations where the shareholder is the parent company or where the holder of a financial instrument is the controlling shareholder of the issuer.

50. The staff notes that the proposed requirements involve entities considering the proposed factors to conclude whether a shareholder decision *can be treated as* an entity decision. In developing the application guidance, the IASB specifically decided not to use the words 'within the entity's control' or 'acting on behalf of the entity' especially because 'control' is used with specific meanings in other IFRS Accounting Standards.

51. The staff thinks the fact that the shareholder is the parent company or that the holder of a financial instrument is also the controlling shareholder of the issuer is not evidence in and of itself of whether or not a shareholder decision should be treated as the entity's decision. The relevant factors should be considered based on the contractual terms of the particular financial instrument and in the context of the reporting entity. Therefore, the staff does not think there needs to be any special criterion or further clarification for these cases.

52. Regarding the request to clarify if particular events such as employees' illegal acts or breaches of contract could be viewed as matters within the entity's discretion (see paragraph 23(b) of Agenda Paper 5B for this meeting), the staff believes no additional

clarification is necessary. Similar to the reasons provided in paragraph 51 of this paper, entities are required to consider the contractual terms of the particular financial instrument. The proposed requirements focus on helping entities apply their judgement in determining whether decisions of shareholders are considered to be entity decisions for the purposes of classifying financial instruments as either equity or financial liabilities.

53. Another matter raised by respondents related to clarifying or identifying the capacity in which shareholders make their decisions based on an understanding of the relationship between the entity and its shareholders. Judgement is required in determining the capacity in which shareholders are acting in because it is not always possible to say with certainty whose interests a shareholder represents and what a shareholder's intention is when it votes on decisions affecting the entity. The staff therefore thinks the IASB cannot clarify the capacity in which shareholders make their decisions.

54. However, in assessing how shareholder decision-making rights affect whether the entity has an unconditional right to avoid settling an instrument in cash or another financial asset (or otherwise in such a way that the instrument would be a financial liability), entities implicitly need to identify the capacity in which shareholders make their decisions. The proposed factors already indicate this. However, the staff has included this clarification in its recommendation to clarify the principles underlying the proposed factors-based approach (see paragraph 11 of this paper).

Effects of laws or regulations

55. A few respondents questioned the interdependency between statutory legal rules which determine the distinction between equity and liability and the proposed requirements. At the July 2025 IASB meeting (see Agenda Paper 5A for that meeting), the IASB tentatively decided to withdraw the requirements proposed in the ED related to the effects of relevant laws or regulations on the classification of financial instruments. The lack of consensus on the underlying principles that could

be used to clarify the proposed amendments, persuaded the IASB that finalising the proposals would not achieve the IASB's objectives. Solving the concerns raised would involve addressing this topic in a more fundamental manner, including reconsidering the interaction with other IFRS Accounting Standards, and would therefore be beyond the scope of this project. The staff therefore does not think any further clarification could be made about the interdependency between the effects of laws or regulations and shareholder discretion.

Requests for illustrative examples

56. Some respondents have requested the IASB to add illustrative examples that provide guidance on applying the factors-based approach to common fact patterns and determining the weightings for each factor. They believe that illustrative examples would aid in consistent application of the proposed requirements.

57. Based on both our own research and feedback from comment letters, the staff notes that there are many different examples currently in practice of how shareholder discretion could affect the settlement of obligations in financial instruments, and which may be jurisdiction specific. In addition, many more examples could arise in future as corporate governance practices and financial innovation continue to develop.

58. Even with a common scenario, the assessment is very facts-and-circumstances-based and requires judgement. The capacity in which shareholder decisions are made can vary based on the specific facts and circumstances, and selecting specific scenarios to illustrate, together with assigned weightings to the factors, poses challenges.

59. Given the high level of judgment required in evaluating relevant factors and their weightings, the staff thinks clarifying the application guidance as discussed in this paper is the most appropriate approach. Any illustrative example would either be too simplified or too specific to be useful. Further the staff thinks adding illustrative examples could result in unintended consequences, especially if the examples are applied by analogy.

60. Entities should apply their own judgement considering their specific facts and circumstances on a case-by-case basis. The staff thinks providing application guidance in the form of a factors-based approach is sufficient in assisting entities to apply that judgement. The staff therefore does not recommend adding any illustrative examples to the final amendments.

Other suggestions

61. A few respondents mentioned that the assessment of shareholder discretion seems to be limited to the context of paragraph 19 of IAS 32 which requires an entity to assess whether it has an unconditional right to avoid delivering cash or another financial asset. They mentioned that the IASB should clarify that entities also should consider the proposed requirements when assessing other liability-type settlement ie obligations that will or may be settled by delivering a variable number of the entity's own equity instruments.

62. In the staff's view, it is the IASB's intention to require entities to consider the proposed requirements for all liability-type settlement. Draft paragraphs AG28A–AG28B of IAS 32 already include the phrase 'an unconditional right to avoid delivering cash or another financial asset (or otherwise to settle it [a financial instrument] in such a way that it would be a financial liability)'. However, to avoid any perceived confusion, the staff will consider amending the wording in paragraph 19 of IAS 32 when drafting the final amendments.

Additional disclosures and transition requirements

63. The staff notes that a few respondents provided feedback regarding the proposed disclosure and transition requirements related to shareholder discretion.

64. Draft paragraph B5A of IFRS 7 would require entities to disclose the judgements that management has made in classifying a financial instrument, or its component parts, if those judgements are among the judgements that have the most significant effect on the amounts recognised in the entity's financial statements.

65. We think this proposed requirement is sufficient to cover judgements made when considering the impact of shareholder discretion in classifying financial instruments, and it is not necessary for the IASB to expand it to be more targeted. Paragraph BC244(a) of the Basis for Conclusions on the ED used the example of shareholder discretion when describing the significant judgements to be disclosed. In addition, there will be a number of judgements made by entities when classifying financial instruments as financial liabilities or equity, including those arising from other classification topics in this project. However, feedback on draft paragraph B5A of IFRS 7 along with other proposed disclosure requirements will be discussed at a future IASB meeting.

66. Additionally, the staff will further consider the need for any transitional relief or transitional disclosures, when we present the detailed feedback and staff analysis on the proposals related to transition at a future meeting.