
IASB[®] meeting

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Project	Financial Instruments with Characteristics of Equity (FICE)
Topic	Proposed amendments—Fixed-for-fixed condition (part 1)
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Introduction

1. At the December 2025 IASB meeting, the IASB discussed the feedback from comment letters and outreach related to applying the ‘fixed-for-fixed condition’ to derivatives on own equity. The feedback was received on the proposed requirements in the Exposure Draft *Financial Instruments with Characteristics of Equity* (the ED) which was published in November 2023. The IASB also discussed the staff’s preliminary analysis of whether further clarifications or changes to the proposed requirements would be necessary in response to the feedback.
2. In this paper the staff proposes refinements to the proposed requirements for the ‘fixed-for-fixed condition’ more broadly. The proposed refinements take into consideration the detailed feedback on the ED and from IASB members at the December 2025 IASB meeting. At this meeting we will ask the IASB whether it agrees with the staff recommendations for the proposed amendments.
3. This paper is structured as follows:
 - (a) [summary of staff recommendations](#);
 - (b) [question for the IASB](#);

- (c) [summary of feedback](#); and
- (d) [staff analysis and recommendations](#).

Summary of staff recommendations

4. The staff recommends that the IASB proceed to finalise the proposed requirements related to applying the ‘fixed-for-fixed condition’ when classifying derivatives on own equity as set out in the ED, subject to minor drafting improvements and some targeted refinements¹:
- (a) removing references to a fixed exchange ratio and ‘the amount of consideration to be exchanged for each of an entity’s own equity instruments’ when clarifying the fixed-for-fixed condition; and
 - (b) clarifying that when a group entity issues a derivative on another group entity’s shares, the consideration amount could be denominated in the functional currency of either the entity that issues the derivative or the entity whose shares are being delivered, to meet the fixed-for-fixed condition.

Question for the IASB

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Do you agree with the staff’s recommendations on the proposed requirements related to applying the ‘fixed-for-fixed condition’ as summarised in paragraph 4 of this paper?

¹ Targeted refinements specifically related to adjustments to the amount of consideration or the number of own equity instruments are discussed in Agenda Paper 5B for this meeting.

Summary of feedback

5. In [Agenda Papers 5A–5D](#) of the December 2025 IASB meeting, the staff summarised the stakeholder feedback on the proposed requirements in the ED related to applying the ‘fixed-for-fixed condition’ when classifying derivatives on own equity. To facilitate analysis and discussion, the staff papers for that meeting were arranged by identifiable sub-topics:
- (a) the effect of foreign currency ([Agenda Paper 5A](#));
 - (b) ‘preservation adjustments’ ([Agenda Paper 5B](#));
 - (c) ‘passage-of-time’ adjustments; ([Agenda Paper 5C](#)); and
 - (d) share-for-share exchanges, settlement alternatives and other matters ([Agenda Paper 5D](#)).
6. Most respondents that commented on the ED, commented on the fixed-for-fixed condition as it is one of the areas on which most practical application challenges arise. Although there was general support for the efforts to clarify and improve the requirements, concerns raised by the stakeholders included:
- (a) the effect of foreign currency—stakeholders considered the proposals too restrictive for multinational corporations which may be issuing derivatives on own equity through foreign subsidiaries and/or in foreign markets.
 - (b) preservation adjustments—stakeholders said the proposals would negatively affect common contractual terms which are widely accepted as anti-dilutive and meeting the fixed-for-fixed condition, in some jurisdictions.
 - (c) passage-of-time adjustments—stakeholders thought the proposals are overly restrictive because instruments where the conversion price is adjusted based on interest rate benchmarks or inflation rates would not meet the fixed-for-fixed condition. They also highlighted practical difficulties and the significant level of judgement that would be required to assess whether an adjustment has the effect of fixing on initial recognition the present value of the amount of consideration exchanged.

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7. The staff had also identified two areas for further consideration by the IASB:
- (a) whether the passage-of-time adjustment should compensate for the time value of money; and
 - (b) whether a fixed exchange ratio that passes the fixed-for-fixed condition must be derived from a fixed amount of consideration for a fixed number of shares.
8. At the December 2025 IASB meeting, feedback from IASB members included:
- (a) broad support for the amount of consideration to be fixed in the entity's functional currency and for expanding the reference currency when a group entity issues a derivative on another group entity's shares.
 - (b) confirmation that, in developing the requirements related to passage-of-time adjustments, the IASB did not consider time value of money but purely differences due to time ie different exercise dates.
 - (c) some support for a fixed exchange ratio to pass the fixed-for-fixed condition, even if in some cases the amount of consideration and the number of shares is variable.
 - (d) direction for the staff to consider:
 - (i) using different terminology to describe preservation and passage-of-time adjustments (see paragraphs 5–7 of Agenda Paper 5B for this meeting).
 - (ii) whether indexation to inflation indices could in some cases meet the fixed-for-fixed condition (see paragraphs 47–51 of Agenda Paper 5B for this meeting).
 - (iii) explaining how time value of money differs from what was intended with 'passage of time' adjustments (see paragraphs 40–46 of Agenda Paper 5B for this meeting).
 - (iv) whether passage-of-time and preservation adjustments could be considered separate from each other. For example, where time is the only variable for passage-of-time adjustments, and all adjustments that are based on discrete events (such as change of control) are assessed as

preservation adjustments (see paragraphs 8–53 of Agenda Paper 5B for this meeting).

- (v) clarifying the principles in a way that is pragmatic and within the scope of the project.

Staff analysis and recommendations

9. Based on the feedback from stakeholders and IASB members, the staff continues to believe that the proposals in the ED are directionally sound and would generally provide clarity when applying the fixed-for-fixed condition, thereby reducing diversity in practice. However, we acknowledge that further refinements are needed to clarify particular aspects of the proposals. The comments and concerns raised have also highlighted that, before considering any potential refinements, it is important to take a step back and understand the objective of, and background to, the proposals related to the fixed-for-fixed condition.

Objective of, and background to, the proposals

10. The IASB's objective with the proposals related to the fixed-for-fixed condition, as for the project generally, was to address known application questions about the classification of financial instruments applying IAS 32 *Financial Instruments: Presentation* without fundamentally changing the requirements.
11. There is limited application guidance in IAS 32 on how the fixed-for-fixed condition in paragraph 16(b)(ii) of IAS 32 should be applied. Over time, various interpretations have developed about what 'fixed' means and whether there are particular types of variability or adjustments (either to the amount of consideration or the number of equity instruments) that would be consistent with the fixed-for-fixed condition. The IASB therefore decided to clarify and/or develop principles for applying the fixed-for-fixed condition and supplement these with application guidance and illustrative examples as set out in the ED.

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12. As discussed in [Agenda Paper 5](#) of the December 2019 IASB meeting, the fixed-for-fixed condition was introduced in the revised version of IAS 32 issued in December 2003. In essence, the fixed-for-fixed condition is based on the principle that when an entity uses its own equity instruments ‘as currency’ to settle a contract, that constitutes a financial liability, not an equity instrument. This would be the case for example, if an entity delivers a variable number of shares whose value equals a fixed amount or an amount based on changes in an underlying variable (eg a commodity price).
 13. The IASB’s starting point when developing the proposals in the ED was the premise that the underlying principle of the fixed-for-fixed condition—as currently drafted, and in its simplest form—neither requires nor permits an adjustment to the amount of cash or the number of shares. In other words, ‘fixed’ means fixed. In addition, and as with all other aspects of assessing whether a financial instrument is classified as equity or a financial liability, the fixed-for-fixed condition is applied from the perspective of the entity (being the issuer of the financial instrument), not the holder.
 14. As explained in paragraphs BC35–BC36 of the Basis for Conclusions on the ED, the IASB concluded that to meet the fixed-for-fixed condition, in general, a derivative contract is required to include a fixed exchange ratio—the amount of consideration to be exchanged per equity instrument delivered does not vary. If the exchange ratio is fixed, the amount of consideration to be received in exchange for each of an entity’s own equity instruments, would be fixed in the same way the consideration per share would be fixed if the entity issued the equity instruments instead. In the IASB’s view, this situation means the entity’s rights and obligations under the derivative are fixed and do not change based on any variables, such as the value of the equity instruments.
 15. In developing the proposals in the ED (see [Agenda Paper 5B](#) of April 2020 IASB meeting), the IASB considered two types of adjustments that would be consistent with the fixed-for-fixed condition even though the amount of consideration to be exchanged for each of an entity’s own equity instruments is not fixed. The intention of including such adjustments in contracts would not be to introduce variability in the

amounts but rather to protect the rights and interests of the issuer or holder of the derivative. The proposed allowable adjustments in the ED are:

- (a) preservation adjustments that are aimed at preserving the relative economic interests of future shareholders to an equal or lesser extent than those of current shareholders. These types of adjustments could relate to events specified in the contract for example, a share split or a share consolidation.
 - (b) passage-of-time adjustments that compensate either the issuer or the holder of a derivative for changes in the timing of exercise of a derivative or changes in the exercise date of the option. For example, the issuer of a call option on own equity could be compensated for a later exercise and the holder of a call option could be compensated for an earlier exercise.
16. The staff notes that to avoid structuring opportunities, it is important to ensure there is a high hurdle, when applying the fixed-for-fixed condition, to achieve equity classification consistent with the definition of an equity instrument in paragraph 11 of IAS 32 and its description in paragraph 16 of IAS 32. Therefore, in our view, the principles that the IASB develops should not inadvertently permit adjustments or compensation that would typically be associated with a financial liability (such as time value of money).

Fixed exchange ratio

17. Draft paragraph 22B of IAS 32 focussed on the amount of consideration to be exchanged per equity instrument and stated:

For a contract to meet the requirements in paragraph 22 to be classified as an equity instrument, the amount of consideration to be exchanged for each of an entity's own equity instruments is required to be denominated in the entity's functional currency (subject to paragraphs 16(b)(ii), AG27A(a) and AG29B) and either:

- (a) fixed (will not vary under any circumstances); or

(b) variable solely because of a preservation adjustment or a passage-of-time adjustment or both (as specified in paragraph 22C).

18. The staff is of the view that the concerns and questions raised by stakeholders on the proposed ‘fixed exchange ratio’ (as discussed in [Agenda Paper 5D](#) for the December 2025 IASB meeting) can be attributed to:
- (a) a lack of clarity about what was meant with a fixed exchange ratio and why the IASB considered this to be consistent with the fixed-for-fixed condition; and
 - (b) the perception that the examples that illustrated the proposed amendments included inconsistent or unclear conclusions.
19. The staff acknowledges that there are different ways in which to achieve a fixed exchange ratio, but that the economic reality between these could differ significantly.

Fixed in absolute terms

20. The fixed-for-fixed condition in paragraph 16(b)(ii) of IAS 32 states:
- “...a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments...”
21. Exchanging a fixed amount of cash for a fixed number of own equity instruments, will naturally lead to a fixed exchange ratio in absolute terms. Essentially, because the issuer knows the amount of cash to be exchanged for the number of shares, it also knows the exchange ratio (price per share) at inception of the derivative.

22. This interpretation would appear to be closest to the current requirements in IAS 32 and what the IASB intended with the proposed amendments. For example, a written call option to purchase 100 shares of Entity X for CU110 equates to a fixed exchange ratio of CU1.10 per share.

Fixed amount	=	Fixed exchange ratio (fixed amount per share)

Fixed number*

*In some cases, the contract may stipulate a fixed amount and a fixed price per share. The fixed number is then derived from the fixed price per share.

Fixed in relative terms

23. A fixed exchange ratio might also be the outcome when both the amount of consideration and the number of shares are variable. One such an example was illustrated in draft Example 14 in the ED. In that example, Entity X issues a five-year interest-bearing convertible bond of CU100 and has the right to add unpaid coupons to the principal amount. At maturity, the bondholder can choose to receive a cash amount equal to the bond's principal amount plus accrued interest, or to convert that amount into Entity X's ordinary shares. The contract specifies the conversion ratio as one ordinary share per CU1 amount outstanding of the convertible bond.
24. In the example in paragraph 23 of this paper, the amount of consideration (in the form of settling a financial liability) to be exchanged for *each* ordinary share is fixed upfront. However, the *total* amount outstanding of the financial liability varies depending on the amount of interest accrued over the life of the bond, and the number of shares ultimately issued to settle the conversion option is variable. Similar scenarios could arise in other cases such as, when the amount of the consideration to be exchanged in the form of settling a financial liability varies with foreign exchange

rates or with an inflation index, and where the conversion option can be exercised before maturity.

Variable amount
_____ = Fixed exchange ratio (1 share per CU1 outstanding)

Variable number*

*This number is dependent on the variable amount and the fixed exchange ratio so the above formula is the net effect after the values are solved for.

25. At the December 2025 meeting, some IASB members supported the concept of a fixed exchange ratio passing the fixed-for-fixed condition, even if in some cases the consideration amount and the number of shares are variable.
26. The staff observes that:
- (a) even though the conversion price is fixed per share, the instrument would be settled in a variable number of shares which is similar to using own shares as currency to settle a contract for a fixed amount or an amount that fluctuates in response to changes in a variable such as an interest rate or commodity price (paragraph 21 of IAS 32).
 - (b) the financial liability and accrued interest is a single unit of account regardless of whether the financial liability is subsequently measured at amortised cost or at fair value through profit or loss.
 - (c) the adjustments (eg for interest, forex or inflation) affect the outstanding amount of the financial liability before it is converted resulting in a variable amount of consideration to be exchanged for a variable number of shares. Such a variable amount and variable number is not in accordance with paragraph 16(b)(ii) of IAS 32 and allowing such a fixed exchange ratio to pass the fixed-for-fixed condition would therefore be a fundamental change to the underlying principle in IAS 32.
 - (d) structuring opportunities to get to equity classification could arise especially for conversion options in inflation linked convertible bonds (principal and

interest on the bond are indexed to an unleveraged inflation index) or foreign currency denominated convertible bonds. These conversion options would otherwise fail the fixed-for-fixed condition if a fixed number of shares would be exchanged for a variable amount of consideration.

- (e) the issuer of the convertible bond would not know the consequences of such an option or whether the outcome would be favourable or unfavourable at inception. The variability and uncertainty in the amount of consideration and the number of shares are more representative of the characteristics of a financial liability. As a result, the instrument exposes the issuer to additional risks compared to issuing the underlying shares for cash instead.

Staff recommendation

- 27. The staff notes that in attempting to clarify the fixed-for-fixed condition, the IASB did not set out to make a fundamental change to the underlying principles. Based on the analysis in paragraphs 17–26 of this paper, the staff is therefore of the view that fixed-for-fixed in absolute terms is what the IASB intended with the proposed amendments. In other words, that the fixed exchange ratio must be derived from a fixed amount of cash and a fixed number of shares.
- 28. However, it is clear that the reference to a fixed exchange ratio distracted from the underlying principle (the anchor of fixed amount for a fixed number) and could be interpreted as referring to fixed-for-fixed in relative terms. In our view, requiring a fixed exchange ratio in relative terms would be a fundamental change to the principles underlying the fixed-for-fixed condition.
- 29. The staff therefore recommends removing references to a fixed exchange ratio and ‘the amount of consideration to be exchanged for each of an entity’s own equity instruments’ when clarifying the fixed-for-fixed condition. Instead, the current notion of a fixed amount of consideration for a fixed number of shares will remain.
- 30. This would also reduce any stakeholder confusion about what a ‘fixed amount of its financial liability’ means in the proposed text added to paragraphs 16 and 22 of

IAS 32. In other words, for an instrument to pass the fixed-for-fixed condition it must either be settled by exchanging a fixed amount of consideration for a fixed number of own equity instruments or the amount or number varies solely due to qualifying adjustments which are discussed in Agenda Paper 5B for this meeting.

31. Updating the analysis and conclusion in draft Example 14 in the ED (convertible bonds with accrued interest) to explain why the instrument is not consistent with the fixed-for-fixed condition, will also resolve any perceived inconsistency with the conclusion in draft Example 20 in the ED (strike price that varies with an interest rate benchmark or inflation index).

Effect of foreign currency

32. The ED clarified that for a contract to meet the fixed-for-fixed condition, the amount of consideration to be exchanged for each of an entity's own equity instruments is required to be denominated in the entity's functional currency so that the entity is not exposed to foreign currency risk. The ED also proposed that in the consolidated financial statements, an entity classifies a financial instrument as equity if the consideration amount is in the functional currency of the entity within the group whose equity instruments will be delivered on settlement.
33. [Agenda Paper 5A](#) of the December 2025 IASB meeting discussed a potential refinement to the proposals in response to stakeholder feedback on cases where a group entity issues a derivative on another group entity's shares. The potential refinement was to expand the reference currency to also include the functional currency of the entity that issues the derivative (ie that will receive the consideration).
34. At that time IASB members expressed broad support for such clarifications and we have not repeated in this paper the previous detailed analysis related to this topic.

Staff recommendation

35. To formalise these clarifications, the staff is therefore recommending that the IASB:

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- (a) finalise the proposals related to the effect of foreign currency when applying the ‘fixed-for-fixed condition’ as set out in the ED; and
 - (b) clarify that for the purposes of the consolidated financial statements, the consideration amount should be denominated in the functional currency of either the entity that issues the derivative or the entity whose shares are being delivered.