Staff paper

Agenda reference: 5B

IASB® meeting

Date	**February 2026**
Project	**Financial Instruments with Characteristics of Equity (FICE)**
Topic	**Proposed amendments—Fixed-for-fixed condition (part 2)**
Contacts	Angie Ah Kun (aahkun@ifrs.org) Riana Wiesner (rwiesner@ifrs.org)

Introduction

1. In this paper the staff proposes refinements to the proposed adjustments to the amount of consideration and/or the number of own equity instruments that are considered consistent with the 'fixed-for-fixed condition'. The proposed refinements take into consideration the detailed feedback on the ED (discussed in Agenda Papers 5B, 5C and 5D of the December 2025 IASB meeting) and feedback from IASB members at the December 2025 IASB meeting (see paragraph 8 of Agenda Paper 5A for this meeting).

2. 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) staff analysis and recommendations; and

   (d) Appendix A—staff research findings.

Summary of staff recommendations

4. The staff recommends that the IASB proceed to finalise the proposed requirements related to adjustments as set out in the ED, subject to minor drafting improvements and some targeted refinements:

   (a) to replace the term 'preservation adjustments' with 'adjustments that compensate the future holders of the equity instruments' and clarify that such an adjustment is consistent with the fixed-for-fixed condition only if it:

      (i) aims to place the future holders in a similar economic position relative to the current holders after the specified trigger event; and

      (ii) does not expose the entity to any additional risks compared to issuing the underlying equity instruments.

   (b) to replace the term 'passage-of-time adjustments' with 'adjustments that are solely a function of time' and clarify that such an adjustment is consistent with the fixed-for-fixed condition only if it:

      (i) is predetermined; and

      (ii) varies solely with the passing of time between potential exercise or conversion dates and does not expose the issuer to any other risks or variability. Therefore, the compensation is not related to the time value of money.

   (c) to withdraw the proposed criterion for what was referred to as passage-of-time adjustments in the ED, related to fixing on initial recognition the present value of the amount of consideration exchanged for each of the entity's own equity instruments.

   (d) to clarify that for an adjustment to be 'predetermined' as described in (b), at inception of the derivative the amount of consideration and number of shares to be exchanged on each settlement date must:

      (i) be known, ie specified in the contract; or

(ii) be determinable based on a specified formula in which time is the only variable.

(e) to clarify that if a contract specifies multiple adjustments that could affect the amount of consideration or the number of own equity instruments, each individual adjustment must meet the requirements for the fixed-for-fixed condition. If any adjustment fails the fixed-for-fixed condition, the entire derivative would be classified as a financial asset or liability.

(f) to clarify that adjustments described in (a) and (b) would also apply to share-for-share exchanges—exchanging a fixed number of one class of own equity instruments for a fixed number of another class of own equity instruments.

Question for the IASB

Question for the IASB
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?

Staff analysis and recommendations

5. The staff considered feedback that the terminology in the proposed amendments should be easy to understand and should not be ambiguous. For example, stakeholders said that the phrase 'preserves to an equal or lesser extent' may not fit the common understanding of 'preservation'. The ED also used the phrase 'passage of time' in the context of the reclassification proposals and it could also be confused with the concept of 'time value of money' (see paragraph 40 of this paper).

6. The staff acknowledges that unclear terminology will not achieve the project objective of reducing diversity in the interpretation of the requirements. We therefore think it would be better to describe the adjustments by reference to what the adjustment is

intended to achieve or reflect. Some adjustments intend to compensate the future holders of the equity instruments while others are solely a function of time.

7. The analysis in paragraphs 8–53 of this paper discusses how adjustments could be described based on the purpose of the adjustment, and how such an approach is still consistent with the IASB's intention with the proposals in the ED.

Adjustments that compensate future holders of the equity instrument

8. Some contracts that specify a fixed amount of cash to be exchanged for a fixed number shares or are based on a fixed exercise or conversion price, might also specify an adjustment to the fixed components when specified events occur. The purpose of this adjustment is to compensate the future holders of the equity instruments so that they are in a similar economic position relative to the current holders of the equity instruments after the specified event.

9. Typical examples include a share consolidation or a share split as illustrated in the following example discussed in Agenda Paper 5 of the December 2019 IASB meeting.

> At year 0, Entity A writes a call option on its own shares that would give Entity B the right to buy 100 shares of Entity A in two years' time for the amount of CU50 in cash. At the date of the issuance of the derivative, Entity A has 1 million shares outstanding.
>
> In the following year, Entity A decides to implement a 2-for-1 share split. As a result, Entity A now has 2 million shares outstanding.
>
> In accordance with the contractual terms of the option, in the case of a share split, an adjustment is made so that Entity B is entitled to buy 200 shares for CU50 at year 2.
>
> The adjustment to the number of shares compensates Entity B so that it is in the same position before and after the share split without exposing Entity A to any additional risks. If Entity A issued 100 shares to Entity B instead of the derivative at year 0, Entity B would still have held 200 shares at year 2. The adjustment would not preclude equity classification.

10. The ED referred to these adjustments as ‘preservation adjustments’. We think it would be clearer to refer to ‘adjustments that compensate the future holders of the equity instruments’ instead of preservation adjustments.

11. For this purpose, ‘future holders of the equity instruments’ refer to the parties to the contract that could receive the equity instruments in the future. The staff thinks it is important to refer to the future holders because the party that stands to receive the equity instruments is not always the same as the holder of the derivative. For example, in the case of a written call option on own shares, the holder of the derivative is also the future holder of the equity instrument because it will become a shareholder if it exercises the option. However, in the case of a purchased put option on own shares, the issuer of the derivative is the future shareholder if the holder of the derivative exercises the option.

12. In addition to requesting clearer and more descriptive terminology, feedback showed that clarification of the proposed requirements was also needed with regards to:

    (a) the extent to which future holders of the equity instruments are compensated; and

    (b) whether change of control adjustments compensate future holders relative to current holders.

Extent to which future holders of the equity instruments are compensated

13. The ED proposed that an adjustment is consistent with the fixed-for-fixed condition if it preserves the economic interests of future holders of the equity instruments to an *equal or lesser extent* than those of current holders. Therefore, an adjustment that favours the future holders compared to, or at the expense of, the current holders would not have met the fixed-for-fixed condition. This is because the issuer would have more obligation to the future holders relative to the current holders.

14. By issuing a derivative that favours the future holders, the entity has effectively promised to give away more value than it would have if it had issued the underlying equity instrument directly.

15. Typical examples of adjustments that would fail the fixed-for-fixed condition are down-round adjustments and adjustments for the loss of liquidity because in both cases, the current holders of the equity instruments receive no compensation.[1] In these cases, it would be clear that the adjustment would favour the future holders more than the current holders. The issuer would therefore be exposed to additional risk (in the form of equity price risk or liquidity risk) from issuing derivatives with these adjustments compared to issuing the equity instruments at inception.

16. However, in other cases it might not be clear, and could require onerous quantitative analysis to determine whether each adjustment would compensate the future holders of the equity instruments to a greater extent than the current holders. This is especially the case when the adjustment is based on a specified formula. The staff researched some typical types of adjustments found in convertible bond contracts that are based on a formula. Our research findings are included in Appendix A.

17. The staff thinks it is important to note that even though the adjustment is compensating the future holders of the equity instrument, the analysis is still performed from the issuer's perspective. The adjustment cannot expose *the issuer* to any additional risks compared to issuing the underlying equity instruments. This is because the IASB's rationale for a derivative to qualify as equity was that the issuer's position should be similar to what it would have been if it had issued the underlying equity instruments for cash instead.

18. As discussed in Agenda Paper 5B of the December 2025 IASB meeting, the IASB's intention with the proposals in the ED was:

[1] In practice, down-round adjustments refer to contractual features that protect future holders of equity instruments when a company issues new shares at a lower price than the exercise or conversion price agreed with those future holders. The conversion price is adjusted downwards to match the lower price.

(a) to require an assessment of the objective of the adjustment and not an evaluation of the actual outcome.

(b) that the adjustment should not expose the reporting entity to any risks or variability (eg forex risk) that would not have been present if the entity issued the underlying equity instruments for cash. The focus is on the types of risks or variables rather than on whether the adjustment introduces the same extent of variability or risks as if the entity had issued the underlying equity instruments for cash.

(c) that no minimum level of preservation of the economic interest of the future equity instrument holder is required.

19. In the staff's view, it was for the reason in paragraph 18(c) of this paper that the ED referred to a preservation adjustment that compensates the future holders to an equal or lesser extent than current holders.

20. However, by clarifying that the purpose of an adjustment is to compensate future holders of the equity instruments relative to the current holders, it is clear that the future holders cannot be compensated for something that the current holders are not compensated for. The staff acknowledges that entities would still be required to apply judgement when assessing if the future holders are compensated relative to the current holders. However, eliminating the reference to terms like 'greater' or 'lesser' extent, will clarify that the focus is on the objective of the adjustment and the issuer's exposure to risks compared to issuing the underlying equity instruments. It is not about the quantum or amount of compensation.

Whether change of control adjustments compensate future holders relative to current holders.

21. The staff notes that adjustments for change of control are a common feature in many instruments that are assessed under the fixed-for-fixed condition. Some stakeholders were of the view that change of control adjustments may meet the requirements for preservation adjustments proposed in the ED because a change of control may

negatively affect bondholders relative to existing shareholders in a number of ways. They said such adjustment would maintain the relative economic interests of the bondholders and the shareholders given the bondholder is compensated for the lost time value of an option.

22. The staff considered that in valuing an option, the key components are intrinsic value (the value of an option's strike price relative to the underlying share price) and time value. Factors influencing the time value of an option include:

    (a) time to expiration—the more time to expiry means higher time value, as there's more opportunity for the underlying share price to move favourably; and

    (b) implied volatility—a higher expected volatility (uncertainty) increases time value, as it raises the chance of large price movements.

23. Therefore, compensation for the time value of an option is not only based on time to expiration of the option. To further analyse whether the future holders are compensated so that they are in a similar economic position relative to the current holders after a change of control event, the staff considered some typical change of control adjustments. The three most common scenarios are:

    (a) scenario 1—the convertible bondholder has an enhanced conversion ratio if it chooses to exercise the conversion option early. For example, an instrument may specify that, for a period following a change in control, the issuer has a right to early redeem the convertible bond at par. In this case, the convertible bondholder might be incentivised to exercise the conversion option early to avoid redemption. In other cases, the bondholder can either elect to exercise the conversion option immediately or require the issuer to redeem the bond early in the event of a change of control of the issuer.

    (b) scenario 2—the convertible bondholder has the option to convert early at an adjusted conversion ratio which is only available for a specified period following a change of control event. If a bondholder does not take advantage

of the adjusted conversion ratio, the instrument continues as before the change of control, with the original maturity date and original conversion ratio.

(c) scenario 3—a listed entity issues a convertible bond with an adjusted conversion ratio. When a change of control occurs, the law requires the acquirer to make a mandatory purchase offer to all of the remaining ordinary shareholders. The acquirer might not be required to make a similar offer to the convertible bondholders, therefore a bondholder that wants to participate in such an offer would need to exercise its conversion option (at the adjusted conversion ratio). If it does not exercise the conversion option, it may lose its ability to convert the bond into listed shares at a subsequent date should the entity delist after the mandatory purchase offer.

24. The staff notes that in practice, it is generally assumed that change of control adjustment clauses compensate the bondholder for the loss of the remaining time value of the conversion option—eg the closer the change of control event is to the bond's maturity, the lower the adjustment. However, the staff thinks entities would need to apply judgement and consider the particular terms of the contract. In all three scenarios, it appears that the adjustment aims to place the future holder in a similar economic position relative to the current holders after the change of control event. By converting earlier, the bondholder will be able to receive shares earlier, thus placing it in a similar economic position compared to the current shareholders.

25. In addition, the issuer is also not exposed to any additional risks because had the entity issued ordinary shares instead of the conversion option to bondholders, upon a change of control event, the bondholders (as shareholders) would have been able to participate in a mandatory purchase offer or could decide to sell their shares.

Staff recommendation

26. Based on the staff analysis in paragraphs 8–25 of this paper, we recommend to finalise the proposed requirements related to what was referred to as preservation

adjustments in the ED, subject to minor drafting improvements and targeted refinements:

(a) to replace the term ‘preservation adjustments’ with ‘adjustments that compensate the future holders of the equity instruments’; and

(b) clarify that such an adjustment is consistent with the fixed-for-fixed condition only if it:

(i) aims to place the future holders of the equity instruments in a similar economic position relative to the current holders after the specified trigger event; and

(ii) does not expose the entity to any additional risks compared to issuing the underlying equity instruments.

27. Making these clarifications and refinements to the proposed requirements will also require consequential changes to the related Illustrative Examples accompanying IAS 32. For example, the assessment in draft Example 16 (shares specified as a fixed percentage of shares outstanding at conversion date) and draft Example 17 (number of shares varies with the share price) would change because in both those examples, there is no adjustment to a fixed exercise or conversion price. Rather, they fail the fixed-for-fixed condition because the number of shares is not fixed at inception of the contract and will only be determined on the conversion date. In addition, draft Example 19 would be updated to assess the change of control adjustment as an adjustment that compensates the future holders of the equity instruments.

Adjustments that are solely a function of time

28. The ED proposed that the fixed-for-fixed condition would be met if the amount of consideration to be exchanged for each of an entity’s own equity instruments varies solely because of the passage-of-time. This would only be the case if the adjustment:

(a) is predetermined at inception of the contract;

(b) varies with the passage of time only; and

(c) has the effect of fixing on initial recognition the present value of the amount of consideration exchanged for each of the entity's own equity instruments— any difference in the amounts of consideration to be exchanged on each possible settlement date represents compensation proportional to the passage of time.

29. Based on IASB member comments on Agenda Paper 5C of the December 2025 IASB meeting, the proposals could be refined by:

(a) clarifying that the objective of the passage-of-time adjustment must be to solely compensate for the passage of time and not introduce any other risk exposure to the issuer. In assessing whether this objective is met, an entity would need to apply judgement.

(b) clarifying the meaning of 'predetermined'— at inception of the derivative, the amounts to be exchanged on each settlement date need to be known upfront or determinable upfront based on a specified formula. Because the second criterion is that the adjustment varies only with the passage of time, if a formula is set out in the contract, the only acceptable input would be time ie time is the only variable.

(c) removing the third criterion to be classified as a passage-of-time adjustment (described in paragraph 28(c) of this paper).

30. However, the staff acknowledged the need to revise the terminology and remove references to 'passage of time', by referring to adjustments that are solely a function of time. In reconsidering the terminology and in response to IASB member comments at the December 2025 IASB meeting, the staff therefore further analyse:

(a) what adjustments that are solely a function of time intend to reflect;

(b) the difference between time value of money and adjustments that are solely a function of time; and

(c) whether indexation to inflation indices could in some cases meet the fixed-for-fixed condition.

What adjustments that are solely a function of time intend to reflect

31. As noted during the development of the proposals in the ED, some derivative contracts specify multiple exercise dates on which, at each date, a fixed amount could be exchanged for a fixed number of shares. However, other contracts may specify an initial fixed exercise or conversion price with fixed adjustments at specified points in time or where the adjustment is based on a formula with time as an input.

32. These adjustments are typically reflecting the difference in timing of settlement of a derivative, and therefore in most cases, the later the exercise date, the higher the exercise price of the derivative. We understand that in determining the fixed exercise prices on the different exercise dates, entities may have considered current or expected interest rate benchmarks or inflation rates. However, the IASB's intention was not to start questioning the pricing of derivative contracts on own equity or to require entities to prove that the pricing is 'reasonable'.

33. There is therefore no requirement that the adjustments must be linear. If there is nothing to indicate that the adjustment is exposing the issuer to any risks or variability, and the adjustment is predetermined and varies with time only, the derivative would meet the fixed-for-fixed condition. The IASB is not focusing on the amount of consideration but rather on the exposure to risk from issuing the derivative compared to issuing underlying equity instruments instead. The same is true for adjustments that compensate the future holders of equity instruments (see paragraph 19 of this paper).

34. This is especially evident in the case of Bermudan options where the conversion ratios are predetermined at inception—either the number of shares is fixed but the exercise price varies solely based on the exercise date or both the number of shares and the exercise price varies solely based on the exercise date. For example, Entity X issues a call option that can be exercised for predetermined amounts at specified dates as follows:

    (a) 10 shares for CU100 at the end of Year 1;

(b) 10 shares for CU150 at the end of Year 2; or

(c) 10 shares for CU200 at the end of Year 3.

35. Derivatives, by definition, are required to be settled at a future date. In this example, the only variable is the timing of settlement but there is no uncertainty about the amount or number of shares to be exchanged on each exercise date. Neither is there an indication that the differences between the exercise dates expose the issuer to any risks or variability.

36. In some cases it could be argued that the adjustment to the amount of cash Entity X will receive on settlement merely compensates Entity X for the fact that the derivative could be exercised on a later date, but that is not necessarily the case for all derivatives with such adjustments. And the IASB deliberately did not require adjustments that are solely a function of time to be representative of the time value of money (see analysis in paragraphs 40–46 of this paper).

37. Therefore, if a fixed number of shares and a fixed strike price at each exercise date is known at inception, the derivative would still meet the fixed-for-fixed condition. Such a contract could have been entered into as a series of mutually exclusive options which could each be settled by delivering a fixed number of own shares for a fixed amount of cash.

38. In draft Example 20 of the ED, the adjustments to the strike price based on interest rate benchmarks or an inflation index fail the fixed-for-fixed condition. The IASB was of the view that adjustments to the strike price based on future interest, inflation or growth rates at the date of conversion would expose the issuer to additional risks that are not usually associated with issuing underlying equity instruments. This is because such adjustments affect the timing and amount of future cash flows of derivatives in a way that is more akin to cash flows associated with debt instruments.

39. If the exercise price on the specified exercise dates is not known or determinable at inception, such a derivative would not meet the fixed-for-fixed condition because

there would be uncertainty or variability that would not have existed had the entity issued the underlying equity instruments at inception of the contract.

Difference between time value of money and adjustments that are solely a function of time

40. The staff acknowledges that some respondents considered 'passage-of-time' to equate to 'time value of money'. In other words, they understood compensation for the passage-of-time to require compensation for the time value of money and are therefore of the view that adjustments based on interest rate benchmarks or an inflation index should be allowed.

41. As discussed in Agenda Paper 5C of the December 2025 IASB meeting, even though paragraph B4.1.9A of IFRS 9 *Financial Instruments* states that *time value of money* is the element of interest that provides consideration for only the *passage of time*, the IASB decided to use the phrase in a different context for the purposes of the ED.

42. Time value of money is described in paragraph B4.1.7A of IFRS 9 as a significant element of interest, in the context of assessing whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding.[2] Paragraph B4.1.9A of IFRS 9 goes on to say that "…the time value of money element does not provide consideration for other risks or costs associated with holding the financial asset. In order to assess whether the element provides consideration for only the passage of time, an entity applies judgement and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set."

43. In contrast, the IASB's intention when developing the ED was that a passage-of-time adjustment would compensate either the issuer or the holder of a derivative for

[2] Paragraph B4.1.7A of IFRS 9 states that "contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement. In a basic lending arrangement, consideration for the time value of money […] and credit risk are typically the most significant elements of interest. However, in such an arrangement, interest can also include consideration for other basic lending risks (for example, liquidity risk) and costs (for example, administrative costs) associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement. […]"

changes in the timing of settlement of that derivative resulting from the passage of time. Such adjustments result in differences in the exchange ratio for several possible exercise dates or a range of dates as an exercise period. 'Passage of time' was therefore used in the ED in a different context to that in IFRS 9 because it is not directly related to the concept of interest components or interest rate reset periods.

44. Instead, the focus is on fixed amounts of consideration and fixed number of shares at different and discrete points in time over the life of the derivative. As such, the IASB decided to deliberately use the phrase 'passage of time' to not refer to 'interest rates' or the 'time value of money'. IASB members confirmed this intention at the December 2025 IASB meeting.

45. To understand further that passage of time in the ED is not the same as time value of money, the staff considered the meaning of time value of money in the context of finance theory. The time value of money is the core financial concept that money available now is worth more than the same amount in the future because it can be invested to earn returns (eg interest) over time, increasing its value, and because inflation erodes purchasing power. Said differently, the time value of money is driven by rising prices (reflected by an inflation index), opportunity cost (earning potential) and risk and uncertainty (future money is less certain than money in hand). The basic time value of money formula calculates the change in the value of money over time. It calculates the future value of a sum of money based on its present value, interest rate, number of compounding periods per year and number of years.

46. In the passage-of-time adjustments in the ED, the IASB only considered the *time period* eg number of days or number of years as a variable that would be acceptable for a derivative having multiple predetermined exercise prices or conversion ratios to meet the fixed-for-fixed condition.

Whether indexation to inflation indices could in some cases meet the fixed-for-fixed condition

47. As explained in paragraph 38 of this paper, adjustments to the exercise price based on an inflation index at the date of conversion would not meet the fixed-for-fixed condition because they expose the issuer of the derivative to additional risks that are not usually associated with issuing underlying equity instruments.

48. We understand from stakeholders in some jurisdictions, especially those with high inflationary environments, that adjusting the strike price by an inflation index may be more appropriate than estimating inflation and fixing the strike price. The question therefore arose as to whether there is sufficient rationale to deviate from the underlying principle and allow an exception for entities applying the fixed-for-fixed condition in high inflationary environments.

49. The staff notes that inflation is a macroeconomic factor, similar to interest rates or foreign exchange rates, which directly impacts the overall economy of an entire region or country, affecting business strategy, investor decisions, government policy and consumer behaviour. In developing the ED, the IASB aimed to develop principles for applying the fixed-for-fixed condition that could be applied to many types of adjustments and that would be consistent with the definition of equity as a residual interest. Entities applying IFRS Accounting Standards are subject to various macroeconomic factors and creating exceptions for specific jurisdictions or specific macroeconomic factors would lead to inconsistencies in application and reduced comparability of financial statements.

50. As highlighted in the example in paragraph B4.1.13A of IFRS 9 which analyses principal and interest on an inflation-linked bond, inflation is linked to the concept of time value of money. As explained in paragraphs 40–46 of this paper, time value of money is different to adjustments that are solely a function of time as intended in the ED.

51. We therefore do not think that adjustments for inflation are consistent with the fixed-for-fixed condition.

Staff recommendation

52. Based on the staff analysis in paragraphs 28–51 of this paper, we recommend the IASB finalise the proposed requirements related to what was referred to as passage-of-time adjustments in the ED, subject to minor drafting improvements and targeted refinements:

    (a) to replace the term ‘passage-of-time adjustments’ with ‘adjustments that are solely a function of time’ and clarify that such an adjustment is consistent with the fixed-for-fixed condition only if it:

        (i) is predetermined; and

        (ii) varies solely with the passing of time between potential exercise or conversion dates and does not expose the issuer to any other risks or variability. Therefore, the compensation is not related to the time value of money.

    (b) to withdraw the proposed criterion related to fixing on initial recognition the present value of the amount of consideration exchanged for each of the entity’s own equity instruments.

    (c) to clarify that for an adjustment to be ‘predetermined’, at inception of the derivative, the amount of consideration and number of shares to be exchanged on each settlement date must:

        (i) be known, ie specified in the contract; or

        (ii) be determinable based on a specified formula in which time is the only variable.

53. Making these clarifications and refinements to the proposed requirements will also require consequential changes to the related Illustrative Examples accompanying IAS 32. For example, draft Example 20 (strike price that varies with an interest rate

benchmark or an inflation index) would be updated and a new illustrative example of a Bermudan option that meets the fixed-for-fixed condition could be added.

Other considerations

54. A derivative on own equity may contain multiple contractual provisions that affect the amount of consideration or the number of own equity instruments upon settlement. For example, the exercise price may depend on the occurrence of different events such as a payment of dividends to the underlying equity instrument holders, issuance of new shares or a change of control of the issuer. Furthermore, some contractual provisions may compensate the future holders of the equity instruments and others may vary solely as a function of time.

55. The staff thinks the IASB could clarify that an entity would for example, need to assess the adjustments that are triggered by each specified event separately to determine whether the derivative can be classified as equity. If any adjustment fails the fixed-for-fixed condition, the entire derivative would be classified as a financial asset or liability.

56. Agenda Paper 5D of the December 2025 IASB meeting discussed whether permissable adjustments would apply to share-for-share exchanges involving a fixed number of one class of an entity's own equity instruments for a fixed number of another class of its own equity instruments. In the December 2025 IASB meeting, IASB members did not specifically object to the potential refinement to clarify that permissible adjustments would also apply to such share-for-share exchanges. Therefore, the staff has not repeated in this paper the previous detailed analysis related to this topic.

57. Agenda Paper 5D of the December 2025 IASB meeting also discussed how the proposed requirements related to the fixed-for-fixed condition would apply to non-derivative instruments that will or may be settled in the issuer's own equity instruments. Because the classification requirements in IAS 32 *Financial Instruments: Presentation* are worded differently for non-derivatives (paragraph 16(b)(i) of IAS 32)

and derivatives (paragraph 16(b)(ii) of IAS 32), the staff thinks entities would need to assess which requirements to apply based on the specific terms and features of the contract being assessed.

58. However, the staff considered whether similar requirements as those related to the permissible adjustments discussed in this paper are necessary when assessing non-derivatives for classification. We are not aware of any practical application questions related to adjustments to the number of own equity instruments that reflect differences in the timing of settlement of non-derivatives.

59. The staff notes that a few stakeholders questioned the accounting treatment of non-derivatives containing down-round features for example, preference shares which are convertible into ordinary shares on a 1-to-1 basis, subject to down-round adjustments.

60. We are of the view that the requirements in paragraph 16(b)(i) of IAS 32 are clear that the entire instrument would be classified as an equity instrument at initial recognition if it does not contain an obligation to deliver a variable number of own equity instruments.[3] This would be the case if the entity can avoid the trigger of the down-round feature by not issuing shares below the conversion price.

61. Similarly, if the number of shares that will be delivered to settle a non-derivative instrument would be adjusted for a share split, and the issuer can avoid the variability in the number of shares by not subdividing its shares, the instrument would qualify as equity. The staff therefore does not think any further requirements are needed for classifying non-derivatives.

Staff recommendation

62. The staff recommends the IASB clarify that if a contract specifies multiple adjustments that could affect the amount of consideration or the number of own equity

[3] Paragraph 16(b)(i) of IAS 32 states that an instrument is an equity instrument only if the instrument will or may be settled in the issuer's own equity instruments and it is a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments

instruments, each individual adjustment must meet the requirements for the fixed-for-fixed condition. If any adjustment fails the fixed-for-fixed condition, the entire derivative would be classified as a financial asset or liability.

63. The staff also recommends the IASB finalise the proposed requirements in the ED related to share-for-share exchanges involving the exchange of a fixed number of one class of an entity's own equity instruments for a fixed number of another class of its own equity instruments, subject to a targeted refinement. The IASB should clarify that the requirements for the permissible adjustments that meet the fixed-for-fixed condition, would also apply to such share-for-share exchanges.

Appendix A—Staff research findings

A1. The staff researched some typical types of adjustments found in convertible bond contracts that are calculated based on a formula. Examples of the triggering events and the inputs into the formula are described in the table.

Adjustments to the conversion price	
Event	**Formula inputs**
Consolidation or subdivision of ordinary shares or issue of ordinary shares by way of capitalisation of profits or reserves	Aggregate number of ordinary shares in issue before and after the event
Dividends to ordinary shareholders	Current market price of one ordinary share and fair market value of the aggregate dividend attributable to one ordinary share
Rights issues, options or warrants to purchase ordinary shares at a price per ordinary share which is less than 95% of the current market price per ordinary share	Number of ordinary shares in issue, number of ordinary shares which the aggregate consideration would purchase at the current market price per ordinary share and the number of ordinary shares to be issued at the initial subscription or purchase price
Other issue of securities (other than ordinary shares or options, warrants or other rights to purchase any ordinary shares) to ordinary shareholders as a class by way of rights or options, warrants or other rights to purchase such securities	Current market price of one ordinary share and the fair market value of the rights attributable to one ordinary share

Change of control (control means more than a specified percentage of the voting rights of the issuer or the right to appoint and/or remove all or the majority of the members of the Board of Directors or other governing body of the issuer)	Fixed percentage conversion premium, number of days from the date of change of control to the final maturity date and number of days from the issue date to the final maturity date
Other circumstance issuer determines	Adjustment that is fair and reasonable provided it results in a reduction to the conversion price