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## FASB | IASB Education Meeting

Date	<b>5 June 2026</b>
Project	<b>Financial Instruments with Characteristics of Equity</b>
Topic	<b>Update on the project</b>
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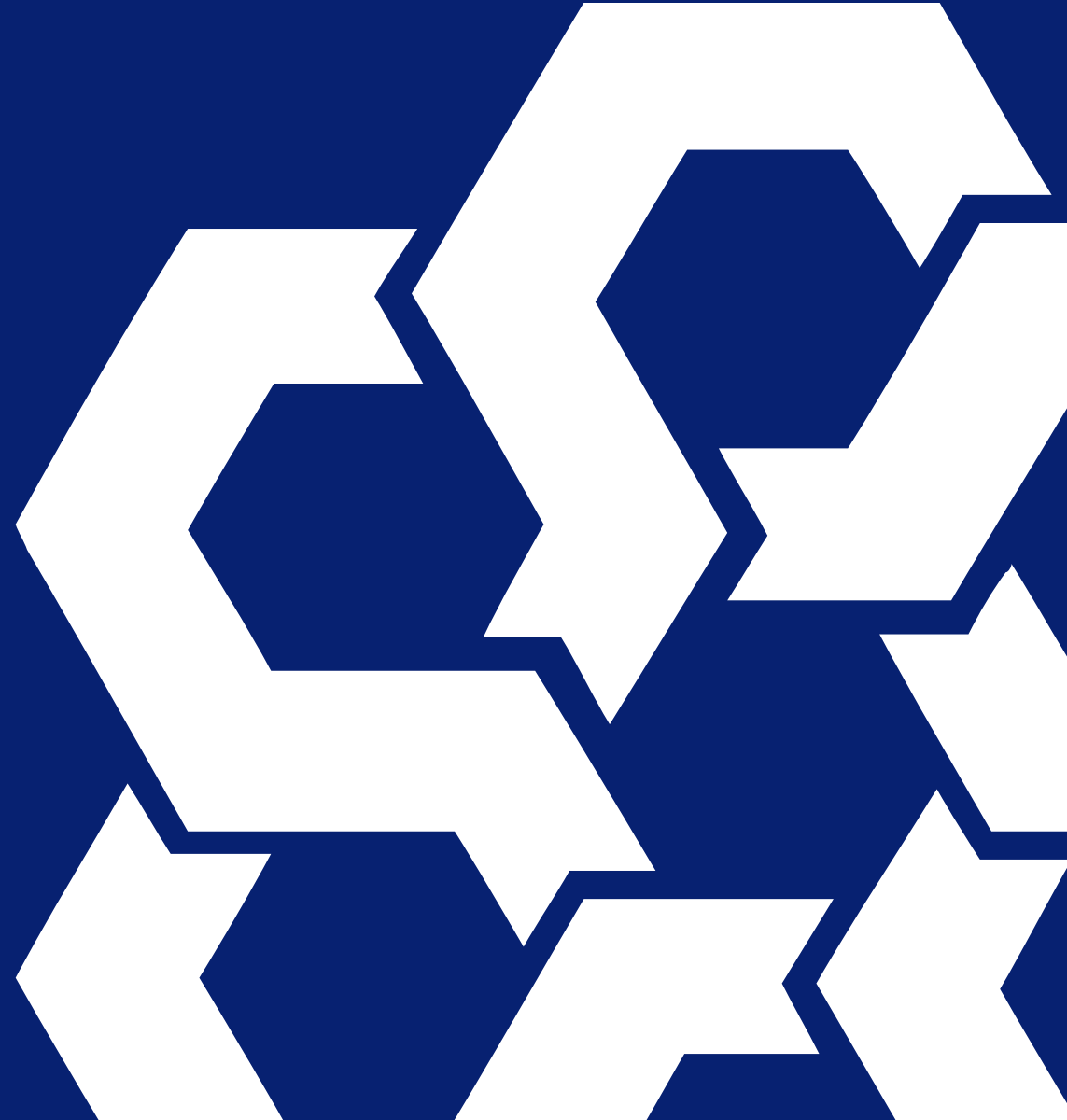
## Purpose of these slides

The purpose of these slides is:

- to provide an update on the *Financial Instruments with Characteristics of Equity* project;
- to recap the overall stakeholder feedback on the Exposure Draft *Financial Instruments with Characteristics of Equity*; and
- to provide an update on the IASB's redeliberation of the proposed requirements in the Exposure Draft related to applying the fixed-for-fixed condition when classifying derivatives on own equity

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## Background information



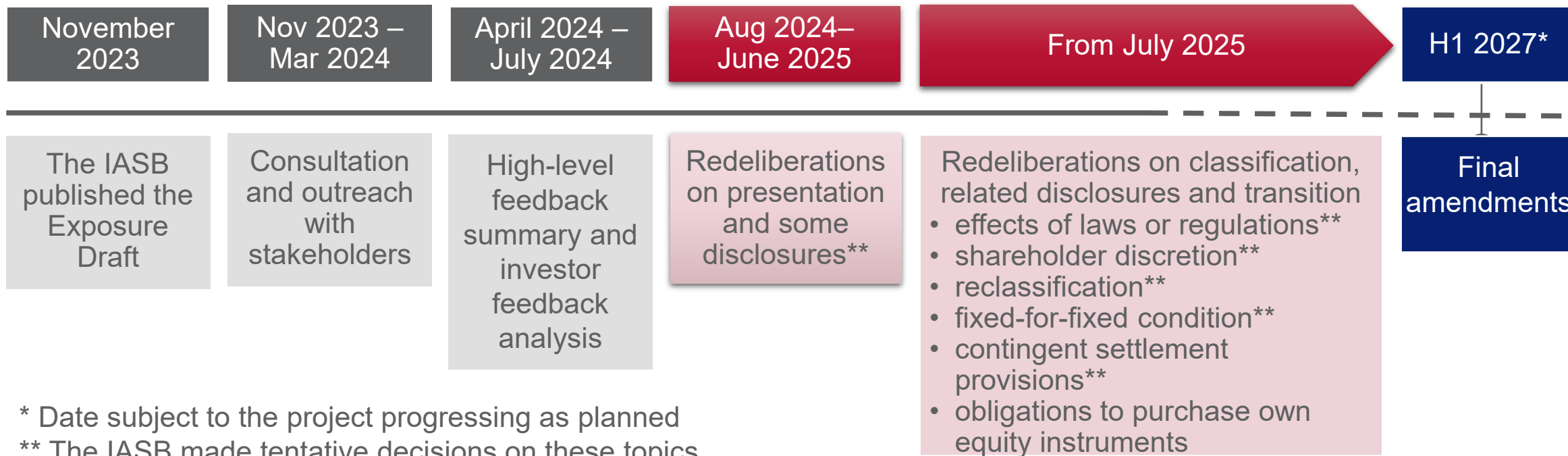
# Project overview

## Objectives



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

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\* Date subject to the project progressing as planned

\*\* The IASB made tentative decisions on these topics

# Overview of feedback on the ED proposals

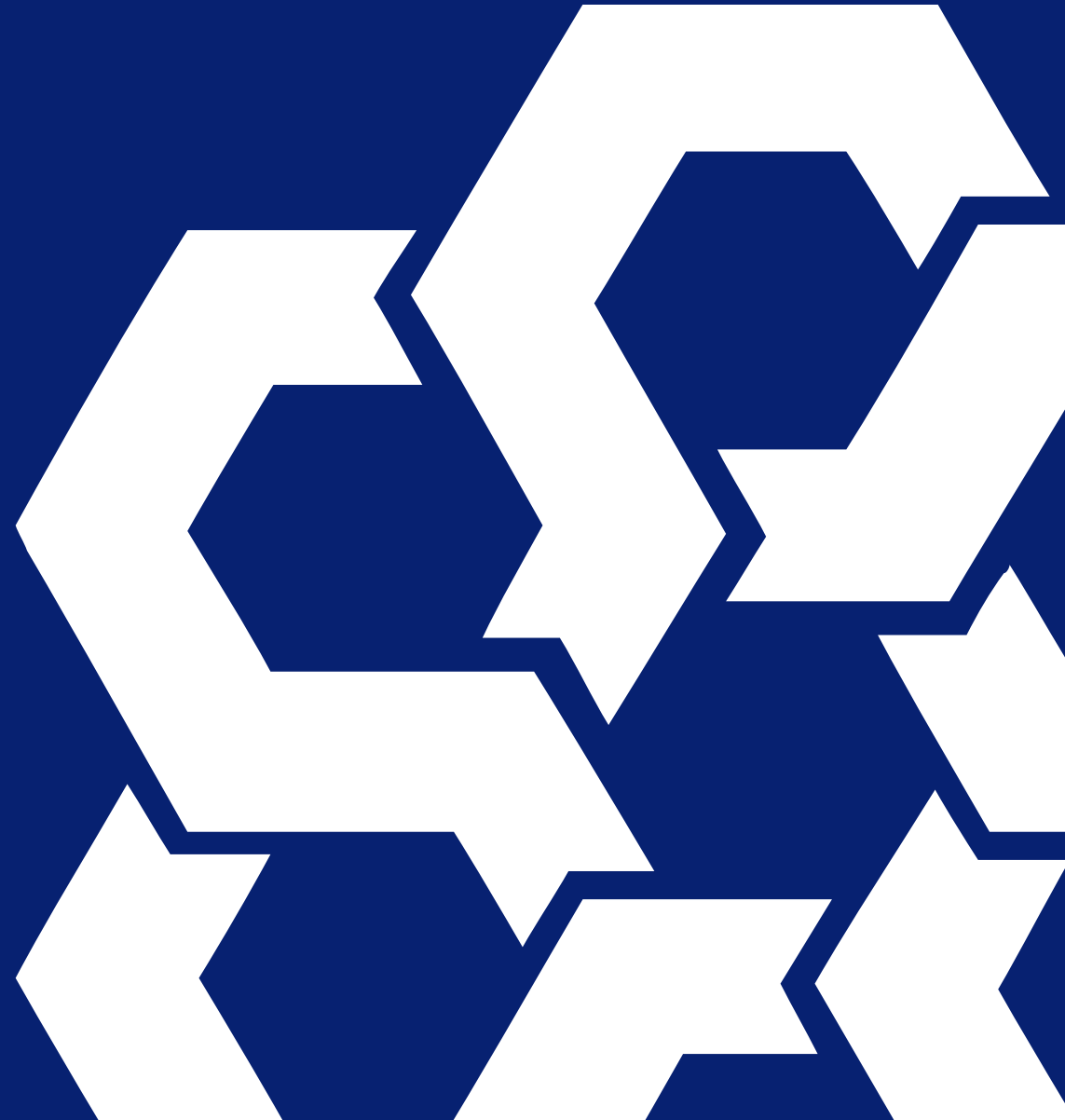
Topic	Feedback
Effects of relevant laws or regulations	
Fixed-for-fixed condition	
Obligations to purchase own equity instruments	
Contingent settlement provisions	
Shareholder discretion	
Reclassification of financial liabilities and equity instruments	
Disclosures	
Presentation of amounts attributable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

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

\* [Agenda Paper 5](#) for the May 2024 IASB meeting includes further details

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# Proposed classification requirements



## Fixed-for-fixed condition—Recap of proposals



For a derivative contract on own equity to be classified as an equity instrument, the amount of consideration to be exchanged for each of an entity's own equity instruments shall be in the entity's **functional currency** and be either:

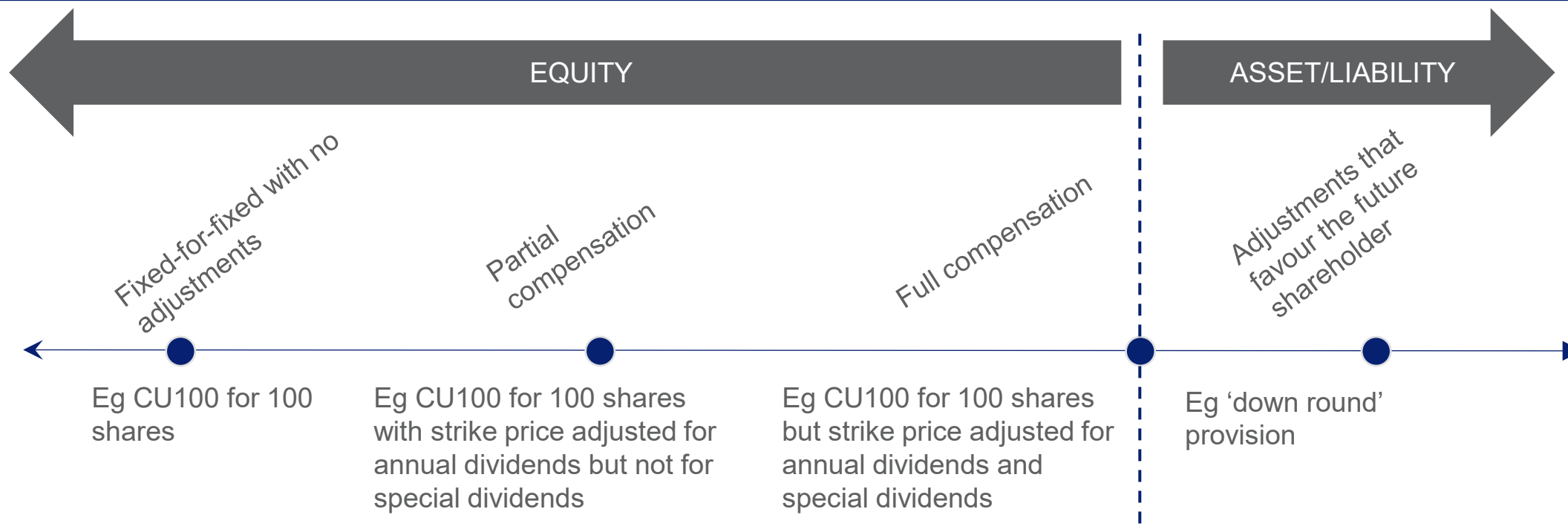
- fixed (will not vary under any circumstances); or
- variable solely as a result of either a preservation adjustment or passage-of-time adjustment or both

Examples	Classification
<p><b>Fixed number of shares for fixed amount</b> A written call option gives the holder a right to buy 100 of the company's own shares for CU100 in cash in five years</p>	<p><b>Equity</b> The amount of cash the entity will receive for each share is fixed, ie CU1 per share</p>
<p><b>Variable number of shares to a fixed value</b> A written call option gives the holder a right to buy as many of the company's own shares as are worth CU100 in exchange for CU95 in cash</p>	<p><b>Financial liability</b> The amount of cash the entity will receive for each share is not fixed</p>

## Preservation adjustments—Recap of proposals



Classify as equity if adjustments preserve economic interests of future shareholders to **an equal or a lesser extent** relative to economic interests of current shareholders



## Passage-of-time adjustments—Recap of proposals



Classify as equity if adjustments:

- are pre-determined at inception of the contract;
- vary only with the passage of time; and
- have the effect of fixing on initial recognition the present value (PV) of the amount of consideration exchanged for each of the entity's own equity instruments

### Examples

Company A issues an option that can be exercised for predetermined amounts at predetermined dates:

- 10 shares for CU100 at end of Year 1
- 10 shares for CU150 at end of Year 2
- 10 shares for CU500 at end of Year 3

### Classification

#### **Likely to be a financial liability**

Not likely to be a passage-of-time adjustment because the contract does not fix the PV of the consideration amount per share (PV at inception of CU150 in Year 2 is unlikely to be the same as PV at inception of CU500 in Year 3 applying the same discount rate)

## Other clarifications—Recap of proposals

- When a group entity issues a derivative on another group entity's shares, to meet the fixed-for-fixed condition in the consolidated financial statements, the consideration amount must be in the functional currency of the group entity whose equity instruments will be delivered on settlement
- A contract that will or may be settled by the exchange of a fixed number of one class of own non-derivative equity instruments for a fixed number of another class of own non-derivative equity instruments is an equity instrument
- If a derivative gives a party choice of settlement between two or more classes of an entity's own equity instruments, consider whether the fixed-for-fixed condition is met for each class of own equity instruments—equity instrument only if all the settlement alternatives meet the fixed-for-fixed condition

## Fixed-for-fixed condition—Recap of feedback

- Some disagreement that consideration must be fixed in the entity's functional currency and in the consolidated group determined based on the entity whose shares are being delivered
- General support for preservation adjustments but some concerns about down-round adjustments and volume weighted average price adjustments failing fixed-for-fixed condition
- General support for passage-of-time adjustments but large concerns about
  - criterion to require the adjustment to have the effect of fixing on initial recognition the amount of consideration per share in terms of a present value
  - adjustments linked to inflation and benchmark interest rates failing fixed-for-fixed condition
  - some adjustments linked to change of control failing fixed-for-fixed condition
- General support for proposals related to share-for-share exchanges and choice of settlement
- Some suggestions to rethink the fixed-for-fixed rule
- Requests for more illustrative examples and additional guidance

\* [Agenda Paper 5](#) for the May 2024 IASB meeting and Agenda Papers [5](#), [5A](#), [5B](#), [5C](#) and [5D](#) for the December 2025 IASB meeting include further details

## Fixed-for-fixed condition—IASB tentative decisions

Finalise the proposed requirements subject to refinements:

- clarify that a derivative could meet the fixed-for-fixed condition if there is a fixed amount of consideration and either a fixed number of own equity instruments or a fixed exchange ratio
- clarify that when a group entity issues a derivative on another group entity's shares, the derivative could meet the fixed-for-fixed condition in the consolidated financial statements, if the consideration amount is denominated in the functional currency of *either* the entity that issues the derivative *or* the entity whose shares are being delivered
- replace the term 'preservation adjustments' with 'adjustments that compensate the future holders of the equity instruments' and clarify that to qualify for fixed-for-fixed condition, the adjustments must
  - aim to place the future holders in an economic position comparable to that of the current holders after a specified trigger event; and
  - not expose the entity to any additional risks compared to issuing the underlying equity instruments

\* [Agenda Papers 5A](#) and [5B](#) for the February 2026 IASB meeting include further details

## Fixed-for-fixed condition—IASB tentative decisions (cont.)

- replace the term ‘passage-of-time adjustments’ with ‘adjustments that are solely a function of time’ and clarify that to qualify for fixed-for-fixed condition, the adjustments must:
  - be predetermined; and
  - vary solely with the passing of time between potential exercise or conversion dates and not expose the issuer to any other risks or variability—the adjustment is not related to the time value of money
- withdraw the proposed criterion related to fixing on initial recognition the present value of the amount of consideration exchanged for each of an entity’s own equity instruments
- clarify the meaning of ‘predetermined’
- clarify that if a contract specifies multiple adjustments that could affect the amount of consideration or number of own equity instruments, each individual adjustment must meet the fixed-for-fixed condition
- clarify that these permissible adjustments would also apply to share-for-share exchanges

\* [Agenda Paper 5B](#) for the February 2026 IASB meeting includes further details

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