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Staff paper

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Accounting Standards Advisory Forum meeting

Date	**November 2026**
Project	**Financial Instruments with Characteristics of Equity**
Topic	**IASB tentative decisions on classification topics**
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Purpose of this session

The purpose of this session is:

a) to update ASAF members on how their feedback was considered in reaching the IASB's tentative decisions on the classification topics in the Exposure Draft *Financial Instruments with Characteristics of Equity* ; and

b) to seek ASAF members' views on whether there are any additional considerations or unintended consequences the IASB should be aware of when drafting the final amendments.

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Question for ASAF members



Question for ASAF members

Potential refinements to the proposed amendments to IAS 32 or IFRS 18

Do you have any views on whether there are any additional considerations or unintended consequences the IASB should be aware of when drafting the final amendments?

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Background information



Project overview

Objectives

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

November 2023	Nov 2023 – Mar 2024	April 2024 – July 2024	Aug 2024– June 2025	From July 2025	H2 2027*
Exposure Draft published	Stakeholder consultation and outreach	Feedback summary and investor feedback analysis	Redeliberations on presentation and disclosures	Redeliberations on classification, other disclosures and transition	Final amendments

* Date subject to the project progressing as planned

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IASB re-deliberations on classification topics



Fixed-for-fixed condition

Topic	What we heard from IASB consultative group members	How the IASB responded
Functional currency	• Some disagreement that in consolidated financial statements consideration must be denominated in the functional currency of the entity whose shares are delivered	• Clarify fixed-for-fixed condition is met if the consideration is denominated in the functional currency of *either* the group entity issuing the derivative *or* the group entity whose shares are delivered

Fixed exchange ratio	• Lack of clarity about what was meant with a 'fixed exchange ratio' and concerns that it appears to be a change to the current wording in paragraph 16(b)(ii) of IAS 32	• Clarify that fixed-for-fixed condition is met if two of these three elements are fixed:
		  • the amount of consideration
		  • the number of own equity instruments
		  • the exchange ratio (ie price per own equity instrument)

Fixed-for-fixed condition (continued)

Topic	What we heard from IASB consultative group members	How the IASB responded

Preservation adjustments	• More clarity needed on interpreting 'to a lesser extent' when assessing whether adjustments preserve economic interests of future shareholders to an equal or a lesser extent relative to economic interests of current shareholders
	• Concerns some change of control adjustments may fail fixed-for-fixed condition even though they also compensate bondholders relative to existing shareholders
		• Clarify 'adjustments that compensate the future holders of the equity instruments' meet fixed-for-fixed condition if they:
		  • aim to place the future holders in an economic position comparable to that of the current holders after a specified trigger event; and
		  • do not expose the entity to any additional risks compared to issuing the underlying equity instruments

Fixed-for-fixed condition (continued)

Topic	What we heard from IASB consultative group members	How the IASB responded

Passage-of-time adjustments	• Concerns about practical difficulty and significant judgement to assess whether the adjustment has the effect of fixing, on initial recognition, the amount of consideration per share in terms of a present value
	• Lack of clarity on whether passage of time refers to time value of money
		• Clarify that 'adjustments that are solely a function of time' meet fixed-for-fixed condition if they are:
		  • predetermined; and
		  • vary solely with the passing of time between potential exercise or conversion dates and do not expose the issuer to any other risks or variability ie the adjustment is not related to 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 own equity instrument
		• Clarify the meaning of 'predetermined'

Fixed-for-fixed condition (continued)

Topic	What we heard from IASB consultative group members	How the IASB responded
Share-for-share exchanges	• Agreed with proposed clarification that exchange of a fixed number of one class of own equity instruments for a fixed number of another class of own equity instruments is an equity instrument, but questioned whether preservation and passage-of-time adjustments would also apply	• Clarify that the permissible adjustments would also apply to share-for-share exchanges

- Agenda Paper 5 for the May 2024 IASB meeting;
- Agenda Papers 5, 5A, 5B, 5C and 5D for the December 2025; and
- Agenda Papers 5A and 5B for the February 2026 IASB meeting IASB meeting include further details

Contingent settlement provisions

Topic	What we heard from IASB consultative group members	How the IASB responded
Instruments subject to paragraph 25 of IAS 32	• The introduction of measurement requirements has led to a greater focus on which financial liabilities these requirements apply to. Some confusion about instruments with contingent features that change the timing of settlement or the amount of cash flows eg stepped interest linked to ESG targets or accelerated repayment when breach of contractual terms.	• Paragraph 25 of IAS 32 applies to financial instruments (or components) that could require liability-type settlement *only* because of an event beyond the control of both issuer and holder
Discretionary payments	• Concerns that investors would not understand why there are no expenses in profit or loss when the entire initial amount is recognised as a financial liability • Concerns about the impact on hedge accounting if discretionary interest payments are recognised in equity and thus ineligible as hedged items	• Tentative decisions on presentation and disclosure proposals resolve some of these concerns • Amend paragraph 36 of IAS 32 to clarify that dividend payments are recognised as expenses if shares are wholly *classified* as liabilities • Consider further when discussing transition issues

Contingent settlement provisions (continued)

Topic	What we heard from IASB consultative group members	How the IASB responded

Measurement of the financial liability	• Concerns the ED introduced a new measurement approach which was not in accordance with IFRS 9 *Financial Instruments* because it ignored probability and timing and could overstate or understate the liability
	• Many application questions related to:
	  • day one gains or losses
	  • how to determine the discount rate
	  • multiple contingent settlement provisions
	  • settlement amounts dependent on future performance metrics
		• Not proceed with *measurement* proposals in FICE project but explore as part of the Amortised Cost Measurement project in the context of the existing requirements in IFRS 9

Contingent settlement provisions (continued)

Topic	What we heard from IASB consultative group members	How the IASB responded
Liquidation	• The proposed definition of liquidation was too restrictive and had unintentional sequencing requiring liquidation to begin after permanent ceasing operations. In some case liquidation could begin before or at the time of permanently ceasing operations.	• Describe liquidation as a process that has the objective of permanently ceasing the entity's operations and includes activities such as converting assets, paying obligations and settling equity claims
Not-genuine	• The focus should be on whether the nature of a contingent event has a substantive business purpose rather than focusing on whether the nature of a contingent event is extremely rare or highly abnormal	• Clarify that 'not-genuine' assessment includes considering both the probability *and* nature of contingent event, including whether it has a substantive business purpose

- Agenda Paper 5 for the May 2024 IASB meeting; and
- Agenda Papers 5, 5A, 5B and 5C for the April 2026 IASB meeting include further details

Obligations to purchase own equity instruments

Topic	What we heard from IASB consultative group members	How the IASB responded
Assessing access to returns associated with ownership	• A 'one size fits all' approach does not work due to diversity in practice • Requests for additional guidance on assessing rights and returns	• Clarify that an entity assesses whether an obligation issued over NCI currently gives it access to the returns associated with ownership interest in accordance with the requirements in IFRS 10 *Consolidated Financial Statements*

Debit entry on initial recognition	• Concerns about debiting 'parent equity' on initial recognition because of double counting in the balance sheet and the impact on banks' regulatory capital ratios	• An entity whose obligation over NCI does not currently give it access to the returns associated with ownership interest:
		  • deducts the debit amount from NCI on initial recognition but does not derecognise NCI; and
		  • presents the debit amount as a separate line item, deducted from a gross NCI line item in the statement of financial position, unless doing so is not necessary to provide a useful structured summary as described in IFRS 18 *Presentation and Disclosure in Financial Statements*.

Obligations to purchase own equity instruments (cont.)

Topic	What we heard from IASB consultative group members	How the IASB responded
Recognition of gains or losses on remeasurement of the liability	• Disagreement with remeasurement of the liability through profit or loss due to counterintuitive effects, perceived double counting in the income statement, or the view that this is a transaction between owners	• Explored whether presentation requirements could address these concerns. Tentatively decided to proceed with proposed clarification that an entity would recognise in profit or loss any gains or losses on remeasurement of the financial liability.

Expiry of the written put option	• General agreement with the proposals even if disagreement with the proposals related to the debit entry on initial recognition or remeasurement gains or losses	• As a consequence of reducing NCI on initial recognition, clarify that on expiry of the put option on NCI, an entity recognises in profit or loss the difference between:
		  • the carrying amount of the financial liability; and
		  • the initial amount by which NCI was reduced.

Obligations to purchase own equity instruments (cont.)

Topic	What we heard from IASB consultative group members	How the IASB responded
Measurement of the financial liability	• Concerns about ignoring probability and estimated timing of the holder exercising the option and discounting assuming redemption will occur at the earliest possible redemption date specified in the contract • Concerns where there are multiple amounts on multiple settlement dates, each being mutually exclusive or variable amounts based on the entity's performance	• Redeliberations on measurement principles are ongoing. Feedback from consultative group members on refining the measurement approach has been provided to the IASB.

- Agenda Paper 5 for the May 2024 IASB meeting;
- Agenda Papers 5, 5A, 5B, 5C and 5D for the September 2026 IASB meeting include further details

Reclassification of financial liabilities and equity instruments

Topic	What we heard from IASB consultative group members	How the IASB responded

Meaning of reclassification	• Concerns about the interaction between the reclassification proposals and other requirements in IFRS Accounting Standards such as the derecognition requirements in IFRS 9	• Clarify reclassification applies to changes in the substance of a contract that do not
		  • create or extinguish contractual rights or obligations; or
		  • modify the contractual terms.

Change in circumstances external to the contract	• General support for reclassification when substance of contract changes because of change in external circumstances but concerns about practical implementation (meaning or scope of external circumstances)	• Clarify that 'circumstances external to the contractual arrangement' are events that
		  • arise after a financial instrument is classified; and
		  • are significant to the entity's operations, demonstrable to external parties and generally expected to occur infrequently.

Reclassification of financial liabilities and equity instruments (continued)

Topic	What we heard from IASB consultative group members	How the IASB responded

Changes when an existing contractual term becomes or stops being effective with the passage of time	• Requests for reclassification when a contractual term starts or ceases to be effective with the passage of time
	• Concerns about prohibiting reclassification when:
	  • an obligation to deliver cash expires unexercised or
	  • an obligation is removed due to a contingent event not occurring within a specified period of time
	• Concerns about recognising gains in profit or loss on remeasurement or derecognition of the liability
		• Require reclassification of a financial instrument containing an **obligation to deliver own equity instruments** from **financial liability to equity**, when the substance of the contractual arrangement changes because a contractual terms stops being effective
		• Clarify that reclassification does not apply when contractual obligations are extinguished

- Agenda Paper 5 for the May 2024 IASB meeting;
- Agenda Paper 5B for the July 2025 IASB meeting; and
- Agenda Paper 5A for the September 2025 IASB meeting include further details

Shareholder discretion

Topic	What we heard from IASB consultative group members	How the IASB responded
Factors-based approach to assess if shareholder decision treated as entity decision	• General support for factors-based approach but concerns about how judgement should be applied and practical difficulty in determining weightings	• Finalise the proposed factors-based approach subject to clarifications of the underlying principles. An entity applies judgement when considering: • the contractual terms of the financial instrument; • the facts and circumstances applicable to the reporting entity; • the capacity in which shareholders act when making decisions by applying the proposed factors and any other relevant factors; • the weightings to be applied to each factor, taking into account that no factor is conclusive on its own; and • the interaction of multiple shareholder decision-making rights and their effects on the classification of the financial instrument.

- Agenda Paper 5 for the May 2024 IASB meeting;
- and Agenda Papers 5B and 5C for the September 2025 IASB meeting include further details

Effects of relevant laws or regulations

Topic	What we heard from IASB consultative group members	How the IASB responded

Overall proposals	• Concerns raised included:
	  • diversity across jurisdictions and potentially within the same consolidated group (eg legal frameworks) resulting in inconsistent classification for economically similar instruments;
	  • unintended consequences on classification;
	  • uncertainty about scope of laws or regulations;
	  • inconsistencies with other IFRS Accounting Standards that consider implicit terms or substantive rights and obligations arising from laws or regulations.
		• Not proceed with proposed requirements because:
		  • lack of consensus on the underlying principles; and
		  • solving concerns would involve addressing the matter in a more fundamental manner and would be beyond the scope of the FICE project.

- Agenda Paper 5 for the May 2024 IASB meeting; and
- Agenda Paper 5A for the July 2025 IASB meeting include further details

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