Staff paper

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IASB® meeting

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Project	**Financial Instruments with Characteristics of Equity (FICE)**
Topic	**Obligations to purchase own equity instruments: Measurement of financial liability**
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Introduction

1. At the September 2026 IASB meeting, the IASB discussed the feedback on the proposals in the Exposure Draft *Financial Instruments with Characteristics of Equity* (the ED) related to the measurement of the financial liability arising from obligations to purchase own equity instruments. 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 measurement of the financial liability arising from obligations to purchase own equity instruments. The proposed refinements take into consideration the detailed feedback on the ED and from IASB members at the September 2026 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) background; 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 the measurement of the financial liability arising from obligations to purchase own equity instruments, subject to some targeted refinements and minor drafting improvements. The targeted refinements include clarifying:

(a) that obligations to purchase own equity instruments are measured at an amount that is *not less than* the earliest amount payable on demand, discounted from the earliest date that the amount could be required to be paid;

(b) if an instrument has contractually-specified redemption amounts to be paid on different exercise dates, the liability is measured at the higher of:

(i) the earliest amount payable on demand; and

(ii) the entity's estimate of the redemption date and associated amount;

(c) if the redemption amount is determined based on an index, share price or performance measure at a future date, the liability is measured based on the index, share price or performance measure as at the most recent reporting date;

(d) the discount rate is a rate that would reflect compensation for the time value of money for the period the amount is outstanding; and

(e) entities would be required to disclose the discount rate used to calculate the present value of the redemption amount.

Question for the IASB

Question for the IASB

Do you agree with the staff's recommendations on the proposed requirements related to the measurement of the financial liability arising from obligations to purchase own equity instruments set out in paragraph 4 of this paper?

Background

5. In Agenda Paper 5C of the September 2026 IASB meeting, the staff summarised and analysed the stakeholder feedback on the proposed requirements in the ED related to the measurement of the financial liability arising from the obligation to purchase an entity's own equity instruments.

6. The ED did not introduce a new measurement basis because paragraph 23 of IAS 32 *Financial Instruments: Presentation* already refers to measurement of the financial liability at the present value of the redemption amount. The ED sought only to achieve consistency between initial and subsequent measurement of the liability and to clarify how to calculate the present value of the redemption amount. It clarified that the redemption amount is discounted assuming redemption will occur at the earliest possible redemption date specified in the contract. Therefore, the probability and estimated timing of the counterparty exercising their right to redeem is not considered and have no effect on the initial or subsequent measurement.

7. Taking into account stakeholder feedback (including additional outreach with consultative groups), the preliminary staff analysis considered how best to refine the measurement principles while still ensuring the requirements are robust enough to apply to all contracts containing obligations to purchase own equity instruments regardless of their settlement terms.

8. We discussed aligning the proposed clarification with the wording in paragraph 47 of IFRS 13 *Fair Value Measurement* as much as possible.[1] This is because obligations to purchase own equity instruments are either certain to be settled (in the case of forward

[1] Paragraph 47 of IFRS 13 states that the fair value of a financial liability with a demand feature is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

purchase contracts) or are within the control of the holder (in the case of written put options where exercise is subject to the behaviour of the holder). Although the entity might not expect all written put options to be exercised, it has no discretion to avoid paying cash (or another liability-type settlement) if the holder exercises the option under the terms of the contract. As a result, these obligations are more similar to liabilities with demand features.

9. The preliminary staff views included clarifying:

   (a) that the objective of determining the present value of the redemption amount is to reflect the amount of cash (or another financial asset or other liability-type settlement) to be paid to settle the instrument based on the terms and conditions of the instrument.

   (b) the general principle that liabilities to which paragraph 23 of IAS 32 applies, should be measured at an amount that is *not less than* the amount payable on demand, discounted from the first date that the amount could be required to be paid (floor on the redemption amount).

   (c) if the contract specifies a variable redemption amount on a single exercise date or different mutually exclusive redemption amounts on different mutually exclusive exercise dates, the liability is measured based on the entity's expectations of the timing and amount of settlement. In the case of different mutually exclusive redemption amounts, the measurement would still be subject to the floor on the redemption amount, applying the general principle.

   (d) the discount rate is a rate that would reflect compensation for the time value of money for the period the amount is outstanding.

   (e) entities would be required to disclose the discount rate used to calculate the present value of the redemption amount.

10. At that time, in the staff's view, applying these potential refinements and clarifications to the measurement approach would, for example result in these measurement outcomes:

(a) if there is one fixed transaction price to repay whenever the holder exercises the put option, the liability would be measured initially and subsequently at the fixed undiscounted transaction price.

(b) if redemption is a fixed amount at a future date, the liability would be measured at the fixed amount, discounted using a discount rate that reflects the time value of money.

(c) if the redemption amount is a multiple of EBITDA at a fixed date in future, measurement would be based on the entity's expectation of the future EBITDA at the fixed settlement date, discounted using a discount rate that reflects the time value of money.

(d) if the holder can exercise the written put option for different mutually exclusive amounts on different mutually exclusive dates of its choice, the measurement would be based on the entity's expectations of the amount and timing of the redemption. However, the present value of the redemption amount cannot be less than the amount payable on demand, discounted from the first date that the amount could be required to be paid. For example, for redemption amounts based on a multiple of EBITDA whenever the holder exercises the put option, measurement would be based on the entity's expectation of the future EBITDA at the expected settlement date but not lower than a multiple of current EBITDA at the reporting date.

11. At the September 2026 IASB meeting, feedback from IASB members included:

(a) broad support for the preliminary staff views including clarifying the objective and measurement principles in determining the present value of the redemption amount.

(b) concerns about the potential complexities associated with updating the discount rate while the obligation remains outstanding and a preference for not

requiring the discount rate to be updated but rather require disclosure of the discount rate used.

(c) suggestions for the staff to consider:

(i) simplifying the requirements by measuring the financial liability based on the current EBITDA if the redemption amount is a multiple of EBTIDA at a fixed date in future as in the case of paragraph 10(c) of this paper.

(ii) clarifying whether the measurement would consider the spot price (current market) or the forward price (expected market) when the amount is variable based on an index. Alternatively, consider requiring expected prices unless they cannot be reasonably estimated, in which case current prices could be used.

(iii) estimating expected EBITDA in the measurement might result in using commercially sensitive information or information that is not yet publicly available.

Staff analysis and recommendations

12. In light of the feedback from IASB members, the staff consider whether further refinements could be made to the measurement principles to simplify the measurement approach. The feedback from IASB members confirmed broad support for the staff's preliminary views described in paragraph 9(a)–(b) and paragraph 9(d)–(e) of this paper. In this paper, we are therefore not discussing the rationale behind those preliminary views again and are focussing mainly on refinements related to the preliminary view described in paragraph 9(c) of the paper. In particular, we consider the input from IASB members summarised in paragraph 11(c) of this paper.

13. Our preliminary views included developing a general principle that obligations to repurchase own equity instruments should be measured at an amount that is *not less than* the amount payable on demand, discounted from the first date that the amount

could be required to be paid. The general principle therefore would reflect the amount of the unavoidable contractual obligation. Because an instrument could have contractually-specified redemption amounts to be paid on different exercise dates at the holder's option, for the avoidance of doubt, we think it would be useful to clarify that the 'amount payable on demand' refers to the 'earliest amount payable on demand'. In other words, obligations to purchase own equity instruments are measured at an amount that is *not less than* the earliest amount payable on demand, discounted from the earliest date that the amount could be required to be paid.

14. However, the staff acknowledges the potential complexity associated with a variable redemption amount that would require estimating an entity's own or another entity's performance or share price at a future date. This would be the case for example when an obligation to purchase own equity is exercisable at the fair value of the equity instruments or an approximation thereof (ie multiples of EBITDA). Such estimation could require a high degree of judgement and subjectivity, which would add to the complexity of the requirements.

15. We therefore considered the suggestion of requiring the use of expected prices unless they cannot be reasonably estimated, in which case current prices should be used. However, the staff thinks such an approach could, in itself, add another layer of complexity and additional costs. This is because in practice, it could be burdensome for entities to prove (and auditors to verify) that the future performance of the entity cannot reasonably be estimated and it would lead to questions about what is meant by 'reasonably estimable'.

16. The staff also acknowledges the concerns raised about the estimation of future performance or share prices requiring the use of information that might not be readily available. For example, in the case of an NCI put option on the shares of a subsidiary that are not quoted in an active market, the liability measured at the present value of the redemption amount would be based mainly on unobservable inputs if the expected EBITDA had to be estimated. Measurement based on expected EBITDA in the future could prejudice negotiations of the final price when the NCI put option is exercised.

This problem could be exacerbated if there is only one subsidiary in the consolidated group, whose shares are subject to an NCI put option.

17. To overcome these challenges, the staff thinks the best approach would be to simply measure the liability based on the entity's current market price or current performance measure at the most recent reporting date (as if the obligation was to be settled at that date). We acknowledge that this approach would depend on the frequency of reporting. However, because the redemption amount is variable, using the entity's current market price or current performance measure at the most recent reporting date would be practical and benefit both preparers and users of financial statements. The benefits of such an approach are that it would:

    (a) further simplify the measurement approach and avoid the need to distinguish between different types of instruments (for example American vs European options);

    (b) avoid the need for subjective judgements or complex models to estimate the future market price or future performance of the entity;

    (c) improve verifiability of the information which in turn will enhance the usefulness of information;

    (d) increase consistency between entities applying the measurement approach which would enhance comparability for users of financial statements;

    (e) reduce any opportunities for structuring to achieve a specific accounting result because only a current measure would be used; and

    (f) resolve any concerns about using information that is not readily available because entities would use the observable measure of current market price or current performance available at the reporting date.

18. We note that users of financial statements have observed in the past that they would prefer to make their own estimates rather than rely on management's judgement in

cases such as this. Similarly, as mentioned in Agenda Paper 5C of the September 2026 IASB meeting, a credit analyst indicated they would prefer the gross amount not factoring in probability so that they could assign their own probability in their analysis.

19. In addition, we note that some of the proposed disclosures the IASB has tentatively decided in June 2025, would also provide additional information to users of financial statements that would assist their analysis. For example:

    (a) terms and condition of liabilities with equity-like features, particularly the cash flow characteristics that are not representative of the classification as a financial liability but that are relevant in understanding the nature of those financial instruments;

    (b) a description of contracts or other commitments to repurchase ordinary shares; and

    (c) a description of the terms and conditions of contracts that are relevant in understanding the maximum dilution of ordinary shares and the likelihood of it occurring, such as the exercise prices.

20. The ED also included proposed disclosures specifically related to obligations to purchase own equity instruments. The staff will summarise and analyse the feedback on these disclosures at a future IASB meeting.

Staff conclusion

21. Based on our analysis in paragraphs 12–20 of this paper, the staff therefore recommends further refinements to our preliminary views listed in paragraph 9 of this paper:

    (a) clarifying that obligations to purchase own equity instruments are measured at an amount that is *not less than* the earliest amount payable on demand, discounted from the earliest date that the amount could be required to be paid;

(b) if an instrument has contractually-specified redemption amounts to be paid on different exercise dates, the liability is measured at the higher of:

(i) the earliest amount payable on demand; and

(ii) the entity's estimate of the redemption date and associated amount; and

(c) if the redemption amount is determined based on an index, share price or performance measure at a future date, the liability is measured based on the index, share price or performance measure as at the most recent reporting date.