
IASB[®] meeting

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Project **Amortised Cost Measurement**
Topic **Contingent settlement provisions**
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Objective and structure of the paper

1. At its [April 2026](#) meeting, the IASB decided that stakeholder feedback on the [Exposure Draft](#) *Financial Instruments with Characteristics of Equity* (FICE Exposure Draft) related to measuring financial liabilities arising from contingent settlement provisions might be better addressed in the Amortised Cost Measurement project rather than in the Financial Instruments with Characteristics of Equity (FICE) project.
2. Since then, the IASB consulted with the [Financial Instruments Consultative Group](#) (FICG) and the [Accounting Standards Advisory Forum](#) (ASAF) seeking input on a potential approach for measuring financial liabilities arising from contingent settlement provisions.
3. This paper provides a summary of the feedback from these consultative groups and sets out the staff analysis and recommendation about how the IASB should respond to stakeholder feedback on measuring financial liabilities arising from contingent settlement provisions.
4. The paper is structured as follows:
 - (a) [summary of staff recommendation and question for the IASB](#);
 - (b) [background](#);

- (c) [staff analysis](#);
- (d) [feedback from consultative groups](#); and
- (e) [staff recommendation](#).

Summary of staff recommendation and question for the IASB

5. We recommend that the IASB propose that a financial liability arising from contingent settlement provisions should be measured at an amount that is not less than its transaction price, on initial recognition and subsequently.

Question for the IASB

Does the IASB agree with the staff recommendation in paragraph 5 of this paper?

Background

Applicable requirements

6. A contingent settlement provision is a contractual term that requires a financial instrument to be settled in cash (or other liability-type settlement), upon the occurrence of an uncertain future event that is beyond the control of both the issuer and the holder of the instrument. Paragraph 25 of IAS 32 *Financial Instruments: Presentation* requires such a financial instrument to be classified as a financial liability. This classification is because the issuer of such an instrument does not have an unconditional right to avoid delivering cash (or another financial asset); therefore, it is a financial liability of the issuer.¹

¹ However, in accordance with paragraphs 25(a)–25(c) of IAS 32, a financial instrument with contingent settlement provisions is not classified as a financial liability if (a) that provision is not genuine; (b) the obligation only required to be settled in the event of liquidation; or (c) the instrument meets the criteria for puttable instruments in paragraphs 16A–16B of IAS 32.

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7. At its [April 2026 meeting](#), the IASB decided to proceed with its proposals in the FICE Exposure Draft related to the classification of financial instruments containing contingent settlement provisions. In particular, the IASB decided to clarify that an instrument with a contingent settlement provision and discretionary coupons can be a compound financial instrument.
 8. Paragraph 31 of IAS 32 requires the equity component of compound instrument to be assigned the residual amount after deducting from the fair value of the instrument as a whole, the amount separately determined for the liability component.
 9. Examples of a financial instruments with contingent settlement provisions include:
 - (a) a contingently convertible instrument—issued at par with no maturity date and with discretionary dividends. The instrument is convertible into a variable number of shares to the value of a fixed par amount if the entity's Common Equity Tier 1 (CET 1) ratio is breached.
 - (b) a contingently redeemable instrument—preference shares with no maturity date and with discretionary coupons. The instrument is redeemable in cash if a specified contingent event occurs or does not occur within a specified time. Contingent events could include a successful initial public offering or change in control.

Summary of proposals in the FICE Exposure Draft

10. The FICE Exposure Draft proposed that the financial liability arising from a contingent settlement provision is measured at the present value of the settlement amount for initial and subsequent measurement. The proposals also assumed that settlement would occur at the earliest possible settlement date specified in the contract.
11. Therefore, the measurement of the liability would not reflect the probability and estimated timing of the contingent event occurring because the entity does not have an

unconditional right to avoid settlement of that liability. Any gains or losses on remeasurement would be recognised in profit or loss.²

Summary of feedback on the proposals in the FICE Exposure Draft

12. Some stakeholders agreed with the measurement proposals in the FICE Exposure Draft while most others strongly disagreed.
13. Stakeholders who agreed viewed the proposal as an appropriate and pragmatic solution that:
 - (a) faithfully reflects the entity's obligation to settle the liability and therefore its exposure to liquidity risk;
 - (b) is simpler to apply because it avoids the complexities and costs associated with the periodic remeasurement of financial liabilities in accordance with IFRS 9 *Financial Instruments*;
 - (c) balances the benefits to investors of the resulting information with the costs to preparers by not requiring estimates of the probability and timing of the contingent event; and
 - (d) aligns with the requirements in paragraph 23 of IAS 32 for measuring obligations to purchase own equity instruments at the present value of the redemption amount.
14. Stakeholders who disagreed said that the proposal would not provide useful information because it does not consider market participants' perspective on the occurrence of the contingent event. In their view, the settlement amount does not reflect the economic substance of the instrument because it does not consider the probability and timing of the contingent event occurring. Therefore, they think that:
 - (a) liabilities might be overstated when the contingent event is remote; and

² See [FICE Exposure Draft](#), draft paragraph 25A of IAS 32.

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- (b) liabilities might be understated when later or higher settlements are more probable.
15. These stakeholders also said that the proposals introduce a new measurement basis for particular financial liabilities and would reduce comparability rather than improve it. They suggested that financial liabilities are measured applying the general principles in IFRS 9, which in their view would take into account the entity's estimates of future cash flows (ie probability and timing of the contingent event occurring).
16. Many stakeholders, including those that agreed with the measurement proposals, raised questions or practical concerns about applying the proposed requirements. Application questions raised by stakeholders included questions about:
- (a) *day one gains or losses*—how to account for differences between the settlement amount and transaction price on initial recognition;
 - (b) *the discount rate*—how to determine the discount rate for calculating the present value of the settlement amount on initial measurement, whether to adjust the discount rate subsequently and how to account for any differences arising from the adjustments; and
 - (c) *the settlement amount*—how to determine the settlement amount on initial recognition, and subsequently, if there are multiple contingent settlement provisions, multiple settlement dates or if the settlement amount is based on future performance targets or performance metrics of the entity.
17. [Agenda Paper 5B](#) for the IASB's April 2026 meeting includes detailed feedback on the FICE Exposure Draft's proposals relating to the measurement of financial liabilities arising from contingent settlement provisions.

Staff analysis

18. Accounting for contingent settlement provisions is a long-standing issue, and diversity in practice has developed over time. Stakeholders have repeatedly asked the IASB to provide guidance, noting that the diversity reduces the usefulness of information provided to investors. Responses to the FICE Exposure Draft confirmed these divergent views, with stakeholders expressing fundamentally different views on the proposals.
19. Furthermore, the terms and conditions of contracts with contingent settlement provisions vary significantly, including across different jurisdictions. In some jurisdictions the accounting for these instruments also affects matters such as a bank's regulatory capital or an entity's debt-to-equity covenants.
20. Consequently, identifying an approach that would achieve broad stakeholder support across jurisdictions may not be feasible. Accordingly, we think it would be beneficial to explore an approach to measurement that is more consistent with, and can be incorporated into, current IFRS 9 requirements. We think that such an approach could also address some of the concerns that stakeholders identified in relation to the approach proposed in the FICE Exposure Draft.
21. Based on stakeholders' feedback, both before and as part of the FICE project, in our view there are only two potential approaches to measuring a financial liability arising from a contingent settlement provision. There is no 'middle ground' between the two approaches—either the probability and timing of the contingent event occurring are considered, or they are not.
22. We also note that there are different ways in which the probability and timing of the contingent event occurring could be considered, for example, an entity could:
 - (a) apply a fair value measurement approach and designate the financial liability at fair value through profit or loss (in accordance with paragraph 4.2.2 of IFRS 9); or

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- (b) consider its own expectations or best estimate of the probability and timing in a way that is consistent with amortised cost measurement.
23. When deciding to consider the measurement of financial liabilities arising from contingent settlement provisions as part of the Amortised Cost Measurement project, the IASB intended to only consider liabilities that are measured at amortised cost. The staff analysis in this paper therefore analyses measuring a financial liability arising from contingent settlement provisions based on:
- (a) a best estimate approach—that is, at an amount that reflects the entity’s estimates of the probability and expected timing of the contingent event occurring (Approach A); or
 - (b) a transaction price approach—that is, at an amount that is not less than the transaction price of the financial instrument as a whole (Approach B).

Approach A—Best estimate approach

24. Applying Approach A, on initial recognition, an entity would measure a financial liability arising from a contingent settlement provision at an amount that reflects the entity’s expectation of the probability and expected timing of the contingent event occurring. The liability is therefore measured at an amount that represents the entity’s best estimate of the liability after considering the most likely outcome of the contingent event. For a compound instrument, the equity component is assigned the residual amount (see paragraph 8 of this paper).
25. For example, assume an entity issues a contingently convertible instrument at fair value of CU100. If the entity’s best estimate of the financial liability component at initial recognition is CU5, the equity component is allocated the residual amount of CU95. Supporters of this approach reason that when an investor invests CU100 in the instrument, the investor might expect the return on its investment to be through discretionary dividends or the receipt of shares in the entity rather than the repayment of the initial investment made.

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26. For subsequent measurement, an entity continues to reflect its estimates of the probability and expected timing of the contingent event occurring. In particular, the entity would apply paragraph B5.4.6 of IFRS 9 to adjust the liability's carrying amount to reflect changes in the entity's estimates about the amount and timing of the cash flows required to settle the liability. Consequently, the carrying amount of the financial liability could increase or decrease at each reporting period.
27. If, for example, the entity's best estimate of the financial liability described in paragraph 25 subsequently increases to CU100 because the occurrence of the contingent event becomes likely, an adjustment of CU95 is recognised as an expense in profit or loss.
28. The main advantages of Approach A are that:
- (a) **it better reflects the economic substance of the transaction.** This approach would consider the entity's estimates of the likelihood of the contingent event occurring, providing information that better reflects the economic substance of the transaction. The carrying amount of the financial liability would change only if the entity's expectations of the contingent event occurring changes.
 - (b) **it is consistent with other requirements in IFRS 9, such as the calculation of the effective interest rate.** When calculating the effective interest rate, an entity is required to estimate *expected* cash flows by considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) and discounting those cash flows over the expected life of the financial instrument.
29. Approach A is similar to the 'amount feature' proposed in the 2018 FICE [Discussion Paper](#) which would have involved an entity considering the probability of it entering liquidation. Stakeholders strongly disagreed with that proposal for two reasons. First, assessing whether—and, if so, when—an entity would enter liquidation is highly subjective. Second, the assessment could produce counter-intuitive outcomes, particularly for financial liabilities with loss-absorbing features, such as contingently

convertible instruments for which the contingent event is the issuer's non-viability. Stakeholders noted that, as the probability of non-viability increases, the liability's carrying amount increases. This would lead to a corresponding loss being recognised in profit or loss, even though this outcome is contrary to the instrument's loss-absorbing nature and the fact that entity has not incurred further losses.³

30. When the liability has a low (or, in some cases, immaterial) carrying amount, Approach A might also result in users of financial statements having limited visibility of the potential for a significant liability to be recognised in the statement of financial position. However, this might be somewhat mitigated by the disclosure requirements in paragraphs 20B–20C of IFRS 7 *Financial Instruments: Disclosures*.
31. These disclosures require an entity to provide information to enable users of financial statements to understand the effect of contractual terms that could change the amount of contractual cash flows based on the occurrence (or non-occurrence) of a contingent event.⁴ However, these disclosures might not have an effect on an entity's liquidity and leverage-type ratios which are based on the carrying amounts of an entity's assets and liabilities.
32. Furthermore, as discussed at the IASB's [June 2025](#) meeting, many preparers reported that, for financial instruments with contingent terms affecting the contractual interest rate, an entity might not always have sufficient information available to support a reliable estimate. Therefore, conditional terms are not always reflected when calculating the effective interest rate. Similar restrictions in the context of contingent settlement provisions could lead to the understatement of an entity's liabilities and result in users of financial statements being provided with misleading information about the entity's financial liabilities.

³ See [Agenda Paper 5B](#) for the IASB's June 2019 meeting.

⁴ These disclosures were added as part of the [Amendments to Classification and Measurement of Financial Instruments](#), issued in 2024. The effective date for these disclosures is 1 January 2026

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33. In our view, if the IASB decides to proceed with this approach, it would need to provide application guidance on how to reflect the probability of contingent events in the expected cash flows for the purpose of measuring the financial liability.
34. We note that as part of the post-implementation review of the classification and measurement requirements in IFRS 9, the IASB was asked to provide such application guidance for the purpose of determining the effective interest rate on initial recognition of a financial instrument with contingent terms.⁵ However, in [September 2025](#), the IASB concluded that prescribing a method may be arbitrary and may not appropriately reflect the substance of different types of contingent contractual cash flows. At the time, the IASB tentatively decided to take no further action on this matter.

Approach B—Transaction price approach

35. Applying Approach B, an entity would measure a financial liability arising from a contingent settlement provision at an amount that is not less than the transaction price—that is, the fair value of the consideration received for the financial instrument in its entirety.
36. This approach is aligned with the existing guidance in IFRS 9 which requires an entity to measure the financial liability at its fair value in accordance with paragraph 5.1.1 of IFRS 9. Paragraph B5.1.1 of IFRS 9 states that the fair value of a financial instrument at initial recognition is normally the transaction price.
37. As set out in paragraph 6 of this paper, a financial instrument that includes a contingent settlement provision is classified as a financial liability because the issuer of such an instrument does not have the unconditional right to avoid delivering cash (or other liability-type settlement) to settle a contractual obligation. The occurrence of the contingent event is outside the control of both the holder and issuer; therefore, the issuer

⁵ See [Agenda Paper 3B](#) for the IASB's July 2022 meeting.

has no discretion to avoid repaying (or delivering) at least the investor's initial capital investment (ie the transaction price).

38. Recognising the financial liability at the transaction price is also consistent with the current requirements in IAS 32, which requires the carrying value of the financial liability to be determined before calculating the carrying value of the equity component as a residual amount. Paragraph 31 of IAS 32 states that no gain or loss arises from initially recognising the components of a financial instrument separately.
39. Paragraph 32 of IAS 32 requires an issuer to first determine the carrying amount of the liability component by measuring the fair value of a similar liability that does not have an associated equity component. Paragraph AG31 of IAS 32 further states that, on initial recognition, the liability component is the present value of the contractually determined stream of future cash flows discounted at the interest rate for a comparable instrument without the equity component.
40. Under this approach, the fair value of the instrument in its entirety is allocated to the financial liability arising from a contingent settlement provision and the financial liability would be recognised initially at the transaction price.
41. Subsequent to initial recognition, an entity would adjust the carrying amount in accordance with paragraph B5.4.6 of IFRS 9 only when an entity expects to settle the liability at an amount higher than the transaction price. This might be the case, for example, when the contractual arrangements require the liability to be settled at an amount that is a multiple of the par amount, such as 125% of par. Consequently, although the financial liability might increase after initial recognition, it would not subsequently be measured at an amount less than the transaction price.
42. The main advantages of Approach B are that:
 - (a) **the amount is determined objectively.** Measuring the financial liability at an amount not less than transaction price would avoid subjective judgements or arbitrary assumptions about the timing or occurrence of contingent events

because the transaction price is the amount of consideration exchanged between the counterparties. This measurement could improve comparability between similar transactions for users of financial statements. It would also avoid increased costs for preparers as it does not rely on subjective estimates about the probability and timing of an event occurring.

- (b) **it is consistent with existing IFRS 9 and IAS 32 concepts.** The financial liability arising from contingent settlement would initially be measured at the transaction price. As explained in paragraph 36 of this paper, the transaction price is normally representative of the fair value of a financial instrument. This approach is also consistent with paragraph 25 of IAS 32 because the issuer cannot avoid paying (or delivering) at least the transaction price (see paragraph 6 of this paper).
 - (c) **it reflects how these instruments are priced and invested.** Feedback on the FICE Exposure Draft indicated that, even if coupons are discretionary, the interest is usually paid and some entities hedge the associated interest rate and foreign exchange risks. From the perspective of users of financial statements, the cash flows on these instruments behave as debt. Therefore, recognising the financial liability at its transaction price on initial recognition might provide more useful information to users because the financial liability would, at a minimum, be recognised at the amount an entity cannot avoid paying.
43. This approach is therefore similar to the proposed approach in the FICE Exposure Draft which also based the measurement of the financial liability on the amount an entity cannot avoid paying. However, it includes simplifications which are responsive to most of the requests for clarification summarised in paragraph 16 of this paper. Applying this approach would:
- (a) avoid any day one gains or losses that could have resulted from the proposals in the FICE Exposure Draft because the financial liability is recognised at the transaction cost, instead of another value;

- (b) not require an entity to determine the discount rate; and
- (c) eliminate any complexity in determining the settlement amount if there are multiple contingent settlement provisions, multiple settlement dates or if the settlement amount is based on future performance targets or performance metrics of the entity.

Feedback from consultative groups

FICG

- 44. At its [July 2026 meeting](#), FICG members provided feedback on the two approaches described in this paper.
- 45. Most FICG members (preparers and users) expressed strong support for Approach B—that is, measuring a financial liability arising from a contingent settlement provision at an amount not less than the transaction price of the instrument as whole. They said that Approach B would:
 - (a) be more objective, transparent and comparable so that entities that issue financial instruments subject to similar contingent settlement provisions would measure the liabilities in the same way. In other words, it avoids situations where the best estimates of different entities lead to significantly different accounting outcomes.
 - (b) be simpler to apply as it avoids the complexities, costs and audit challenges of estimating and continuously updating an entity's best estimate of the probability and timing of contingent events.
 - (c) better reflect entities' risk management practices of the liability and enable an entity to achieve hedge accounting for eligible risks.
- 46. In particular, the user members said that information resulting from Approach A might not be particularly useful because:

- (a) gains and losses would reflect changes in the entity's estimates of contingent events rather than changes in the underlying economics of the instrument; and
 - (b) increases in the liability amount may occur only when the likelihood of the contingent event has already increased significantly—in practice the carrying of the liability might only be remeasured immediately before or after the contingent event has occurred. This will reduce the usefulness of the information to enable users of financial statements to identify emerging risks and potentially amplifying volatility during periods of financial stress.
47. However, a few preparer members preferred Approach A because, in their view, incorporating the entity's estimate of the timing and amount of the obligation would better reflect the economic substance in arrangements where settlement is considered highly unlikely.
48. Some members suggested enhancing the disclosures for liabilities arising from contingent settlement provisions, regardless of which approach the IASB proposes. In particular, they suggested disclosures that would provide users of financial statements with information about the nature of the contingency and its effects on the measurement of the financial liability.

ASAF

49. At its [October 2026 meeting](#), we asked ASAF members for their views on the two approaches described in this paper and whether they agreed with the initial staff view to recommend Approach B.
50. Most ASAF members agreed with the staff's initial view to recommend Approach B because:
- (a) it provides a practical and objective approach to measuring a financial liability arising from a contingent settlement provision;
 - (b) it is consistent with existing measurement requirements in IFRS 9; and

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- (c) it responds to the challenges identified in applying the approach proposed in the FICE Exposure Draft (see paragraph 16 of this paper).
51. However, some ASAF members expressed support for Approach A. In their view, measuring a financial liability arising from a contingent settlement provision at an amount that is based on the entity's best estimates, is more consistent with the amortised cost measurement requirements in IFRS 9. They also said that this approach would avoid overstating the liability when the probability of the contingent event is negligible.
52. The Financial Accounting Standards Board (FASB) representative said that users of financial statements prepared applying US generally accepted accounting principles have reported that fair value measurement of highly subjective or remote contingent features does not provide useful information. The FASB representative also noted that Approach A might require preparers to perform costly probability assessments to provide information that might not be useful to users of financial statements.
53. Many ASAF members asked the IASB to consider the need for enhanced disclosures to provide users of financial statements with information about the nature, timing and potential settlement amount of the financial liability.
54. Some ASAF members also asked the IASB to ensure stakeholders, especially preparers, have sufficient time to consider the effects of any proposed new requirements. In particular, they suggested the IASB consider how the transition requirements for this project might interact with those related to the FICE project as these amendments could significantly affect the capital base of some entities such as banks.

Staff recommendation

55. Although the staff acknowledges the reasons for and advantages of a best estimate approach, based on stakeholder feedback on the FICE Exposure Draft and the recent

feedback from consultative groups, we think a transaction price approach (Approach B) is the most appropriate approach. Approach B would:

- (a) address the challenges identified in applying the measurement approach proposed in the FICE Exposure Draft; and
- (b) achieve a more appropriate balance between costs for preparers and benefits from the resulting information for users of financial statements.

56. As discussed in paragraphs 28(b) and 42(b) of this paper, both approaches are consistent with some of the general principles in IFRS 9:

- (a) Approach A is consistent with how contractual cash flows are determined for purposes of calculating the effective interest rate because it takes into account an entity's estimates of future cash flows.
- (b) Approach B is consistent with initial measurement requirements in section 5.1 of IFRS 9 which require an entity to measure a financial liability at fair value. As stated in paragraph B5.1.2A of IFRS 9, the best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (ie the fair value of the consideration given or received). It is also consistent with the rationale underlying the classification guidance in IAS 32, as explained in paragraph 42(b) of this paper.

57. However, both approaches would require additional guidance on how these requirements apply to financial liabilities arising from contingent settlement provisions. Additional guidance would be required because for most other financial liabilities the obligation to pay an amount of cash (ie the principal amount outstanding) is unconditional, and contingent features generally affect the timing of payments or the amount of interest. In contrast, for financial liabilities arising from contingent settlement provisions, the contingencies relate to whether the principal amount outstanding will be repaid (whether in cash or through delivery of shares) or not.

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58. For Approach A, application guidance would be needed to explain how entities should estimate the probability and timing of the contingent event occurring.
59. For Approach B, although less significant than for Approach A, application guidance would be needed to ensure the requirements are applied to the appropriate population of financial liabilities.
60. We also note that either approach would result in some entities having to change their current practice and that these effects could be significant for particular entities. For example, Approach B could have unfavourable regulatory consequences for entities such as banks in particular jurisdictions because only instruments classified as equity for accounting purposes qualify as Common Equity Tier 1 (CET1). On the other hand, Approach A could result in many entities being unable to apply hedge accounting to the interest rate and/or foreign exchange risk arising from these instruments. Some stakeholders indicated that such an outcome would result in them being unable to issue these instruments in future.
61. On balance, we are of the view that Approach A would not achieve an appropriate balance between the cost to preparers and the benefits from the resulting information to users of financial statements.
62. We therefore recommend that the IASB propose that a financial liability arising from contingent settlement provisions should be measured on initial recognition at its transaction price. Subsequently, the financial liability is adjusted to an amount higher than the transaction price if the entity expects to settle the liability for a higher amount. As a result, the financial liability would be measured at the transaction price or a higher amount throughout its life.
63. Based on the feedback from FICG and ASAF members, we also plan to assess whether additional disclosures are needed and discuss them with potential disclosures for other topics in this project at a future meeting. We will also consider suggestions

to allow sufficient time to implement the proposals, as well as the interaction between these proposals and the final amendments to be issued as part of the FICE project.