IASB® meeting

Date	**September 2026**
Project	**Financial Instruments with Characteristics of Equity (FICE)**
Topic	**Obligations to purchase own equity instruments: Cover paper**
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Purpose of this meeting

1. The purpose of this meeting is to begin the IASB's redeliberation on the proposals in the Exposure Draft *Financial Instruments with Characteristics of Equity* (the ED) issued in November 2023, related to classifying financial instruments containing obligations to purchase own equity instruments.

2. In the agenda papers for this meeting, the staff summarises and analyses the feedback received from comment letters and outreach on the ED on this topic. This cover paper includes a summary of the general feedback. The specific feedback is summarised and analysed by sub-topics in the following agenda papers:

   (a) Agenda Paper 5A *Obligations to purchase own equity instruments: Debit entry on initial recognition*;

   (b) Agenda Paper 5B *Obligations to purchase own equity instruments: Remeasurement gains or losses*;

   (c) Agenda Paper 5C *Obligations to purchase own equity instruments: Measurement of financial liability; and*

   (d) Agenda Paper 5D *Obligations to purchase own equity instruments: Other matters.*

3. Agenda Papers 5A, 5B and 5D also contain the staff's recommendations for proposed amendments to IAS 32 *Financial Instruments: Presentation* after considering the stakeholder feedback. At this meeting, the staff will ask the IASB if it agrees with its recommendations in those papers.

4. At this meeting the IASB is not asked to make any decisions on the proposed amendments related to measurement of the financial liability discussed in Agenda Paper 5C. The staff will seek direction and input from IASB members on potential refinements to the proposed amendments in response to the stakeholder feedback.

5. In these agenda papers, we use the following terms to broadly indicate the portion of respondents that reported a particular view:

   (a) almost all—all except a very small minority;

   (b) most—large majority, with more than a few exceptions;

   (c) many—small majority or large minority;

   (d) some—small minority, but more than a few; and

   (e) a few—a very small minority.

6. This paper is structured as follows:

   (a) background and questions in the ED;

   (b) general feedback on the proposals; and

   (c) appendix A—proposed amendments to IAS 32 in the ED related to obligations to purchase own equity instruments.

Background and questions in the ED

7. Paragraph 23 of IAS 32 sets out requirements for contracts containing an obligation for an entity to purchase its own equity instruments. Examples of such contracts include a forward contract to purchase the entity's own shares and a written put option that gives the holder the right to require the entity to purchase its own shares. IAS 32 requires an entity to recognise a financial liability at the present value of the redemption amount. This amount is removed from equity and included in financial liabilities.

8. The ED included proposed amendments to clarify how an entity would apply the requirements in paragraph 23 of IAS 32. The proposed amendments responded to questions that arose in practice about:

   (a) which component of equity to debit upon initial recognition of the financial liability;

   (b) how to measure the financial liability;

   (c) whether gains or losses on remeasurement of the financial liability are recognised in profit or loss;

   (d) whether the requirements apply to contracts that will be settled by delivering a variable number of another class of the entity's own shares; and

   (e) how to apply the requirements if a contract expires without delivery.

9. The IASB asked these questions in the ED:

Question 3—Obligations to purchase an entity's own equity instruments (paragraphs 23 and AG27B–AG27D of IAS 32)
The IASB proposes to clarify that: (a) the requirements in IAS 32 for contracts containing an obligation for an entity to purchase its own equity instruments also apply to contracts that will be settled

Question 3—Obligations to purchase an entity's own equity instruments (paragraphs 23 and AG27B–AG27D of IAS 32)

by delivering a variable number of another class of the entity's own equity instruments (paragraph 23).

(b) on initial recognition of the obligation to redeem an entity's own equity instruments, if the entity does not yet have access to the rights and returns associated with ownership of the equity instruments to which the obligation relates, those equity instruments would continue to be recognised. The initial amount of the financial liability would, therefore, be removed from a component of equity other than non-controlling interests or issued share capital (paragraph AG27B).

(c) an entity is required to use the same approach for initial and subsequent measurement of the financial liability—measure the liability at the present value of the redemption amount and ignore the probability and estimated timing of the counterparty exercising that redemption right (paragraph 23).

(d) any gains or losses on remeasurement of the financial liability are recognised in profit or loss (paragraph 23).

(e) if a contract containing an obligation for an entity to purchase its own equity instruments expires without delivery:

  (i) the carrying amount of the financial liability would be removed from financial liabilities and included in the same component of equity as that from which it was removed on initial recognition of the financial liability.

  (ii) any gains or losses previously recognised from remeasuring the financial liability would not be reversed in profit or loss. However, the entity may transfer the cumulative amount of those gains or losses from retained earnings to another component of equity (paragraph AG27C).

(f) written put options and forward purchase contracts on an entity's own equity instruments that are gross physically settled—consideration is exchanged for

Question 3—Obligations to purchase an entity's own equity instruments (paragraphs 23 and AG27B–AG27D of IAS 32)

own equity instruments—are required to be presented on a gross basis (paragraph AG27D).

Paragraphs BC62–BC93 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

General feedback on the proposals

10. Most stakeholders that submitted comment letters on the ED provided feedback on the proposals related to obligations to purchase own equity instruments. Stakeholders generally acknowledged the diversity in practice when accounting for these obligations and appreciated the IASB's efforts to clarify the related requirements.

11. Some stakeholders (including standard-setters, preparers, regulators, accounting firms and accountancy bodies) that commented on the proposals generally agreed with them. They believed that the proposals would result in a consistent approach for the recognition and measurement of obligations to purchase own equity instruments and thereby improve comparability. Specifically, in their view, gross presentation of obligations to purchase own equity instruments provides valuable information to users of financial statements regarding an entity's exposure to liquidity risk.

12. However, most stakeholders (across the main stakeholder groups) disagreed or expressed mixed views (ie, they agreed with some of the proposals but disagreed with others). Key areas of disagreement related to:

(a) the initial debit entry—debiting 'parent equity' on initial recognition would result in recognising both the non-controlling interest (NCI) holders' entitlement to share in the subsidiary's business and a gross obligation to NCI if they give up their interest, thereby leading to perceived double-counting in the statement of financial position. Additionally, in their view, this would understate the parent's claim on the entity's net assets and affect banks' regulatory capital ratios.

(b) recognition of gains or losses from remeasurement of the financial liability in profit or loss—they highlighted perceived counterintuitive effects, perceived double-counting in the statement of profit or loss (both remeasurement of the financial liability and allocation of subsidiary's results to the NCI holders affect the parent's profit or loss) and a perceived inconsistency between IAS 32 and IFRS 10 *Consolidated Financial Statements*.

(c) measurement of the financial liability—in their view, the ED created a 'new measurement basis' which is inconsistent with existing measurement bases in IFRS 9 *Financial Instruments* because it disregards the probability and timing of settlement and focuses on the earliest possible settlement date.

13. Only a few of users of financial statements commented on classification topics.[1] Those that commented on obligations to purchase own equity instruments provided feedback in the context of written put options on NCI. Some of these users noted that the proposals could result in an understatement in parent equity and parent earnings which would adversely impact critical metrics such as the price-to-book ratio and price earnings multiple. They expressed concerns that recognising both the NCI and the gross liability for the NCI put could result in the double-counting of these items in the Enterprise Value to Equity Value bridge. They explained that they rely on the share of NCI in group equity and the share of NCI in group profit as key indicators of the percentage of the value of the entire group that is attributable to outside shareholders, given the limited information about NCI provided in the financial statements.

[1] Agenda Paper 5A for the July 2024 IASB includes a summary of the feedback from users of financial statements on the proposals in the ED.

Appendix A—Proposed amendments to IAS 32 in the ED related to obligations to purchase own equity instruments

A1. The IASB proposed amending or adding the following paragraphs to IAS 32 related to obligations to purchase own equity instruments (new text is underlined and deleted text is struck through):

Paragraph 23

With the exception of the circumstances described in paragraphs 16A and 16B or paragraphs 16C and 16D, a contract that contains an obligation for an entity to purchase its own equity instruments for cash or another financial asset (or a variable number of another class of the entity's own equity instruments to the value of the contractual obligation) gives rise to a financial liability for the present value of the redemption amount (for example, for the present value of the forward repurchase price, option exercise price or other redemption amount). This is the case even if the contract itself is an equity instrument. One example is an entity's obligation under a forward contract to purchase its own equity instruments for cash. The financial liability is recognised initially at the present value of the redemption amount by removing that amount~~, and is reclassified~~ from equity and including it in financial liabilities. Subsequently, the financial liability is measured at the present value of the redemption amount ~~in accordance with IFRS 9.~~and any gains or losses on remeasurement of the financial liability are recognised in profit or loss. If the contract expires without delivery, the carrying amount of the financial liability is removed from financial liabilities and included in ~~reclassified to~~ equity. An entity's contractual obligation to purchase its own equity instruments gives rise to a financial liability for the present value of the redemption amount even if the obligation to purchase is conditional on the counterparty exercising a right to redeem (eg a written put option that gives the counterparty the right to sell an entity's own equity instruments to the entity for a fixed price). 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 have no effect on the initial or subsequent measurement of the financial liability.

Paragraph AG27B

As required by paragraph 23, if a contract contains an obligation for an entity to purchase its own equity instruments, the entity initially recognises a financial liability at the present value of the redemption amount by removing that amount from equity and including it in financial liabilities. If the entity does not yet have access to the rights and returns associated with ownership of the equity instruments to which the obligation relates (the rights and returns have not legally or in substance been transferred to the entity), these equity instruments would continue to be recognised. The initial amount of the financial liability would, therefore, be removed from a component of equity other than non-controlling interests or issued share capital.

Paragraph AG27C

Paragraph 23 also states that if a contract containing an obligation for an entity to purchase its own equity instruments expires without delivery, the entity is required to remove the carrying amount of the financial liability from financial liabilities and include it in equity. In applying that requirement, an entity:

(a) recognises the amount included in equity in the same component of equity as that from which it was removed on initial recognition of the financial liability.

(b) does not reverse in profit or loss any gains or losses previously recognised from remeasuring the financial liability. However, the entity may transfer the cumulative amount of those gains or losses from retained earnings to another component of equity.

Paragraph AG27D

If an entity's contractual obligation to purchase its own equity instruments is to be gross physically settled—consideration is to be exchanged for own equity instruments—the entity is required to present its contractual obligation on a gross basis even if the obligation arises from a written put option or a forward purchase contract. If the obligation was to be net settled (in cash or in shares) or could be net settled (at the election of either the issuer or the holder), derivative accounting would apply.