# Staff paper

Agenda reference: 5C

**IASB® meeting**

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| Date | **September 2026** |
| 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. In this paper, the staff summarises 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. This paper also includes a preliminary analysis of whether further clarifications or changes to the proposed requirements would be necessary in response to the feedback. At this meeting the IASB is not asked to make any decisions.

2. This paper is structured as follows:

   (a) summary of staff's preliminary views;

   (b) question for the IASB;

   (c) feedback summary;

   (d) staff analysis; and

   (e) staff conclusion.

## Summary of staff's preliminary views

3. Considering the feedback on the ED, the staff thinks the IASB could finalise the proposed requirements related to the measurement of the financial liability, subject to potential refinements and any minor drafting improvements. The potential refinements include 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 *Financial Instruments: Presentation* 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. 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.

## Question for the IASB

**Question for the IASB**

Does the IASB have any questions or comments on the matters discussed in this paper?

## Feedback summary

4. Paragraph 23 of IAS 32 requires an obligation to purchase an entity's own equity instruments to be recognised initially at the present value of the redemption amount, even if the contract itself is an equity instrument. Subsequently, the financial liability is measured in accordance with IFRS 9 *Financial Instruments*.

5. The proposals in the ED aimed to clarify that:

   (a) the same measurement approach should apply to both the initial and subsequent measurement of the financial liability. In other words, there should be consistency between the assumptions and inputs used to determine the present value of the redemption amount.

   (b) in calculating the present value of the redemption amount, 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. To avoid potential confusion about measurement after initial recognition, the reference to IFRS 9 in paragraph 23 of IAS 32 was proposed to be deleted.

6. Many stakeholders provided specific feedback on these proposals.[1] Among them, some stakeholders (including preparers, regulators, accounting firms and accountancy bodies) agreed with the proposals. In their view the proposed clarifications would:

[1] Please refer to Agenda Paper 5 for this meeting for explanations of the terms used to broadly indicate the portion of respondents that reported a particular view. The feedback analysis on specific matters is based on the comments specifically made on that matter. Therefore, the terms that are used to indicate the portion of respondents that expressed a view are based on the population of respondents who specifically commented on each topic.

(a) provide a faithful reflection of an entity's exposure to liquidity risk and is aligned with the rationale in paragraph BC12 of the Basis for Conclusions on IAS 32 that an entity will not be able to avoid bearing the full amount of its obligation should the holder exercise its option. They therefore consider the proposed clarifications to result in a more prudent outcome than other measurement bases.

(b) be pragmatic because it avoids the complexities and costs associated with the periodic remeasurement of financial liabilities in accordance with IFRS 9.

(c) increase consistency and comparability between entities thereby reducing diversity in practice.

7. However, many stakeholders (including standard-setters, preparers, accounting firms and accountancy bodies) disagreed with the proposals, especially that the probability and timing of the counterparty exercising an option are not considered in determining the redemption amount. In their view, the proposals:

(a) introduced a new measurement basis which is inconsistent with the economics of the transaction and with existing measurement bases in IFRS 9 ie, fair value and amortised cost. Some respondents specifically said the proposals were a departure from fair value principles. A few said that ignoring expected timing and probability, and using the amount at the earliest settlement date could be seen as inconsistent with paragraph 47 of IFRS 13 *Fair Value Measurement* which refers to 'not less than the amount payable on demand'.[2]

(b) might not faithfully represent the most likely amount at which the liability would be settled (such as in situations where the amount may vary) or the pattern of future cash flows a user of financial statements would need for making informed decisions. They said the proposals could result in structuring opportunities around the redemption date especially if the liability would be

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

measured at an amount at which it is very unlikely to be redeemed, or at an amount below that at which it is likely to be redeemed.

8. A few stakeholders said the measurement should reflect the fundamental difference between obligations which are triggered by or subject to uncertain future events beyond the control of the issuer or the holder ('third party variables') and those obligations with on-demand features that are solely controlled by or subject to the unilateral rights of the holder. They agreed with not considering probability and timing of occurrence for obligations with on-demand features, consistent with the requirement in paragraph 47 of IFRS 13. However, they disagreed with not considering probability and timing for obligations that are subject to third party variables.

9. Many stakeholders, regardless of whether they agreed or disagreed with the measurement proposals, raised questions or practical concerns about applying the proposed requirements. Stakeholder concerns included:

   (a) how to determine the discount rate—whether the discount rate is set on initial recognition or updated at each reporting date and whether it should include non-performance risk or only time value of money.

   (b) measuring the liability based on the earliest possible redemption date when there are different settlement amounts that could be paid on different settlement dates which are mutually exclusive, could lead to:

      (i) an understatement of financial liabilities when settlement at a later date at a higher amount is more probable. In their view, measuring the liability at such a lower amount would not faithfully reflect the liquidity risk of the issuer associated with the more probable or larger settlement amount at a subsequent date. They noted the contractual terms often provide significant incentives for the holders to exercise a put option at a later date, such as an increase in the redemption price. One such case is written put options that include a stepped level of payments depending on the timing of exercise eg exercisable for CU1 in first 12 months, CU1million thereafter.

(ii) how to measure the financial liability when the put option is not exercised at the earliest settlement date. Some examples that were used to illustrate their questions included a written put option that is exercisable annually for a number of years, or a written put option that is exercisable at different exercise prices related to different triggering events. Stakeholders have asked whether a new present value calculation should be done as each exercise date passes or if a triggering event is no longer applicable, and how to account for the change (ie, through profit or loss similar to a catch-up adjustment under amortised cost accounting, or through equity as a partial expiry of the put option).

(c) how to measure a variable redemption amount based on future performance of the entity. Stakeholders said that written put options that are exercisable based on performance measures such as a multiple of EBITDA are common in practice and that the financial liability should be remeasured as expectations or actual performance differs from the initial assessment. They asked for guidance on how to determine the redemption amount for such instruments and included examples of potential ways to interpret this, including:

(i) the maximum potential amount that could be paid under any circumstances;

(ii) the expected amount based on expectations of future performance;

(iii) the best estimate or most likely amount; or

(iv) the amount determined based on current performance levels at the reporting date.

10. Some respondents were of the view that the proposed measurement requirements are outside the scope of IAS 32. They said that IAS 32 is a classification and presentation Accounting Standard whereas, measurement of financial instruments is dealt with in IFRS 9 and IFRS 13. Some of these respondents were in favour of IFRS 9 measurement for these financial liabilities and recommended the reference to IFRS 9 in paragraph 23 of IAS 32 for subsequent measurement (that the ED proposed to delete) be retained.

11. In contrast, some other respondents recommended retaining the reference to IFRS 9 but that the measurement approach as proposed in the ED be clarified in IFRS 9 itself, as an exemption from the measurement requirements in IFRS 9. A few stakeholders that agreed with the ED's proposal, suggested consequential amendments to the scope of IFRS 9—making reference to IAS 32 for initial and subsequent measurement of financial liabilities to which paragraph 23 of IAS 32 applies.

12. Only a small number of users of financial statements commented on classification topics.[3] A credit analyst was concerned about whether some issuers are using probability-weighted measurement approaches as that would affect the core debt ratios that they track. They said they would prefer the gross amount not factoring in probability, for completeness, so that they could assign their own probability in their analysis because it would be difficult for them to assess management's judgement about probability.

13. Another user of financial statements said that because non-controlling interest (NCI) puts are not at the discretion of the entity itself this justifies reporting the gross amount, irrespective of the probability that such a put would be exercised. Another user suggested measuring the NCI put liability at the greater of the puttable value and residual equity value, and providing additional disclosures to show potential cash outflows and the characteristics of the contract (for example the redemption date and exercise price of the instrument).

[3] 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.

14. To address their concerns raised on the measurement of the liability associated with an NCI put option, suggestions made by stakeholders for the IASB to consider, included:

(a) aligning the measurement with the wording in paragraph 47 of IFRS 13. In their view, such a drafting would better address situations in which different exercise dates with different exercise prices exist.

(b) aligning the measurement with the general measurement or fair value measurement requirements in IFRS 9—consider the probability and estimated timing of the holder exercising the option for both initial and subsequent measurement, subject to the floor established by paragraph 47 of IFRS 13. This was the most common suggestion from stakeholders.

(c) aligning the measurement of the financial liability with the measurement of other derivatives in IFRS 9 (ie, net presentation and measurement) and provide users of financial statements with information about the exposure to liquidity risk through disclosure.

(d) reviewing the measurement of the financial liability outside of the FICE project ie, as a separate project within IFRS 9 or as part of the IASB's project on Amortised Cost Measurement.

## Staff analysis

15. As summarised in the previous section of this paper, some stakeholders agreed with the measurement proposals in the ED but many disagreed and favoured a measurement approach applying IFRS 9 instead. The staff notes that most comments were provided in the context of NCI put options and most concerns were in the context of different redemption amounts on different redemption dates or variable redemption amounts.

16. There were also broader stakeholder views that not considering the probability and expected timing of exercise in the measurement of the liability, would not faithfully represent the pattern of future cash flows a user of financial statements would need for informed decision making.

17. For these reasons, many of these stakeholders favoured an approach that would factor in probability and estimated timing of the counterparty exercising the written put options.

18. The staff notes that paragraph 23 of IAS 32 already refers to measurement of the financial liability at the present value of the redemption amount. The ED therefore did not introduce a new measurement basis but 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.

19. The staff is therefore not analysing any suggestions made by stakeholders to change the approach to presentation and measurement of the financial liability, as such changes would result in a fundamental change to the requirements (and underlying principles) in IAS 32. Such changes could also risk having unintended consequences on other areas of financial instrument accounting, which are outside the scope of this project. For these reasons, our preliminary analysis in this paper focuses on potential refinements to the ED proposals that could resolve most of the concerns raised.

### *Potential refinements to ED proposals*

20. The staff is of the view that financial liabilities arising from written put options and forwards to purchase own equity instruments are different from those arising from contingent settlement provisions (which is why the IASB tentatively decided in April 2026 to respond to the measurement-related issues on liabilities arising from contingent settlement provisions as part of the Amortised Cost Project).

21. As noted in Agenda Paper 5B for that meeting, contingent settlement provisions are subject to the occurrence or non-occurrence of a contingent event that is also outside

the control of the holder. Stakeholders told us that the price that market participants would expect to pay to transfer a liability with a contingent settlement provision would be different from the price of a liability with a demand feature.

22. In contrast, obligations to purchase own equity instruments are either certain to be settled (in the case of forward 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 financial asset) 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.

23. Paragraph 47 of IFRS 13 states that the fair value of a 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.[4] This formed the basis for the proposals in the ED which would measure the liability as if redemption would occur at the earliest possible redemption date specified in the contract. Therefore, for NCI put options that the NCI holder can put back to the issuer and demand payment, the measurement in paragraph 23 of IAS 32 is similar to how fair value is measured for liabilities with a demand feature.

24. However, the staff acknowledges the practical challenges when applying the proposals in the ED to instruments that are exercisable at fair value (or a proxy for fair value such as a multiple of EBITDA) and when there are different settlement dates and/or different settlement amounts.

[4] Paragraph BCZ102–BCZ103 of the Basis for Conclusions on IFRS 13 explains that stakeholders requested clarification of how to measure the fair value of financial liabilities with a demand feature when the fair value measurement option is applied or the liability is otherwise measured at fair value. In other words, could the fair value be less than the amount payable on demand, discounted from the first date that an amount could be required to be paid (the demand amount), such as the amount of the deposit discounted for the period that the entity expects the deposit to be outstanding? Some commentators believed that the fair value of financial liabilities with a demand feature is less than the demand amount, for reasons that include the consistency of such measurement with how those financial liabilities are treated for risk management purposes. The IASB noted that in many cases, the market price observed for such financial liabilities is the price at which they are originated between the customer and the deposit-taker—ie the demand amount. It also noted that recognising a financial liability with a demand feature at less than the demand amount would give rise to an immediate gain on the origination of such a deposit, which the IASB believes is inappropriate.

25. To respond to stakeholder feedback and the suggestion in paragraph 14(a) of this paper, the staff is exploring whether aligning the proposed clarification with the wording in paragraph 47 of IFRS 13 as much as possible, could help to clarify the requirements. Liabilities to which paragraph 23 of IAS 32 applies, could thus be required to 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.

26. We think alignment with the wording in paragraph 47 of IFRS 13 to the extent possible would:

    (a) simplify measurement of the present value of the redemption amount by not prohibiting the liability from being measured at a *higher amount* than the amount determined based on the earliest settlement date if there are different settlement amounts at different settlement dates or variable redemption amounts.

    (b) eliminate potential ambiguity by not specifying that the probability and estimated timing of the counterparty exercising the redemption right should 'be ignored' or that they have 'no effect'. The staff thinks these words might have caused confusion because the measurement of liabilities payable on demand is intended to capture the entity's unavoidable obligation ie assuming 100% probability of exercise.

27. Although we think this clarification could address many of the concerns raised, we also acknowledge the questions stakeholders raised in responding to the ED proposals would remain unanswered, for example:

    (a) if the redemption amount is a fixed amount at a future date (such as for example with forwards or European options), at what rate should the liability be discounted if there is no initial amount, and should this discount rate include non-performance risk?

(b) if the redemption amount is a multiple of EBITDA at a fixed date in future, is measurement based on the entity's expectation of future EBITDA or would it reflect current EBITDA at the reporting date?

(c) if the holder can exercise a written put option for different amounts depending on different exercise dates or there is a cap on the redemption amount, measurement at an amount 'not less than the amount payable on demand' could imply the highest of the redemption amounts or the maximum amount the entity could be made to pay. In cases where an entity has no expectation of having to pay the maximum amount because of contractual caps and floors, would such measurement still provide useful information to users of financial statements?

### *Feedback from consultative groups on the measurement approach*

28. The staff discussed the potential refinement described in paragraph 25 of this paper with some of the IASB's consultative groups.[5] Consultative Group members were asked to suggest how the IASB could respond to the challenges and questions identified in applying the measurement approach in the ED, such as those in paragraph 27 of this paper.

29. Some ASAF members generally supported the proposed simplification of requiring measurement at 'not less than the amount payable on demand' as described in paragraph 25 of this paper. It was acknowledged that the simplification is potentially an improvement on the ED's wording and closer to the IFRS 13 wording for measuring demand deposits.

30. However, members noted that demand deposits are different in nature from NCI puts because an entity might not expect to pay the deposit back for a period of time and NCI puts might have several different settlement amounts. Some other ASAF

[5] See Agenda Paper 1 of the July 2026 ASAF meeting and Agenda Paper 1 of the July 2026 FICG meeting.

members said the clarifications were helpful but did not go far enough because the challenges related to variable redemption amounts or amounts linked to performance metrics.

31. Regarding the question in paragraph 27(a) of this paper, mixed views were expressed on whether to include non-performance risk in the discount rate. Some members said for simple instruments or those for which the repurchase price is determined based on principal and interest, the discount rate could be a contractual rate of return. In contrast, for a variable redemption amount or different exercise prices, a readily obtainable interest rate on similar bonds could be used.

32. Regarding the question in paragraph 27(b) of this paper, some ASAF members indicated that if the redemption amount is a multiple of EBITDA at a fixed date in the future, an entity's expectation or best estimate of future EBITDA at redemption date should be considered. They said that if the expected EBITDA cannot be reasonably forecasted, then the measurement could be based on circumstances at the reporting date.

33. Regarding the question in paragraph 27(c) of this paper, some ASAF members said using the highest amount if an instrument has different redemption amounts on different dates would be consistent with the 'not less than the amount payable on demand' approach. In contrast, a member said maximum extremes should be avoided because such a measurement would not reflect the financial reality if the maximum amounts are not expected to be paid. It was also noted that redemption amounts could be increasing or decreasing over time, which would affect the logic of choosing the highest amount.

34. Some ASAF members expressed concerns that the proposals might be perceived as introducing a new measurement basis into IAS 32. A concern was raised that extensive application guidance might be required to operationalise the proposals, which could delay completion of the project.

35. FICG members also discussed the extent to which probability should be considered in the measurement. They suggested the IASB:

(a) consider using the present value of the *expected* redemption amount—where expectations would be factored into determining the *amount* but not the probability of paying the amount ie it would be assumed to be paid at the fixed date in the future;

(b) take caution incorporating probabilities of exercise at a specified date or probability of amounts based on future fair values or management forecasts because such measurement would be subjective and would result in volatility in profit or loss; and

(c) consider whether IFRS 9 should be applied but with a floor so that these financial liabilities cannot be measured below the amount that would currently be payable ignoring the probability of exercise.

### *Preliminary staff views on measurement principles*

36. The staff thinks the measurement principles the IASB develops should be able to be applied to all contracts containing obligations to purchase own equity instruments eg both written put options and forward purchase contracts and regardless of their settlement terms—American and European options, fixed and variable exercise prices.

37. The staff also notes the underlying principle in IAS 32 that if an entity does not have an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the obligation meets the definition of a financial lability.

38. The staff therefore thinks the measurement of the present value of the redemption amount of the financial liability should also aim to reflect the amount of cash that will have to be paid to settle the instrument (see paragraphs 41–42 of Agenda Paper 5D of this meeting). Stakeholders told us that users of financial statements would expect that

the carrying amount of the financial liability would equal the amount of the cash paid when the NCI put is exercised.

39. The ED clarified that the probability of whether, and estimated timing of when, the counterparty might exercise their option to require redemption would not be considered or has no effect on the initial or subsequent measurement. As mentioned in paragraph 26(b) of this paper, the IASB meant that measurement would assume 100% probability of exercise and neither factor in the probability of the holder not exercising the option nor estimate the timing of when it would exercise (in the case of American options). This is because the entity cannot control whether or when the holder will exercise the put option ie, it cannot control the behaviour of the counterparty.

40. The staff also notes that the proposed clarification in the ED did not explicitly prohibit taking into account expectations of the probable *amount* payable where for example, the amount is variable or there are different mutually exclusive amounts on different mutually exclusive exercise dates.

41. In addition, the proposed clarification did not explicitly mention the 'maximum amount'. We acknowledge that requiring the maximum amount might work in some cases depending on the facts and circumstances, such as where the total redemption amount is capped for share buy-back transactions and for American options with fixed exercise prices. However, it might not faithfully represent the obligation in other cases such as where there are different mutually exclusive redemption amounts on different mutually exclusive dates.

42. The staff considered the additional feedback from consultative groups (paragraphs 28–35 of this paper). In particular, that the potential refinement was not helpful enough because it did not resolve some of the challenges related to different redemption amounts on different redemption dates or variable redemption amounts.

43. The staff thinks there are two approaches that could be taken when there are different redemption amounts on different redemption dates or variable redemption amounts. The entity could measure the liability:

(a) assuming the liability is settled at the next exercise date and at the associated amount specified in the contract (Approach 1); or

(b) considering the expected redemption amount and expected timing of exercise of the written put option (Approach 2).

44. The reasoning for Approach 1, is that the entity cannot avoid redemption if the holder were to exercise on the next possible date. The present value of the redemption amount would thus be determined by discounting the amount payable at the next possible exercise date. In the case of American options with variable redemption amounts based on for example, a multiple of EBITDA, the entity would assume exercise at the reporting date because in theory, the option could be exercised the very next day. The present value of the redemption amount would thus be determined based on the current measurement of EBITDA at the reporting date.

45. Under Approach 2, an entity would consider the expected timing of exercise and/or the expected redemption amount. For example, in the case of different redemption amounts on different redemption dates, the entity would apply its judgement to determine on which of these dates it expects the holder to exercise the put option. In the case of American options with variable redemption amounts based on for example, a multiple of EBITDA, the entity would also apply its judgement to determine when it expects the holder to exercise the put option and forecast the EBITDA expected at that date.

46. We think Approach 1 might be simpler to implement as it involves less judgement, but it might not reflect the economics of the transaction or be a faithful representation of the amount expected to be paid to settle the obligation to purchase own equity instruments. For example, when there are different fixed redemption amounts on different exercise dates, using the amount at the next earliest settlement date could still result in an understatement of the liability when higher amounts are expected to be paid.

47. Based on the stakeholder feedback described in paragraph 7(b)8 of this paper, the staff agrees that in some cases, more useful information would be provided to users of financial statements if the expected amount and timing of exercise were to be considered. For example, when the different amounts and exercise dates are mutually exclusive, issuing an option with such features is equivalent to issuing a series of European options, each of which is exercisable for a specified amount on a specified date. However, as only one amount is recognised for such an option, the staff thinks that amount should reflect the entity's expectations of the amount and timing of exercise.

48. In the staff's view, determining the present value of the redemption amount using Approach 2 in these cases can be seen as similar to and consistent with a fulfilment value type of measurement basis. Paragraph 6.17 of the *Conceptual Framework for Financial Reporting* describes fulfilment value as 'the present value of the cash, or other economic resources, that an entity expects to be obliged to transfer as it fulfils a liability.' Paragraphs 6.19–6.20 of the *Conceptual Framework* further explains that fulfilment value:

    (a) reflects entity-specific assumptions rather than assumptions by market participants.

    (b) cannot be observed directly and is determined using cash-flow-based measurement techniques. Fulfilment value reflects the same factors described for fair value (eg, estimates of future cash flows, possible variations in the estimated amount or timing of future cash flows caused by the uncertainty inherent in the cash flows, time value of money), but from an entity-specific perspective rather than from a market-participant perspective.

49. In addition, we think the potential refinement discussed with the consultative groups for measurement can still be applied regardless of whether Approach 1 or 2 is taken. Therefore, there would always be a floor on the redemption amount based on the amount of the unavoidable contractual obligation.

## Staff conclusion

50. Based on the feedback on the ED, the additional stakeholder outreach and the staff's additional research and analysis, the staff therefore thinks the IASB could further clarify the objective and measurement principles in determining the 'present value of the redemption amount'. Because there are various terms and conditions of instruments containing obligations to purchase own equity, the measurement principles should be robust enough to apply to all cases.

51. In our view, the objective is to reflect the amount of cash (or another financial asset or other liability-type settlement) to be paid to settle the instrument. The general principle is 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. This is consistent with the underlying principle in IAS 32 reflecting that the entity does not have an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation. We note that because the general principle effectively means there is a floor on the redemption amount, it would not be possible for an entity to measure the redemption amount below the floor amount, for example at zero.

52. In simple cases where there is one fixed transaction price to pay whenever the holder exercises the put option, applying the general principle would result in the obligation being measured at the undiscounted fixed transaction price.

53. However, in other cases where there is a variable redemption amount on a single exercise date or different redemption amounts on different exercise dates, the entity would consider its expectations about the timing or amount of settlement. The measurement would still be *subject to* the floor on the redemption amount, applying the general principle. This is consistent with Approach 2 described in paragraph 45 of this paper.

54. To meet the objective described in paragraph 51 of this paper, all the relevant contractual terms and conditions should be considered in determining the present

value of the redemption amount including any floor or caps on the number of shares or on the redemption amount.

55. The staff further notes that a present value calculation implies discounting for the effects of time value of money where material. The discount rate should thus compensate for the time value of money for the period the amount is outstanding. Therefore, if estimates of the amount and timing of cash outflows change, the discount rate might need to be updated.

56. However, developing application guidance and clarifying the specific mechanics on how to determine an appropriate discount rate would be outside the scope of the FICE project. As the instruments to which paragraph 23 of IAS 32 would apply, vary widely in their terms and the circumstances of their settlement, the staff also thinks the IASB cannot develop guidance to cover all possible terms and circumstances. The staff therefore thinks it is sufficient for the IASB to clarify that in determining the present value, the redemption amount is discounted using a discount rate that reflects compensation for the time value of money for the period the amount is outstanding.

57. However, the IASB could consider requiring disclosures of the discount rate used by entities in measuring these liabilities which would also provide transparency if the discount rate has changed. Requiring disclosure of the discount rate would be consistent with the requirements in other IFRS Accounting Standards that require measurement using present value cash flow techniques, such as IAS 19 *Employee Benefits* and IAS 36 *Impairment of Assets*.

58. 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, measure 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.

59. We think the potential refinements to the measurement approach would thus eliminate the question in paragraph 9(b)(ii) of this paper, of what to do if the earliest settlement date is reached and the option is not exercised. Furthermore, for the avoidance of doubt, the staff notes that the removal of one of the mutually exclusive outcomes due to an exercise date passing or a contingency no longer being applicable, does not represent the expiry of the entire put option. The put option continues to exist and the financial liability is remeasured in accordance with these principles resulting in a gain or loss to be recognised in profit or loss. The staff therefore notes that the requirements in paragraph 23 of IAS 32 for expiry of the put option and recognition of the liability in equity would not apply (see paragraph 23 of Agenda Paper 5D of this meeting).