Staff paper

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IASB® meeting

Date	**September 2026**
Project	**Financial Instruments with Characteristics of Equity (FICE)**
Topic	**Obligations to purchase own equity instruments: Other matters**
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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 remaining matters arising from obligations to purchase own equity instruments. We also provide our analysis and recommendations on these topics. At this meeting, we will ask the IASB whether it agrees with the staff recommendations in this paper.

2. This paper is structured as follows:

    (a) summary of staff recommendations;

    (b) question for the IASB;

    (c) instruments to which paragraph 23 of IAS 32 *Financial Instruments: Presentation* applies;

    (d) expiry of written put option;

    (e) gross vs net settlement; and

    (f) other matters.

Summary of staff recommendations

3. The staff recommends that the IASB proceed to finalise the proposed requirements subject to drafting improvements related to:

   (a) the instruments to which paragraph 23 of IAS 32 applies; and

   (b) gross vs net settlement.

4. With regards to the expiry of written put options, we recommend the IASB proceed to finalise the proposed requirements subject to drafting improvements and clarify that on expiry of the put option, the difference between the carrying amount of the financial liability and the initial amount by which non-controlling interest (NCI) was reduced, should be recognised in profit or loss.

Question for the IASB

Question for the IASB
Do you agree with the staff's recommendations summarised in paragraphs 3 and 4 of this paper?

Instruments to which paragraph 23 of IAS 32 applies

Feedback summary

5. The ED clarifies that the requirements in paragraph 23 of IAS 32 for contracts containing an obligation to purchase own equity instruments also apply to contracts that will be settled by delivering a variable number of another class of the entity's own equity instruments.

6. Only some stakeholders (including standard-setters, regulators, accounting firms and accountancy bodies) provided specific feedback on this proposal.[1] Most of these stakeholders generally agreed with the proposals for the reasons set out in paragraph BC64 of the Basis for Conclusions on the ED.[2]

7. A few stakeholders disagreed with including transactions that result in an exchange of equity instruments. They said both the receiving and delivering legs of the instrument represent a residual interest in an entity and do not expose the issuer to liquidity risk. Instead, they think such instruments are derivatives that should be measured at fair value applying IFRS 9 *Financial Instruments*. In their view, the proposal would create a significant change in practice and would be beyond the scope of the FICE project.

8. In contrast, a few stakeholders, who agreed with the proposal, noted that because the proposal is consistent with the definition of a financial liability in paragraph 11 of IAS 32, an alternative conclusion would require a more fundamental change to IAS 32.

Staff analysis and recommendation

9. The staff continues to believe that clarifying paragraph 23 of IAS 32 would apply to contracts settled by delivering a variable number of another class of the entity's own equity instruments, would improve consistency and comparability in financial reporting. Instruments that require the settlement of an obligation to purchase own equity instruments by delivering a variable number of another class of own equity instruments to the value of a contractual obligation, are consistent with the definition

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[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.

[2] Paragraph BC64 of the Basis for Conclusions on the ED states: "The Board noted that the definition of a financial liability in paragraph 11 of IAS 32 is not limited to contractual obligations that will be settled in cash or another financial asset. The definition also includes contracts that will or may be settled by delivering a variable number of an entity's own equity instruments. Similarly, paragraph 21 of IAS 32 states that if an entity uses a variable number of own equity instruments to settle a contract, that contract is a financial liability."

of a financial liability in paragraph 11 of IAS 32. This definition is not limited to requiring a gross outflow of economic resources.

10. In our view, it is irrelevant how the liability is settled ie, whether it is settled using cash or own equity instruments. What is relevant is that there is an obligation to purchase own equity instruments which should be reflected as a financial liability regardless of how it is settled.

11. The staff acknowledges that the definition of liquidity risk in IFRS 7 only refers to financial liabilities that are settled by delivering cash or another financial asset. This definition affects the items to be included in the maturity analyses required under IFRS 7. It was based on the premise that liquidity risk arises when an entity encounters difficulty in meeting its obligations to deliver cash or other financial asset of the entity. Although an entity might encounter difficulties in issuing its own shares (eg difficulties in obtaining shareholder approval or other regulatory restrictions), this risk is different from liquidity risk. However, the staff notes that the gross presentation of the liability to purchase own equity instruments is not solely due to the need to reflect liquidity risk (see paragraph 34 of this paper).

12. Based on the staff's analysis in paragraphs 9–11 of this paper, the staff recommends the IASB finalise the proposed requirements related to the instruments to which paragraph 23 of IAS 32 applies.

Expiry of written put options

Feedback summary

13. The ED clarifies that, if a contract containing an obligation to purchase own equity instruments expires without delivery, 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. 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.

14. Only some stakeholders (including standard-setters, preparers, regulators, accounting firms and accountancy bodies) provided specific feedback on this proposal. Most of these stakeholders generally agreed with the proposals even if they disagreed with the proposals related to the debit entry on initial recognition or remeasurement gains or losses. They believe the proposals would:

    (a) enhance consistency and clarity in the accounting treatment of expired contracts; and

    (b) avoid undue volatility in profit or loss at the time of expiry.

15. Some stakeholders commented on the possible transfer of the cumulative amount of gains or losses from retained earnings to another component of equity. Their suggestions included that the IASB:

    (a) require (instead of ‘allow’) the transfer from retained earnings to another component of equity to improve comparability for users of financial statements;

    (b) not refer to the allocation of retained earnings because it is a matter of regulation in each jurisdiction;

    (c) provide additional guidance in relation to the potential components of equity available or not available for such transfer (ie, NCI or issued share capital);

    (d) include an example that illustrates when this transfer would occur; or

    (e) add disclosures to improve transparency regarding such transfers.

Staff analysis and recommendation

16. Stakeholder feedback indicates broad support for removing the carrying amount of the financial liability upon expiry of the option and including it in the same component of equity as that from which it was removed on initial recognition.

17. If the IASB agrees with the staff recommendations in Agenda Paper 5A of this meeting, the debit amount deducted from NCI on initial recognition will need to be reinstated upon expiry of the option. As discussed in paragraph 50 of Agenda Paper 5A of this meeting, there will be no need for requirements other than for obligations over NCI ie, no need for requirements related to obligations to purchase own equity other than NCI. The staff will therefore consider this when drafting the final amendments because the proposed wording referred to 'the same component of equity as that from which it was removed on initial recognition' to cover all obligations to purchase own equity.

18. However, the staff notes that there will likely be a difference between the carrying amount of the liability which has been remeasured since initial recognition and the amount by which NCI was initially reduced. We therefore considered whether this difference should be recognised in profit or loss or directly in parent equity.

19. Paragraph 23 of IAS 32 (as amended in the ED) states:

> … The financial liability is recognised initially at the present value of the redemption amount by removing that amount from equity and including it in financial liabilities. Subsequently, the financial liability is measured at the present value of the redemption amount 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 equity…

20. Paragraph B91 of IFRS 10 *Consolidated Financial Statements* states:

IFRS 9 does not apply to interests in subsidiaries that are consolidated. When instruments containing potential voting rights in substance currently give access to the returns associated with an ownership interest in a subsidiary, the instruments are not subject to the requirements of IFRS 9. In all other cases, instruments containing potential voting rights in a subsidiary are accounted for in accordance with IFRS 9.

21. The staff notes that recognition of the debit amount as a deduction from NCI (as recommended in Agenda Paper 5A of this meeting) would apply if the entity does not currently have access to the returns associated with an ownership interest in a subsidiary. The staff therefore thinks that applying paragraph 23 of IAS 32 (as amended in the ED) together with paragraph B91 of IFRS 10, would result in the difference discussed in paragraph 18 of this paper to be recognised in profit or loss as a gain on derecognition in accordance with IFRS 9.

22. The requirement in paragraph 23 of IAS 32 to remove the liability and include the amount in equity only applies to the amount removed from equity on initial recognition because this amount needs to be reversed upon expiry of the put option. There is no reason to recognise the difference in parent equity applying paragraph B96 of IFRS 10 because the proportion of equity held by NCI in the subsidiary has not changed when the option expires unexercised.[3] The staff thinks the IASB could refine the proposed requirements by clarifying the accounting treatment on expiry of the put option if the debit amount is recognised as a deduction from NCI (as recommended in Agenda Paper 5A of this meeting).

23. The staff also notes that the accounting in equity on expiry is limited to situations when the put option no longer exists, thus creating a need to reverse the initial entry which affected equity. As such, it would not apply to 'a partial expiry of terms' such

[3] Paragraph B96 of IFRS 10 states: "When the proportion of the equity held by non-controlling interests changes, an entity shall adjust the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary. The entity shall recognise directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the owners of the parent."

as in the case of NCI puts contingently exercisable at different exercise prices based on different triggering events where one of the contingencies can no longer occur (see paragraph 59 of Agenda Paper 5C of this meeting). It would also not apply to modifications of the contractual terms of written put options (see paragraph 46 of this paper).

24. Regarding the feedback in paragraph 15 of this paper on the cumulative amount recognised in retained earnings, the staff continues to be of the view that an entity could elect to transfer the cumulative amount of remeasurement gains or losses from retained earnings to another component of equity. Consistency amongst preparers (as suggested by stakeholders) is not a sufficient reason to *require* the cumulative amount to be transferred to another component of equity. We note that the IASB has never *required* the transfer of amounts between components of equity in IAS 32 or in other IFRS Accounting Standards. Because the remeasurement gains or losses are recognised in profit or loss, they would automatically be accumulated in retained earnings. The term 'retained earnings' is used in various IFRS Accounting Standards and/or accompanying material. The proposal merely noted that the amount *could* be transferred to another component of equity and deliberately did not specify which component.

25. Not specifying the component of equity to which retained earnings could be transferred, would be consistent with the existing approach in IFRS Accounting Standards and in acknowledgement of jurisdiction-specific legal and regulatory requirements. In developing the proposals, the staff had previously researched the requirements related to both recognition in equity and reclassifications within equity in IAS 32 and other IFRS Accounting Standards and found that generally, IFRS Accounting Standards do not specify the exact component within equity (see Agenda Paper 5 of the September 2022 IASB meeting).

26. In addition, the ED proposed disclosure in draft paragraph 30J of IFRS 7 of any transfers within equity of amounts related to the obligation during the reporting period and the components of equity from and to which these amounts were transferred.

Therefore, the staff does not think any further refinements are needed regarding the cumulative amount recognised in retained earnings.

27. Based on the staff's analysis in paragraphs 16–26 of this paper, the staff recommends the IASB finalise the proposed requirements related to the expiry of written put options, subject to drafting improvements and a clarification. The IASB could clarify that on expiry of the put option, the difference between the carrying amount of the financial liability and the initial amount by which NCI was reduced, should be recognised in profit or loss.

Gross vs net settlement

Feedback summary

28. The ED clarifies in draft paragraph AG27D of IAS 32 that:

    (a) if the contractual obligation to purchase own equity instruments is to be gross physically settled, it is required to be presented on a gross basis even if the obligation arises from a written put option or a forward purchase contract; and

    (b) 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.

29. Some stakeholders (including standard-setters, accounting firms and accountancy bodies) commented specifically on this proposal. These stakeholders generally agreed with the proposal that gross presentation of gross physically settled contracts would provide necessary transparency to users of financial statements.

30. However, many of these stakeholders raised concerns about applying derivative accounting when the *holder* has the choice to settle on a gross or net basis. They believe this approach conflicts with the principle in paragraph 23 of IAS 32 of

recognising a gross liability for an obligation the entity cannot avoid and could create a loophole that would render the gross liability requirements meaningless.

31. Some other stakeholders provided indirect feedback on this proposal in the context of providing feedback on the other proposals, such as those related to the debit entry on initial recognition, remeasurement gains or losses and measurement of the financial liability. These stakeholders acknowledged that their concerns on those other proposals stemmed from the gross presentation approach but noted that requiring the net presentation approach would be outside the scope of the FICE project.

32. A few other stakeholders asked for clarification and examples on the application of draft paragraph AG27D of IAS 32 in the separate financial statements of the parent entity or the subsidiary's individual financial statements to avoid diversity in practice.

33. A few users of financial statements expressed support for presenting and reporting the gross amount of the NCI put liability because it would allow investors to consider the liquidity position of an entity. In contrast, a user supported applying derivative accounting to NCI puts. [4]

Staff analysis and recommendation

34. The staff notes that paragraph 23 of IAS 32 already requires gross presentation for gross physically settled contracts to purchase own equity instruments. Therefore, introducing a requirement to recognise the liability and equity amounts net (ie, similar to derivative accounting) would require a fundamental change to the requirements in IAS 32 and would be beyond the scope of the FICE project. As discussed in paragraph BC68 of the Basis for Conclusions in the ED, the reasons for the gross presentation requirement include:

    (a) the requirement is consistent with the treatment of shares that are mandatorily redeemable, thereby resulting in an entity reporting the same information in its

[4] 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.

financial statements irrespective of whether a redemption clause is embedded in the instrument or in a stand-alone derivative contract;

(b) although payment of the exercise price of a written put option is conditional upon the option being exercised, the entity has an obligation for that amount because it has no control over whether payment is made; and

(c) changing the requirements in paragraph 23 of IAS 32 would involve reconsidering other requirements in IAS 32 that result in liability treatment for obligations conditional on events or choices that are beyond the entity's control.

35. With regards to the feedback in paragraph 32 of this paper, the staff thinks it is clear that paragraph 23 of IAS 32 applies to obligations to buy own equity instruments in an entity's separate or individual financial statements ie, an entity issues a written put option to buy back its own ordinary shares from existing shareholders. However, if a parent issues a written put option on its subsidiary's shares, those shares are not own shares in its separate financial statements and derivative accounting would then apply.

36. The staff acknowledges that the proposed wording in draft paragraph AG27D of IAS 32 could be improved because it could be understood as requiring derivative accounting even where the holder of the option has the choice to require gross physical settlement. This would indeed create structuring opportunities. The staff will update the wording when drafting the final amendments.

37. Based on the staff's analysis in paragraphs 34–36 of this paper, the staff recommends the IASB finalise the proposed requirements related to gross vs net settlement, subject to drafting requirements.

Other matters

Feedback summary

38. A few stakeholders raised other concerns and/or asked the IASB for other clarifications related to obligations to purchase own equity instruments. These included:

(a) the accounting on settlement of the NCI put option ie, when it is exercised. They said that if the NCI is simply reclassified to another component of parent equity on settlement, this would effectively offset the original debit entry. Such treatment would in their view, indicate the original entries were an unnecessary gross up in the balance sheet resulting in an understatement of reserves in the period between writing and settling the option.

(b) the initial and subsequent accounting for the premium received for writing the put option.

(c) the retrospective application of the proposed requirements. They said considerable effort could be required from preparers if they needed to change the presentation or measurement related to NCI puts. They noted that a change in the measurement of the financial liability could affect the amount of goodwill calculated in historical business combinations.

(d) the accounting if there is a change in circumstances that would affect the entity's judgment about whether it has current ownership of the NCI before the NCI put or forward liability is settled.

(e) modifications to the terms of a contract containing an obligation to purchase an entity's own equity instruments. They said different views exist as to whether such modifications should be accounted for in the same way as modifications of a financial liability, or treated as an expiry of a contract without delivery and the recognition of a new financial liability.

39. A user of financial statements suggested recognising the liability for the NCI put option only when it becomes highly probable that the option will be exercised instead of at inception. They noted that additional disclosures would then be needed for example, to show potential cash outflows for the NCI puts and to provide the characteristics of the contract, for example the redemption date and exercise price of the instrument.

40. A few other stakeholders also commented on disclosures. Their comments included:

    (a) the proposed disclosures in draft paragraph 30J of IFRS 7 correspond to the proposed requirements in paragraph 23 of IAS 32 but it is unclear whether other disclosures in IFRS 7 required for financial liabilities in the scope of IFRS 9 would apply to these obligations; and

    (b) disclosure of the assumption of 100% probability of exercise at the earliest possible date is important because in their view, this is a major exception to the general principle that all financial instruments are initially recognised at fair value using a probability-weighted approach.

Staff analysis

41. When developing the requirements in the ED, the staff did not think any further clarifications for the accounting on settlement of the obligation to purchase own equity instruments was required because we were not aware of any significant diversity in accounting practice. With regards to the feedback in paragraph 38(a) of this paper, the staff continues to think the IFRS 9 requirements for derecognition of the financial liability and the IFRS 10 requirements for changes in the proportion of equity held by NCI are sufficiently clear. Because the present value of the redemption amount of the financial liability should reflect the amount of cash expected to be paid to settle the instrument at settlement date (see paragraph 38 of Agenda Paper 5C of this meeting), the carrying amount of the financial liability should equal the amount of cash paid on settlement.

42. The staff considered the accounting for NCI when the NCI put is exercised if NCI is debited on initial recognition (applying the recommended approach described in Agenda Paper 5A of this meeting) in cases where the parent does not have current access to the returns associated with the ownership interests. The remaining balance of the carrying amount of NCI would have to be derecognised ie, extinguished. Exercise of the NCI put leads to the parent acquiring the NCI holder's shares and increasing its ownership interest in the subsidiary. This change in the parent's ownership interest in the subsidiary would be accounted for as an equity transaction in accordance with paragraph 23 of IFRS 10. Applying paragraph B96 of IFRS 10, any difference between the amount by which the NCI are adjusted and the fair value of the consideration paid is recognised directly in equity and attributed to the owners of the parent.

43. With regards to the feedback in paragraph 38(b) of this paper, the staff is not aware of any significant diversity in accounting for the option premium received for writing the NCI put option. We think the requirements in paragraph 22 of IAS 32 are sufficiently clear:

> …a contract that will be settled by the entity (receiving or) delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset is an equity instrument...Any consideration received (such as the premium received for a written option or warrant on the entity's own shares) is added directly to equity...Changes in the fair value of an equity instrument are not recognised in the financial statements.

44. Furthermore, the staff notes that paragraph IE30 of the Illustrative Examples accompanying IAS 32 shows the accounting entry to recognise the option premium received, on a written put option on own shares that is gross physically settled, in equity.

45. With regards to the feedback in paragraph 38(d) of this paper, the staff notes that analysing the requirements about whether and when to reassess the requirements in IFRS 10 would be beyond the scope of the FICE project.

46. With regards to the feedback in paragraph 38(e) of this paper, the staff notes that modifications to the terms of a contract containing an obligation to purchase own equity instruments would be accounted for applying the requirements in IFRS 9. As discussed in paragraph 23 of this paper, modifying the terms does not represent an expiry of a contract without delivery if the obligation continues to exist or there is a replacement obligation. The requirements for expiry of put options in paragraph 23 of IAS 32 clearly do not apply and there would be no need to reverse the initial debit entry recognised in equity as would be the case if there was no longer an obligation to purchase own equity instruments.

47. As noted in paragraphs 39–40 of this paper, a few stakeholders commented on disclosures. The staff notes that financial liabilities arising from NCI puts exercisable at fair value or a proxy for fair value are financial liabilities with equity-like features as described in draft paragraphs B5E–B5F of IAS 32.[5] The proposed terms and conditions disclosures which the IASB tentatively decided on in June 2025 would thus apply to these types of instruments. Draft paragraph 30J of IFRS 7 also contains specific disclosures for instruments containing obligations to purchase own equity instruments.

48. Feedback on these and other proposed disclosures related to the classification topics in the ED will be analysed and discussed in a future IASB meeting. The staff will consider the feedback in paragraph 40 of this paper at that time. Similarly, the staff will consider stakeholder concerns about transition (such as those in paragraph 38(c) of this paper) when it summarises and analyses the feedback on the proposed transition requirements for a future IASB meeting.

[5] Draft paragraph B5E of IAS 32 states: "A financial liability with equity-like characteristics has contractual terms that give rise to cash flows with characteristics of nature, timing or amount that are similar to those of ordinary shares. Equity-like characteristics do not negate the issuer's contractual obligation to deliver cash, but might affect the amount or timing of the cash flows the issuer has an obligation to deliver…"