IFRS Accounting

Staff paper

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Project	**Financial Instruments with Characteristics of Equity (FICE)**
Topic	**Presentation of equity instruments**
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Purpose of this paper

1. The objective of this paper is to ask the International Accounting Standards Board (IASB) for a tentative decision related to the presentation of equity instruments applying IAS 32 *Financial Instruments: Presentation*.

2. Over the years, one of the main concerns raised by stakeholders is the limited information an entity provides in its financial statements about equity instruments it has issued. On many occasions including through feedback on the 2018 Discussion Paper *Financial Instruments with Characteristics of Equity* (2018 DP), users of financial statements have been asking for a clearer distinction of the distribution of profits amongst holders of different types of equity instruments so that they can understand the effect other classes of equity instruments have on ordinary shares. Other stakeholders have suggested requiring separate presentation in the statement of financial position of the various equity instruments, including equity components of compound instruments and derivatives on own equity, to help users of financial statements better understand where the different components of complex financial instruments are presented

3. One of the overall objectives of the FICE project is to improve the information an entity provides to users of financial statements about the financial instruments it has issued. This can be achieved through improving presentation and disclosures instead of relying solely on classification of financial instruments to provide useful information about similarities and differences between claims. In this paper, the staff will consider the concerns raised by stakeholders and explore whether clarifications could potentially be made to IAS 32 for the presentation of equity instruments on the face of the financial statements.

4. Recently, in February 2021, the IASB discussed potential presentation and disclosure solutions for perpetual instruments (see paragraphs 20-23 of this paper), and in April 2021 the

IASB discussed potential disclosures for equity instruments with 'liability-like features' and for 'maximum dilution' (see paragraphs 24-28 of this paper).

5. This paper is structured as follows:

(a) Staff recommendation

(b) Question for the IASB

(c) Background information

(i) Current requirements in IFRS Accounting Standards;

(ii) 2018 DP proposals and feedback;

(iii) IASB discussion on perpetual instruments;

(iv) IASB discussion on disclosures;

(d) Staff analysis; and

(e) Appendix

Staff recommendation

6. The staff recommend that no changes are made to the presentation requirements in IAS 32 for equity instruments. The principles and requirements in IAS 1 *Presentation of Financial Statements*, including any decisions to be made as part of the IASB's Primary Financial Statements (PFS) project provide an adequate basis for entities to determine whether to present any additional information about equity instruments.

7. In addition, the staff are of the view that the disclosure proposals tentatively agreed to by the IASB on key terms and conditions and potential dilution are sufficient to meet the needs of users of financial statements for further information about equity instruments.

Question for the IASB

8. The staff would like to ask the following question.

Question for the IASB
Do IASB members agree with the staff recommendation of not making any changes to the presentation requirements in IAS 32 for equity instruments?

Background information

Current requirements in IFRS Accounting Standards

9. Currently, IFRS Accounting Standards have more requirements for presentation and disclosure of financial liabilities than for equity instruments. In some cases, this is the reason why some users of financial statements prefer a 'narrow equity approach' to classify financial instruments—such an approach would result in more financial instruments classified as financial liabilities with their gains or losses reported within profit or loss and subject to more comprehensive disclosure requirements.

10. The staff note that applying IAS 32, financial instruments are classified as equity either because they meet the definition of an equity instrument in paragraph 11 of IAS 32 or meet the requirements to be presented as equity in paragraph 16 or 16A-16D of IAS 32.

11. Paragraphs 35-36 of IAS 32 contain the following requirements for equity instruments:

    (a) distributions to holders of an equity instrument shall be recognised by the entity directly in equity. Transaction costs of an equity transaction shall be accounted for as a deduction from equity.

    (b) redemptions or refinancings of equity instruments are recognised as changes in equity. Changes in the fair value of an equity instrument are not recognised in the financial statements.

12. The requirements in IAS 1 contain principles for the presentation of equity on the face of the financial statements, including:

    (a) profit or loss and comprehensive income are allocated between amounts attributable to non-controlling interests and owners of the parent in the **statement of profit or loss and other comprehensive income** (paragraph 81B);

(b) line items in the **statement of financial position** that present non-controlling interests presented within equity and issued capital and reserves attributable to owners of the parent (paragraph 54(q)-(r)); and

(c) the **statement of changes in equity** includes a reconciliation between the carrying amount at the beginning and the end of the period for each component of equity, separately disclosing changes from transactions with owners in their capacity as owners such as contributions, distributions and changes in ownership interest in subsidiaries that do not result in a loss of control (paragraph 106(d)).

13. In addition, an entity would be required to consider the following requirements in IAS 1:

(a) disclose a description of the nature and purpose of each reserve within equity, either in the **statement of financial position or the statement of changes in equity**, or in the notes (paragraph 79(b));

(b) present additional line items (including by disaggregating the line items listed in paragraph 54), headings and subtotals in the **statement of financial position** when such presentation is relevant to an understanding of the entity's financial position (paragraph 55);

(c) disclose, either in the **statement of financial position** or in the notes, further subclassifications of the line items presented, classified in a manner appropriate to the entity's operations (paragraph 77); and

(d) present, either in the **statement of changes in equity** or in the notes, the amount of dividends recognised as distributions to owners during the period, and the related amount of dividends per share (paragraph 107).

14. Paragraph 5 of IAS 33 *Earnings per Share* defines an ordinary share as an equity instrument that is subordinate to all other classes of equity instruments. Paragraph 6 of IAS 33 explains that ordinary shares participate in profit for the period only after other types of shares such as preference shares have participated. An entity may have more than one class of ordinary shares. Ordinary shares of the same class have the same rights to receive dividends.

2018 DP proposals and feedback

15. Although the IASB tentatively decided in September 2019 not to pursue the classification approach proposed in the 2018 DP, the staff considered the 2018 DP proposals for presentation of equity instruments and whether the feedback thereon could support developing any further presentation proposals for equity instruments.

16. The 2018 DP explained that the IASB considered requiring entities to provide information about equity instruments using one or more of the following methods:

    (a) enhancing the presentation requirements for different classes of equity through **the statement of changes in equity** and providing information about the distribution of returns by **expanding the attribution** of total comprehensive income to equity instruments other than ordinary shares; and/or

    (b) improving disclosure requirements about equity instruments, in particular, providing better information about the potential dilution of ordinary shares from financial liabilities and equity instruments and better information about the fair value of derivative equity instruments.

17. The IASB's preferred approach was for the information required by IAS 1 to be improved by requiring total equity and changes in equity to be disaggregated between ordinary shares and equity instruments other than ordinary shares. In particular, expanding the attribution of total comprehensive income to other equity instruments would improve the information provided about the effects that different features of equity instruments have on the distribution of returns between equity instruments. The attribution of returns would also result in the carrying amounts for each class of equity being updated for the amount of total comprehensive income attributed to it and presenting such changes in carrying amounts in the statement of changes in equity, similar to non-controlling interests.

18. The IASB also preferred the attribution of total comprehensive income to all equity instruments to be presented on the face of the statement of financial performance. The attribution proposals in the 2018 DP were:

    (a) for derivatives—the IASB did not form a preliminary view but considered various approaches ranging from a full fair value approach to not requiring attribution but using disclosure. The core idea was to show the value that has been given away to derivative equity holders.

(b) for non-derivatives—the IASB's preliminary view is that the attribution should be based on the existing requirements in IAS 33 for calculating earnings per share (EPS) which most commonly involves adjustments for the amounts of preference dividends or for participating equity instruments.

19. The feedback received on the 2018 DP proposals was discussed in Agenda Papers 5B and 5D of the July 2019 IASB meeting. The key messages were:

(a) Many respondents agreed that it would be useful for investors to have information about the distribution of returns among the different types of equity instruments and supported the objective of the presentation proposals for equity instruments. Overall, there was limited support from users of financial statements for attribution of total comprehensive income to classes of equity instruments, in particular derivative equity instruments. Some users of financial statements acknowledged that the information would be a 'nice to have' rather than a necessity and others believed it was not appropriate to allocate current period profit to future or potential shareholders.

(b) Most respondents that gave feedback on the proposals for derivative equity instruments were not supportive of any of the attribution approaches because they believed the benefits of the resulting information would not outweigh the cost of preparation. Many respondents suggested the IASB pursue a disclosure solution instead. Some of these respondents were of the view that the disclosures proposed in the DP would be sufficient to provide useful information about equity instruments.

(c) Some of the respondents (including some users of financial statements) that provided specific feedback on the attribution proposals for non-derivative equity instruments, supported the proposals and agreed that IAS 33 should be the basis for attribution. However, some respondents disagreed because they believe disclosure is better suited to provide the information than expanding the presentation in the primary financial statements.

(d) Some respondents (including some users of financial statements) suggested other ways to provide further information about equity instruments such as presenting or disclosing:

(i) sub-classes of equity instruments on the statement of financial position to distinguish existing shareholders from potential shareholders or holders of other equity;

(ii) dividend payment per type of equity;

(iii) participation curves for each class of equity;

(iv) attribution of revenue or operating income to holders of non-controlling interests; and

(v) enhanced EPS workings.

IASB discussion on perpetual instruments

20. In Agenda Papers 5E and 5F of the February 2021 meeting, the IASB discussed the classification of perpetual instruments and potential presentation and disclosure solutions. The focus was on those perpetual instruments that are classified as equity applying IAS 32, because the issuer has no obligation to transfer cash other than at liquidation of the entity, although the instrument also has features that are typical of financial liabilities. For example, a financial instrument may pay fixed rate coupons on specific dates but the issuer has the right to defer or cancel the coupons and defer the principal repayment indefinitely until its liquidation. Some Additional Tier 1 capital instruments issued by banks and hybrid instruments issued by corporate entities have these features. Applying the classification approach in the 2018 DP, these instruments would have been classified as financial liabilities, at least in part, and many respondents were opposed to that change.

21. When considering the classification of the instruments in the current FICE project, the IASB did additional outreach. The outreach specifically targeted equity investors, who invest in ordinary shares, and aimed to understand whether liability classification of these instruments would better serve their information needs. Most of the equity investors told us that they would prefer these instruments to be classified as financial liabilities, but they acknowledged that these instruments are different from other financial liabilities and do have features of equity instruments. As a compromise, they said that if equity classification is retained, clear presentation and additional disclosures would be useful. In particular, they would like transparency as to whether an entity has issued this type of instrument and what the contractual coupons on these instruments are.

22. Considering the investors' feedback together with the costs and benefits of a classification change, the IASB tentatively decided not to change the classification of these perpetual instruments because such a change would result in a fundamental change to IAS 32. Instead, the IASB decided to develop presentation and disclosure requirements to meet the investors' information needs.

23. At the time, the staff explored a possible presentation solution (see Appendix for more information), the scope of which was limited to these perpetual instruments. In developing that

presentation solution, the staff had reviewed the IFRS financial statements of 29 banks and 12 non-financial corporates to understand the current classification of perpetual instruments and how they are presented in the statement of financial position, statement of comprehensive income or statement of changes in equity. Overall, our research showed diverse practice in presentation and disclosure of information about these types of financial instruments.

IASB discussion on disclosures

24. In April 2021 the IASB discussed potential refinements to disclosure proposals explored in the 2018 DP—namely, proposals for disclosure of information about terms and conditions, priority on liquidation and potential dilution. These disclosure proposals relate to financial instruments an entity issues and, if finalised, would be incorporated into IFRS 7 *Financial Instruments: Disclosures*.

25. Currently, IFRS Accounting Standards do not specifically require entities to disclose information about different features of equity instruments, even if they are similar to those of financial liabilities. For example, consider the perpetual instruments discussed by the IASB in February 2021—users of financial statements have told us they would like transparency as to whether an entity has issued this type of instrument and how much coupons the entity pays on them. Cumulative annual dividends/coupons on an equity instrument that can be deferred represent 'debt-like features' because they have specified timing and fixed or determinable amounts—they result in cash flows that have similar characteristics to those of a debt instrument. These debt-like features in equity instruments would be required to be disclosed applying the disclosure proposals in this project.

26. The IASB tentatively decided that, for financial instruments with characteristics of both financial liabilities and equity instruments (except for stand-alone derivatives), an entity would be required to disclose in the **notes** information about:

    (a) 'debt-like features' in financial instruments that are classified as equity instruments;

    (b) 'equity-like features' in financial instruments that are classified as financial liabilities; and

    (c) debt-like and equity-like features that determine the classification of such financial instruments as financial liabilities, equity instruments or compound financial instruments.

27. In addition, the IASB considered disclosures to enable users of financial statements to assess the potential dilution of ordinary shares arising from financial instruments that could be settled by delivering ordinary shares, for example, convertible bonds and derivatives on own equity. Such information would help in understanding how the entity distributes its returns to ordinary shareholders, how the entity has financed its operations in the past, and how the entity's capital structure might change in the future based on the instruments issued at the reporting date. Information about such potential dilution is useful for existing and potential investors in the entity's ordinary shares.

28. The IASB tentatively decided to require an entity to disclose information about the maximum dilution of ordinary shares in the **notes**, including:

    (a) the maximum number of additional ordinary shares that an entity could be required to deliver for each type of potential ordinary share outstanding at the reporting date. An entity would:

        (i) include the total number of share options outstanding (as required to be disclosed by IFRS 2 *Share-based Payment*) and the number of unvested shares, if known; and

        (ii) indicate the possibility for unknown dilution where the maximum number of additional ordinary shares that could be delivered is not yet known.

    (b) the minimum number of ordinary shares required to be repurchased.

    (c) sources of any significant changes in (a) and (b) from the prior reporting period and how these sources contributed to those changes.

    (d) terms and conditions relevant to understanding the likelihood of maximum dilution, including a cross-reference to disclosures required by IFRS 2 for a description of share-based payment arrangements.

    (e) a description of any share buy-back programmes or other arrangements that may reduce the number of shares outstanding.

Staff analysis

29. Financial instruments classified as equity often have different rights and obligations from each other despite the fact that they all have an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation. These differences could result in different amounts of the residual (return) being allocated to the different classes of equity

instruments based on features that are not reflected by their classification as equity. Different features of equity instruments could include:

(a) priority of the claim on liquidation (eg non-cumulative preference shares vs ordinary shares);

(b) pay-off profiles (eg warrants with different exercise prices);

(c) extent of participation in the residual interest (equity instruments without an upward limit vs those that have limited participation);

(d) rights to receive distributions (eg a fixed rate of return vs a variable return)

(e) contingent features (eg options vs forwards); and

(f) restrictions on dividends, buy-backs or other distributions.

30. The staff are of the view that information about the different types of equity instruments outstanding would therefore help users of financial statements make better assessments of an entity's financial position and assess the distribution of returns among those equity instruments.

31. In determining whether there is a need for the IASB to make any changes to the presentation requirements in IAS 32 for equity instruments, the staff considered:

(a) the current presentation in practice for other types of equity instruments (see paragraphs 32-33 of this paper);

(b) whether there was strong support for any of the 2018 DP proposals on presentation of equity instruments (see paragraphs 34-38 of this paper);

(c) relevant IASB tentative decisions on the PFS project (see paragraphs 39-51 of this paper); and

(d) whether the IASB tentative decisions on disclosures as part of the FICE project are sufficient to meet the needs of users of financial statements (see paragraphs 52-53 of this paper).

Other equity instruments

32. The staff conducted a similar desktop review of the consolidated financial statements of various entities to the one described in paragraph 23 of this paper but this time focusing on equity instruments other than ordinary shares or perpetual instruments which the IASB discussed in February 2021. The aim of our review was to see if other types of equity instruments are presented separately and how much transparency there is for users of financial statements.

33. A variety of presentation approaches were found for non-derivative equity instruments including presenting the particular type of equity instrument:

    (a) in a separate line item in the attribution of total comprehensive income section at the end of the statement of comprehensive income; and/or

    (b) in a separate line item in the statement of financial position and/or

    (c) in a separate column in the statement of changes in equity; or

    (d) together with other equity instruments for the purposes of (a), (b) or (c).

    Derivatives classified as equity and the equity component of compound instruments was less visible in the consolidated financial statements.

2018 DP

34. Given the strong negative feedback and lack of consensus on the 2018 DP proposals for presenting attribution of total comprehensive income to *derivative* equity instruments, the staff do not recommend the IASB pursue developing these proposals. We agree with those respondents that suggested the IASB pursue a disclosure solution instead.

35. In April 2021, the IASB made tentative decisions on disclosures about potential dilution of ordinary shares which will include the impact of derivatives on own equity that will be settled in ordinary shares. These disclosures help users of financial statements understand the distribution of returns to ordinary shareholders. The staff also agree with respondents that attributing income and expenses to derivative counterparties would be confusing to users of financial statements and would mean attributing current period profit or loss to potential or future shareholders that do not have the contractual right to receive dividends or other returns in the current reporting period. In addition, requiring equity to be remeasured as was proposed in the 2018 DP would represent a fundamental change to IAS 32.

36. Based solely on the feedback received on the 2018 DP proposals for attribution of total comprehensive income to *non-derivative* instruments, the staff think that no further presentation proposals are necessary. Whilst some respondents supported the proposals, others believed disclosure was better suited to provide the information than expanding the presentation in the primary financial statements.

37. The staff note that paragraph 81B of IAS 1 has requirements for presenting, profit or loss and comprehensive income attributable to **owners** of the parent in the **statement of profit or loss and other comprehensive income**. Owners are defined in paragraph 7 of IAS 1 as holders of instruments classified as equity. Therefore, in the staff's view, entities could present an allocation of profit or loss and other comprehensive income to other holders of instruments classified as equity, other than ordinary shareholders, applying paragraph 81B of IAS 1.

38. Furthermore, paragraph 107 of IAS 1 requires an entity to present, either in the **statement of changes in equity or in the notes**, the amount of dividends recognised as distributions to **owners** during the period, and the related amount of dividends per share. Therefore, in the staff's view, entities could present or disclose dividends to ordinary shareholders separately from dividends to holders of other instruments classified as equity, applying paragraph 107 of IAS 1.

PFS project

39. The IASB is proposing requirements for presentation and disclosure in financial statements, with a focus on the statement of profit or loss as part of its PFS project. The IASB is currently redeliberating proposals in the Exposure Draft *General Presentation and Disclosures* (Exposure Draft) which was published in December 2019. The staff considered the IASB's discussions and tentative decisions on the role of primary financial statements and the notes, principles for aggregation and disaggregation and specified line items in determining whether any clarifications are required for the presentation of issued financial instruments as part of the FICE project.

40. As described in paragraph 20 of the Exposure Draft, the role of the primary financial statements is to provide a structured and comparable summary of a reporting entity's recognised assets, liabilities, equity, income and expenses and cash flows which is useful for:

    (a) obtaining an overview of the entity's assets, liabilities, equity, income, expenses and cash flows;

(b) making comparisons between entities, and between reporting periods for the same entity; and

(c) identifying items or areas about which users of financial statements may wish to seek additional information in the notes.

41. As described in paragraph 21 of the Exposure Draft, the role of the notes is to:

(a) provide further information necessary for users of financial statements to understand the items included in the primary financial statements; and

(b) supplement the primary financial statements with other information that is necessary to meet the objective of financial statements.

42. In April 2021, the IASB tentatively decided to include a reference to understandability in the description of the role of the primary financial statements. We understand this will be achieved by changing the wording in paragraph 40(a) of this paper to 'obtaining an *understandable* overview of the entity's assets, liabilities, equity, income, expenses and cash flows'.

43. The following extracts from Agenda Paper 21A of the February 2022 IASB meeting explain how specific requirements for line items fits in with the role of primary financial statements:

> The description of the role of primary financial statements in paragraph 20 of the Exposure Draft requires a balance between giving an understandable overview and providing details that enable comparisons to be made between entities. Specific requirements for line items result in all entities providing those line items (when material) and, accordingly, help users of financial statements to compare entities.
>
> However, such specific requirements may not help an entity give an understandable overview. This is particularly the case in the statement of profit or loss where the required line items are heavily focused on items relating to IFRS 9 and IFRS 17. An entity that is not a financial institution might have such items that are material, and hence should be disclosed, but which do not need to be presented in the statement of profit or loss to give an understandable overview of the entity's income and expenses. Rather they might create clutter that make the overview less understandable.

44. Paragraph 25 of the Exposure Draft proposes principles for the aggregation and disaggregation of information. It states that an entity shall present in the primary financial statements or disclose in the notes the nature and amount of each material class of assets, liabilities, income or expense, equity or cash flow. To provide this information an entity shall aggregate transactions and other events into the information it discloses in the notes and the line items it presents in the primary financial statements. Unless doing so would override specific aggregation or disaggregation requirements in IFRS Standards, an entity shall apply the principles that…:

    (a) items shall be classified and aggregated on the basis of shared characteristics;

    (b) items that do not share characteristics shall not be aggregated…; and

    (c) aggregation and disaggregation in the financial statements shall not obscure relevant information or reduce the understandability of the information presented or disclosed.

45. In September 2021, the IASB made several tentative decisions regarding aggregation and disaggregation including:

    (a) explaining that

        (i) the purpose of aggregation into such classes is to make information understandable.

        (ii) the requirement to disclose such classes applies to all material classes. Hence any class of aggregated items should be disaggregated if the resulting disaggregated classes provide material information. Material classes might arise because items have a single dissimilar characteristic.

    (b) including application guidance summarising characteristics that:

        (i) if shared, might form the basis for aggregating items that comprise a class that enhances the understandability of information provided in the financial statements.

        (ii) if not shared, might form the basis for disaggregating a single class of items into separate classes that provide material information.

46. In February 2022, the IASB redeliberated some of the proposals relating to principles for presentation and to the required line items in primary financial statements. The IASB made several tentative decisions including:

    (a) to revise the general principle for the presentation of line items in the primary financial statements set out in paragraph 42 of the Exposure Draft (see paragraph 47 of this paper).

(b) to require all presentation requirements to apply only when the resulting presentation does not detract from the primary financial statement providing an understandable overview.

(c) not to revisit the requirements for specified line items brought forward from IAS 1.

47. In Agenda Paper 21A of the February 2022 meeting, the PFS staff set out the following revised paragraph 42 of the Exposure Draft about specified and additional line items:

> 42 This [draft] Standard requires ~~minimum~~ specified line items and subtotals to be presented in the statement(s) of financial performance and the statement of financial position. An entity shall present additional line items (including by disaggregating required ~~minimum~~ line items), headings and subtotals in the statement(s) of financial performance and the statement of financial position when such presentations are ~~relevant to an understanding of the entity's financial performance or financial position~~ necessary to provide an understandable overview of the entity's income and expenses or assets, liabilities and equity.

48. In February 2022, the IASB also discussed the more general question of when it should require specific line items. The PFS staff identified the following costs and benefits of such specific requirements, compared with relying on an entity applying the principle of presenting line items when necessary to provide an understandable overview of the entity's income and expenses or assets and liabilities:

(a) costs:

(i) potential conflict with the role of the primary financial statement to give an understandable overview. A requirement for a specific line item would mean an entity would have to present it separately (assuming the item is material) even if doing so results in the statement giving a less understandable overview of the assets/liabilities or income/expenses…

(ii) a list of specified line items is more likely to promote a checklist compliance approach. Entities may simply present the required line items and not consider whether additional disaggregation would be useful. The longer the list of required line items, the less likely an entity will feel the need to consider whether disaggregation into additional line items is necessary, even if the list of required line items does not necessarily focus on the most important types of income and expenses for the entity.

(b) benefits:

 (i) specific requirements result in increased comparability of primary financial statements across entities.

 (ii) specific requirements are easier to apply and enforce compared to the application of a general principle.

 (iii) specific requirements can include guidance on how the requirement can be met, for example on how items covered by the requirement might be identified or presented. Such guidance could enhance comparability of amounts and help make the requirements more operational.

 (iv) specific requirements can be accompanied by a specific cost relief, should the IASB decide such relief is appropriate.

49. The PFS staff recommended the Basis for Conclusions describe these costs and benefits and explain that the IASB will consider them when requiring specific line items to be presented in future projects.

50. Taking into account the IASB's tentative decisions on the PFS project, the staff considered whether the FICE project should propose additional presentation requirements and whether the presentation proposal for perpetual instruments discussed in February 2021 still has merit. The staff are of the view that the costs and benefits described above for requiring specific line items in the statement of financial position are useful to consider. We are also of the view that a similar costs vs benefits analysis could apply in determining whether a separate column should be required in the statement of changes of equity.

51. The staff also agree with applying a similar principle in the FICE project—entities should present additional line items or columns (including by disaggregating existing line items or columns) when necessary to provide an understandable overview of the entity's income and expenses or assets and liabilities and equity. Consequently, the staff do not think it is necessary for the IASB to mandate specific line items or columns to be presented for particular types of equity instruments issued.

IASB tentative decisions on disclosures

52. The staff considered whether the proposed disclosures in the FICE project on key terms and conditions and on potential dilution provide sufficient information about the different types of equity instruments issued by an entity. The staff considered the particular disclosures proposed (see paragraph 26 and 28 of this paper) and the scope of the proposed disclosures. The proposed key terms and conditions disclosures will apply to financial instruments with

characteristics of both debt and equity, including compound instruments and excluding standalone derivatives. The proposed maximum dilution disclosures will apply to all instruments and transactions settled by delivering ordinary shares, including IFRS 2 instruments and transactions.

53. Considering these proposals and the types of equity instruments in issue, the staff are of the view that the disclosures proposed in the FICE project are sufficient to meet the information needs of users of financial statements. Any equity instrument that is not an ordinary share will likely either have a debt-like feature (for example, non-redeemable preference shares with a fixed cumulative coupon) or expose ordinary shareholders to potential dilution (for example written call options on own shares) and will thus be included in the scope of the disclosure proposals.

Staff conclusion

54. Based on our analysis, the staff are of the view that the IASB does not need to make any changes to the presentation requirements in IAS 32 for equity instruments. Entities are already subject to the current requirements in paragraphs 55 and 77 of IAS 1 for presenting additional line items or disaggregating existing line items in the statement of financial position. Entities will also be subject to any future requirements coming out of the PFS project relating to required line items, additional line items and the principles for aggregation and disaggregation. We are therefore of the view that IAS 1 and any decisions to be made as part of the PFS project provide an adequate basis for entities to determine whether to present additional line items in the statement of financial position. Entities therefore have to decide themselves whether they need to present additional line items or disaggregate existing line items in compliance with IAS 1.

55. The staff note that there is no similar requirement in IAS 1 regarding additional line items, headings and subtotals for the statement of changes in equity. Paragraphs 106(d) and 106A of IAS 1 refer to ‘each component of equity’ and paragraph 108 of IAS 1 explains that the components of equity include, for example, each class of contributed equity, the accumulated balance of each class of other comprehensive income and retained earnings. In our view, a similar principle to that in paragraph 55 of IAS 1 could be applied by entities in determining whether to present an additional column in the statement of changes in equity, ie to reflect an additional component of equity. In addition, as discussed in paragraph 38 of this paper, IAS 1 already has requirements for presenting or disclosing dividends to owners (defined as holders

of instruments classified as equity) so the staff are of the view that it is not necessary to develop any further proposals specifically for dividends.

56. The staff are also of the view that developing any requirements for attribution in the statement of profit or loss would be beyond the scope of the FICE project especially as the PFS project is focusing on information in the statement of profit or loss. Further, such information may confuse users of financial statements if profit is attributed to derivative holders of instruments classified as equity that do not have present contractual rights to the current year’s profits. In addition, as discussed in paragraph 37 of this paper, IAS 1 already has requirements for presenting total comprehensive income attributable to owners of the parent.

57. Lastly, the staff are of the view that the disclosure proposals tentatively agreed to by the IASB on key terms and conditions and potential dilution are sufficient to meet the needs of users of financial statements for further information about equity instruments.

Appendix

A1. In February 2021, the staff presented a potential presentation solution to the IASB for perpetual instruments which involved:

(a) presenting these perpetual instruments as a *separate line item* within equity, in the statement of financial position and in a *separate column* in the statement of changes in equity;

(b) showing coupons/dividends attributed to these financial instruments in the statement of changes in equity (similar to the 2018 DP proposals for attribution of total comprehensive income to non-derivative equity instruments); and

(c) presenting a section at the end the income statement which sets out the attribution of profit or loss to various equity instrument holders, showing separately the amount attributed to perpetual instruments.

A2. The following shows a simplified illustration of separate presentation in the consolidated statement of changes in equity. The new column is presented in a red box.

Statement of changes in equity for the year ended at 31 December 2020 (in CU million)

	Share capital	Share premium	Retained earnings	Other reserves	Equity attributable to ordinary shareholders	Equity attributable to perpetual instrument holders	Non controlling interest	Total equity
Opening balance	900	1,100	19,930	495	22,425	200	335	22,960
Profit for the year			95		95	15	19	129
Other comprehensive income for the year				5	5		1	6
Total comprehensive income for the year			**95**	**5**	**100**	**15**	**20**	**135**
					0			0
Transactions with ordinary shareholders					0			0
Issuance of ordinary shares	100	100			200			200
Dividends distribution			(25)		(25)		(5)	(30)
								0
Transactions with perpetual instrument holders								0
Issuance of perpetual instruments						150		150
Redemption of perpetual instruments						(100)		(100)
Coupon paid on perpetual instruments						(5)		(5)
								0
Closing balance	**1,000**	**1,200**	**20,000**	**500**	**22,700**	**260**	**350**	**23,310**

A3. The following shows a simplified illustration of separate presentation in the statement of financial position and at the end of income statement. New line items are presented within a red box.

Statement of financial position as at 31 December 2020 (in CU million)

	2020
Equity	
Called up share-capital	1,000
Share premium	1,200
Retained earnings	20,000
Other reserves	500
Equity attributable to ordinary shareholders of the parent	22,700
Perpetual instruments	260
Non-controlling interest	350
Total equity	23,310

Income statement for the year ended at 31 December 2020 (in CU million)

	2020
Total comprehensive income for the year	135
Attributable to:	
Ordinary shareholders of the parent	100
Holders of perpetual instruments	15
Non-controlling interest	20
Total comprehensive income for the year	**135**