IFRS Accounting

Staff paper

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Project	**Financial Instruments with Characteristics of Equity (FICE)**
Topic	**Scope of IFRS 7 and Additional disclosures**
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Purpose and structure

1. The purpose of this paper is to ask the International Accounting Standards Board (IASB) for tentative decisions on:

   (a) proposed amendments to the scope and objective of IFRS 7 *Financial Instruments: Disclosures* to cover the proposed disclosure requirements in relation to an entity's issued equity instruments; and

   (b) additional disclosure proposals identified as a result of the IASB's deliberations on the classification and presentation topics in the FICE project plan.

   If the IASB tentatively agrees to the proposed disclosures discussed in this paper, they will supplement and be in addition to the proposed disclosures that were tentatively agreed in the April and May 2021 IASB meetings regarding the terms and conditions, priority on liquidation and potential dilution.

2. This paper is structured as follows:

   (a) Background;

   (b) Summary of staff recommendations; and

(c) Staff analysis:

(i) Scope of IFRS 7

(ii) Terms and conditions disclosures

(iii) Additional disclosure requirements

3. As part of the staff analysis, we set out our recommendations and a question for the IASB for each subtopic.

Background

4. The IASB undertook the project *Disclosure initiative – Targeted Standards-level Review of Disclosures*" (TSLR project) with the overarching objective of improving the IASB's approach to developing and drafting disclosure requirements in IFRS Accounting Standards. The improved approach is designed to help the IASB develop Accounting Standards that would enable companies to make better judgements about which information is material and should be disclosed, thereby providing more useful information to investors. In March 2023, the IASB concluded the TSLR project by publishing 'Guidance for developing and drafting disclosure requirements in IFRS Accounting Standards'.

5. When drafting our recommendations in this agenda paper, the staff considered the guidance developed as part of the TSLR project in the context of the objectives of the FICE project and the existing disclosure objectives in IFRS 7.

6. The FICE project aims to address known practice issues that arise when applying IAS 32 *Financial Instruments: Presentation* to classify financial instruments as financial liabilities or equity; and improve the information provided in the financial statements about the financial instruments issued by the entity. The two main objectives of IFRS 7 are to provide disclosures in the financial statements that enable users of financial statements to evaluate:

(a) the significance of financial instruments for the entity's financial position and performance; and

(b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

The staff analysis section below includes specific disclosure objectives that are being addressed by the proposed additional disclosure requirements in this paper.

Summary of staff recommendations

7. The staff's recommendations are summarised in the table below:

Summary of staff recommendations	
Scope of IFRS 7	
Scope	Add an overall objective to the objective section of IFRS 7 to provide users of financial statements with useful information about an entity's issued equity instruments so that they can understand how the entity is financed and its current and potential ownership structure. Delete the last part of the sentence in paragraph 3(a) of IFRS 7 from "unless the derivative meets the definition of an equity instrument in IAS 32".

Summary of staff recommendations	
Terms and conditions disclosures (tentatively agreed in April 2021)	
Further refinements	Include the explanations and examples of debt-like and equity-like features in the Application Guidance and Illustrative Examples sections of the forthcoming Exposure Draft. Clarify that the disclosures of debt-like and equity-like features would include both quantitative and qualitative information. For compound financial instruments, disclose the amounts allocated initially to the financial liability and equity components.
Other terms and conditions disclosures	
Significant judgements made on classification	Require entities to disclose significant judgments made in determining the classification of the financial instrument, or its component parts, as a financial liability or as equity.
Passage-of-time changes	Require entities to disclose, if applicable, information about terms and conditions that become effective or cease to be effective

Summary of staff recommendations	
	with the passage-of-time before the end of the contractual term of the instrument.
Additional disclosure requirements	
Reclassifications	Relocate the disclosure requirement in paragraph 80A of IAS 1 *Presentation of Financial Statements* to IFRS 7 and expand it to cover reclassifications when changes in the substance of the contractual terms arise from changes in circumstances outside the contract. Entities would be required to disclose the amounts reclassified into and out of financial liabilities or equity, and the timing and reason for that reclassification.
Obligations to redeem own equity instruments	Require entities to disclose: • the component of equity in which the debit entry was initially recognised; • the amount of remeasurement gain or loss recognised in profit or loss during the reporting period;

Summary of staff recommendations	
	• if the obligation is settled during the reporting period, the amount of profit or loss, if any, that was recognised on settlement; • if the written put option has expired unexercised, the amount removed from financial liabilities and included in equity; and • if any cumulative amount in retained earnings was transferred within equity, the cumulative amount and the component of equity it was transferred to.
Financial liabilities containing contractual obligations to pay amounts based on an entity's performance or changes in the entity's net assets	Amend paragraph 20(a)(i) of IFRS 7 to require the separate disclosure of the total gains or losses that arise from remeasuring these types of financial liabilities in each reporting period.

Staff analysis

8. Based on the IASB's discussions from 2020 to date on the classification and presentation topics included in the FICE project plan, the staff considered whether:

(a) the scope of IFRS 7 needs to be changed (paragraphs 9-13);

(b) the proposed disclosure requirements relating to the terms and conditions of financial instruments require any further refinements (paragraphs 14-18);

(c) there is a need for other terms and conditions disclosures (paragraphs 19-35);

(d) there is a need for any additional disclosure requirements that may provide users of the financial statements with useful information about:

    (i) compound financial instruments containing contingent settlement provisions (paragraphs 36-41);

    (ii) the effects of laws on the contractual terms (paragraphs 42-45);

    (iii) reclassifications (paragraphs 46-48);

    (iv) obligations to redeem own equity instruments (paragraphs 49-53); and

    (v) financial liabilities containing contractual obligations to pay amounts based on an entity's performance or changes in the entity's net assets (paragraphs 54-58).

Scope of IFRS 7

9. Paragraph 3 of IFRS 7 explains that IFRS 7 shall be applied by all entities to all types of financial instruments with specific exceptions. Paragraph 11 of IAS 32 defines a financial instrument as any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Therefore, the staff think based on the preamble to paragraph 3 of IFRS 7, equity instruments are included in the scope of IFRS 7. However, paragraph 3(a) specifically excludes derivatives linked to interests in subsidiaries, associates or joint ventures from the scope of IFRS 7 if the derivative meets the definition of an equity instrument. Paragraph BC8 of the Basis for Conclusions on IFRS 7 explains why:

> The Board decided that the scope of the IFRS should be the same as that of IAS 32 with one exception. The Board concluded that the IFRS should not apply to derivatives based on interests in

subsidiaries, associates or joint ventures if the derivatives meet the definition of an equity instrument in IAS 32. This is because equity instruments are not remeasured and hence:

(a) they do not expose the issuer to balance sheet and income statement risk; and

(b) the disclosures about the significance of financial instruments for financial position and performance are not relevant to equity instruments.

Although these instruments are excluded from the scope of IFRS 7, they are within the scope of IAS 32 for the purpose of determining whether they meet the definition of equity instruments.

10. The staff note that this exclusion is therefore based on the existing objectives in IFRS 7 described in paragraph 6 of this paper. If the objectives are expanded as recommended in paragraph 13(a) of this paper, then there would no longer be a need for this exclusion.

11. The staff also note that there are no specific disclosure requirements in IFRS 7 in regard to an entity's issued equity instruments or equity components of compound instruments, likely because equity instruments are not remeasured and therefore no disclosures are needed to meet the objectives of IFRS 7 described in paragraph 6 of this paper.

12. The proposed disclosures developed as part of the FICE project would apply to equity instruments as this was an area that both users of financial statements and preparers acknowledged as lacking. The objective of such disclosures is to provide the users of financial statements with useful information about an entity's issued equity instruments so that they can understand how the entity is financed and its current and potential ownership structure.

13. The staff recommend:

(a) adding an overall disclosure objective, as discussed in paragraph 12 of this paper, related to the proposed disclosures for issued equity instruments to the objective section of IFRS 7. The overall objective will cover the more specific objectives, for example to require entities to provide disclosures that enable users to understand:

  (i) the nature, amount, timing and uncertainty of cash flows from issued financial instruments;

  (ii) dilution that could arise from any potential increase in the number of issued ordinary shares; and

  (iii) the nature and priority of claims and the risks and returns of financial instruments on liquidation of the entity.

deleting the last part of the sentence in paragraph 3(a) of IFRS 7 from "unless the derivative meets the definition of an equity instrument in IAS 32".

Question for the IASB
1. Does the IASB agree with the staff recommendations summarised in paragraph 7 of this paper?

Terms and conditions disclosures

Further refinements

14. As discussed in Agenda Paper 5A of the April 2021 IASB meeting, for financial instruments with characteristics of both debt and equity, users of financial statements want to better understand:

(a) the nature, amount, timing and uncertainty of cash flows arising from these types of issued financial instruments;

(b) cash flow characteristics not captured through classification as equity or financial liabilities but that are relevant to understand the nature of the financial instruments; and

(c) the reason for classification as financial liabilities or equity instruments, or compound instruments.

15. To meet the above objectives, 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 information about (*emphasis added*):

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

(b) 'equity-like features' of 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.[1]

16. Subsequent to the April 2021 meeting, the staff received feedback from stakeholders that it would be key for the IASB to define debt-like features or equity-like features or to provide additional guidance as it may be difficult in practice to assess whether certain instruments will be in the scope of the disclosures. The staff recommend including the explanations and examples of debt-like and equity-like features (which were included in the staff's analysis in Agenda Paper 5A of the April 2021 meeting) in the Application Guidance and Illustrative Examples to the forthcoming Exposure Draft.

17. The staff also recommend clarifying that the disclosures of the debt-like and equity-like features would include both quantitative and qualitative information so that users

[1] The staff set out the reasons for excluding stand-alone derivatives in paragraphs 35 – 38 of Agenda Paper 5A for the April 2021 IASB meeting.

of financial statements can understand the impact of these features on the nature, amount, timing and uncertainty of the entity's cash flows.

18. In addition, the staff recommend that for compound financial instruments, such as mandatory convertible bonds with fixed coupons, the amounts allocated initially to the financial liability and equity components be disclosed. This information would be useful to users of financial instruments because after separation, it is not always clear that the components were part of a compound instrument.

Other terms and conditions disclosures

19. In addition, the staff considered that there may be a need for other terms and conditions disclosures resulting from the IASB's discussions on classification practice issues. Such disclosures may extend to wider circumstances that those discussed in paragraphs 14 and 15 of this paper and some of these may also be relevant for stand-alone derivatives which are scoped out of the proposed disclosures in paragraph 15 of this paper.

Significant judgements made on classification

20. Paragraph 15 of IAS 32 requires an issuer of a financial instrument to classify the financial instrument, or its component parts, as a financial liability or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument. However, in some cases, significant judgement will be required in determining such classification. For example:

    (a) *Shareholders' discretion:* In its February 2022 meeting, the IASB had tentatively decided to explore a factors-based approach detailed in Agenda Paper 5B to help an entity apply its judgement when classifying a financial instrument with a contractual obligation to deliver cash (or to settle it in such a way that it would be a financial liability) at the discretion of the issuer's shareholders. Judgement would be required when assessing whether a decision of shareholders is treated as a decision of the entity so that an entity can determine whether it has an unconditional right to avoid delivering cash (or settling a financial instrument in such a way that it would be a financial liability).

(b) *Fixed-for fixed condition* [2]*:* In April 2020, the IASB tentatively decided that for a derivative on own equity to meet the fixed-for-fixed condition in IAS 32, the number of functional currency units to be exchanged with each underlying equity instrument must be fixed or only vary with: (i) preservation adjustments that require the entity to preserve the relative economic interests of future shareholders to an equal or lesser extent than those of the existing shareholders; or (ii) passage of time adjustments that are predetermined, vary only with the passage of time and fix the present value of the number of functional currency units per underlying equity instrument. An entity may be required to apply judgement in determining whether an adjustment is a preservation adjustment or a passage-of-time adjustment and whether it is an allowable adjustment.

21. Paragraph 122 of IAS 1, includes an overarching principle that requires an entity to disclose, along with material accounting policy information or other notes, the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. Paragraph 124 of IAS 1 also says that some of the disclosures made in accordance with paragraph 122 are required by other IFRSs.

22. The staff recommend including a requirement in IFRS 7, explicitly requiring entities to disclose significant judgments made in determining the classification of financial instruments, or their component parts, as financial liabilities or equity instruments. In the staff' view, such a requirement would be useful in order to ensure that significant judgements are disclosed. In the context of IAS 32, these judgements are often

[2] Applying paragraphs 11 and 16 of IAS 32, a derivative financial instrument is an equity instrument only if it will be settled by the issuer exchanging a fixed amount of cash (or another financial asset) for a fixed number of its own equity instruments. This is commonly referred to as the 'fixed-for-fixed' condition.

qualitatively material because they directly affect the classification of the financial instruments and would help users of financial statements understand why specified instruments are classified as financial liabilities or equity.

Passage-of-time changes

23. In June 2022, the IASB tentatively agreed that reclassifications between financial liabilities or equity instruments are generally prohibited other than for changes in the substance of the contractual terms arising from changes in circumstances outside the contract. This means reclassification is prohibited for ‘passage-of-time’ changes ie changes in the substance of the contractual terms as a result of the passage of time that are known or anticipated at inception of the contract.

24. For example, consider a convertible bond where the number of shares that would be delivered upon the exercise of the conversion option is determined only at a future date when the conversion price becomes fixed. In this case, when the conversion ratio becomes fixed with the passage-of-time, the nature of the obligation changes from an obligation to deliver a variable number of shares to an obligation to deliver a fixed number of shares. Reclassification is prohibited for these types of instruments.

25. The staff expect the financial instrument would initially have been classified as a financial liability (due to the variability in the contractual terms). Although the passage-of-time changes do not result in the reclassification of the instrument, the measurement of the financial liability would reflect the changes in the substance of the contractual terms (either the amortised cost would be updated to reflect actual and revised estimated contractual cash flows or the fair value would be updated for such estimates).

26. Therefore, the staff recommend that the disclosure, if applicable, of terms and conditions that become effective or cease to be effective with the passage-of-time before the end of the contractual term of the instrument. This will help users of the financial statements better understand the nature, amount, timing, and uncertainty of cashflows and other features arising from these types of financial instruments.

Economic compulsion and indirect obligations

27. Some financial instruments grant the issuer the right to choose between alternative settlement outcomes, instead of granting that right to the holder of the instrument. Paragraph 20(b) of IAS 32 applies where the issuer has a choice of settlement but the value of the share settlement alternative is such (substantially exceeds the cash alternative) that the entity will settle in cash and therefore has an indirect obligation. This is because the entity's right to settle a claim by delivering a fixed number of shares is 'structurally out-of-the-money' ie always 'out-of-the-money' or always unfavourable to the entity.

28. Other financial instruments that are classified as equity instruments may contain economic incentives. For example, some perpetual instruments include a contractual feature that resets the coupon rate to a higher rate if not called on the first call date. The strength of the economic incentive will depend on the issuer's rights and obligations and other facts and circumstances. In some circumstances, the incentives may be so strong that some would view the entity as being 'economically compelled' to redeem the instrument. Applying IAS 32, economic incentives that might influence the issuer's decision to exercise its rights are not considered when classifying a financial instrument as a financial liability or an equity instrument. Therefore, classification is based on the rights and obligations established by a contract, including obligations that are established indirectly through the terms of the contract. This is consistent with the existing requirements in paragraph 20 of IAS 32.[3]

[3] In March 2006, the Interpretations Committee (the Committee) discussed the role of contractual and economic obligations and agreed that IAS 32 is clear that a contractual financial obligation was necessary in order that a financial instrument be classified as a liability. Such a contractual obligation could be established explicitly or indirectly. However, the obligation must be established through the *terms and conditions* of the financial instrument. The Committee also noted that IAS 32 is clear that an economic obligation (ie economic compulsion), by itself, would not result in a financial instrument being classified as a liability.

29. Many respondents to the 2018 DP suggested that the IASB develop disclosure requirements about the contractual terms and the associated economic incentives, for example whether economic compulsion exists, or the likelihood of the share or cash settlement based on the conditions at the reporting date.

30. The staff acknowledge that to enhance transparency of the information provided to users of the financial statements, disclosures explaining the potential economic compulsion and existence of indirect obligations would be useful. However, this information is already covered by the proposed requirements to disclose debt-like features and equity-like features in financial instruments with characteristics of debt and equity. Therefore, the staff recommend no additional disclosure requirements.

Restriction to transfer funds

31. In response to the 2018 DP, a few stakeholders told us that users of financial statements often look for information about the nature and extent of any significant restrictions on the entity's ability to transfer funds to its shareholders in the form of cash dividends or on the entity's ability to repay its debt. They suggested that IAS 1 could require additional disclosures about the impact of externally imposed capital requirements or the existence of any other significant restrictions (eg solvency test, cash flow test, non-distributable reserves) on the entity's ability to transfer funds to its shareholders and creditors.

32. Paragraph 48 of IAS 7 *Statement of Cashflows* requires an entity to disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use.

33. In the context of the requirements in IFRS 7, an entity would be required to provide disclosures about liquidity risk arising from financial instruments and how an entity manages that risk. Furthermore, paragraph 14 of IFRS 7 requires an entity to disclose information about financial assets pledged as collateral and are no longer available for the use of the entity.

34. If the information an entity provides in applying the disclosure requirements in IAS 7 and IFRS 7 is insufficient, the entity would be required to provide additional information to enable users of financial statements to understand the impact of the restrictions on the entity's financial position. This was confirmed by the IFRS Interpretations Committee in the March 2022 update, when it considered whether an entity includes a demand deposit as a component of cash and cash equivalents in its statements of cash flows and financial position when the demand deposit is subject to contractual restrictions on use agreed with a third party.

35. Therefore, the staff recommend no further disclosures for restrictions on an entity's ability to use cash or other funds.

Question for the IASB
2. Does the IASB agree with the staff recommendations in paragraphs 16 -18, 22, 26, 30 and 35 of this paper?

Additional disclosure requirements

Compound financial instruments containing contingent settlement provisions

36. Paragraph 28 of IAS 32 states that an issuer of a non-derivative financial instrument shall evaluate the terms of the financial instrument to determine whether it contains both a liability and an equity component. Such instruments are compound financial instruments and the components shall be classified separately as financial liabilities or equity instruments.

37. In December 2021, the IASB tentatively decided to clarify that financial instruments with contingent settlement provisions may be compound instruments and that payments at the discretion of the issuer are recognised in equity, even if all the proceeds are initially allocated to the liability component of a compound financial instrument.

38. The staff note that some users of financial statements would prefer dividends on such financial instruments to be recognised in profit or loss because they believe there is less transparency about the returns to ordinary shareholders if they are recognised in equity. However, in February 2023, the IASB discussed the presentation of equity instruments and tentatively decided to amend the requirements in IAS 1 to distinguish amounts attributable to ordinary shareholders in the statement of financial position, statement(s) of financial performance and statement of changes in equity.

39. In particular, the IASB tentatively decided to amend paragraph 107 of IAS 1 and require an entity to present dividends recognised as distributions to *ordinary shareholders* separately from dividends recognised as distributions to other owners during the period. The IASB is of the view that this will respond to the concerns raised by users of financial statements by providing greater transparency about the returns to ordinary shareholders.

40. In addition, the IASB's tentative decisions on proposed disclosures of terms and conditions would provide additional information about these compound instruments. The information about both debt-like and equity-like features in all compound instruments would help users of financial statements understand the existence and classification of each component of a compound instrument.

41. Given the above, the staff do not recommend any additional disclosure requirements in regard to compound financial instruments containing contingent settlement provisions.

The effects of laws on the contractual terms

42. In its February 2023 meeting, the IASB tentatively decided to simplify the proposed principles that an entity would be required to apply in determining whether rights and obligations arising from legal requirements are considered in classifying a financial instrument as a financial liability or equity instrument. The proposed amendments to IAS 32 would require an entity to consider only enforceable contractual terms that

give rise to rights and obligations in addition to, or more specific than, those established by applicable law.

43. In assessing the classification of a financial instrument, entities therefore would consider legal requirements that prohibit the enforceability of contractual obligations because enforceability by law is implicit in the description of 'contractual' in paragraph 13 of IAS 32. The staff do not think it is necessary to develop any additional disclosure requirements in regard to laws and regulations that prevent the enforceability of a contractual term, given that such disclosure would not provide any additional benefit to users of financial statements and would necessarily have been considered in the classification of the financial instruments.

44. The staff also considered whether disclosure of legal requirements that could affect the timing and amount of future cash flows of issued financial instruments should be required, even when they do not affect their classification. Given the broad scope of the information that could be captured under such disclosure requirements, the staff think this would result in disclosure overload and consequently not be useful to users of financial statements. The staff also do not think there is any significant loss of information to investors because we would expect knowledgeable investors to be aware of general legal requirements in their jurisdiction that apply to the instrument they invested in, regardless of whether they are explicitly included in the contract or not.

45. The staff therefore do not recommend any additional disclosures in regard to the effects of laws on the contractual terms.

Reclassifications

46. In Agenda paper 5B for the June 2022 meeting, the IASB tentatively agreed to add general requirements in IAS 32 to prohibit reclassifications other than for changes in the substance of the contractual terms arising from changes in circumstances outside the contract. This does not affect reclassifications that are already required in IAS 32,

for example specific reclassification requirements on puttable instruments and obligations arising on liquidation.

47. The IASB also acknowledged the importance of disclosures in helping users of financial statements better understand the change in classification and its effect on measurement, if any.

48. Therefore, the staff recommend that the disclosure requirement in paragraph 80A of IAS 1 for a reclassification of puttable instruments and obligations arising on liquidation is relocated to IFRS 7 and expanded to cover reclassifications when changes in the substance of the contractual terms arise from changes in circumstances outside the contract. Entities would thus be required to disclose the amounts reclassified into and out of financial liabilities or equity, and the timing and reason for that reclassification.

Obligations to redeem own equity instruments

49. In accordance with paragraph 23 of IAS 32, an instrument that contains an obligation for an entity to redeem its own equity instruments for cash or another financial asset gives rise to a financial liability. The financial liability is recognised initially at the present value of the redemption amount with a corresponding debit to equity. In effect, such an amount is removed from equity and included as a financial liability to reflect the obligation to repurchase the equity instruments in the future. If the contract expires without the obligation being settled, for example a written put option expires unexercised, then the carrying amount of the financial liability at that time is removed from financial liabilities and included in equity.

50. In the September 2022 meeting, the IASB tentatively decided, amongst others:

(a) to clarify the accounting on initial recognition of the obligation to redeem an entity's own equity instruments if the entity does not already have access to the returns associated with an ownership interest. If the obligation involves non-controlling interests, the debit entry is recognised against a component of equity other than non-controlling interests. In the case of an entity's other obligations to purchase its own shares, the debit entry is recognised against a component of equity other than issued share capital.

(b) that on expiry of a written put option on an entity's own equity instruments:

(i) the financial liability is included in the same component of equity as that from which it was removed on initial recognition of the put option; and

(ii) the cumulative amount in retained earnings related to remeasuring the financial liability could be transferred to another component of equity but is not reversed in profit or loss.

51. In February 2023, the IASB tentatively decided to clarify in paragraph 23 of IAS 32 that, when remeasuring the financial liability, an entity is required to recognise gains or losses in profit or loss.

52. In the September 2022 meeting, the IASB acknowledged that users of financial statements need information that will enable them to understand the accounting treatment for obligations to redeem own equity instruments. Some information may currently be provided through the IFRS 7 disclosures about the entity's exposure to and management of liquidity risk or the requirement in paragraph 79(a)(v) of IAS 1 to disclose, for each class of share capital, the rights, preferences and restrictions attaching to that class including restrictions on the repayment of capital. However, those disclosures are not specifically related to instruments containing obligations to redeem own equity instruments. The staff therefore propose the IASB requires more comprehensive disclosures in a single note to the financial statements to meet these needs of users of financial statements.

53. The staff recommend that IFRS 7 is amended to require disclosure of:

(a) the component of equity in which the debit entry was initially recognised;

(b) the amount of remeasurement gain or loss recognised in profit or loss during the reporting period;

(c) if the obligation is settled during the reporting period, the amount of profit or loss, if any, that was recognised on settlement;

(d) if the written put option has expired unexercised, the amount removed from financial liabilities and included in equity; and

(e) if any cumulative amount in retained earnings was transferred within equity, the cumulative amount and the component of equity it was transferred to.

Financial liabilities containing contractual obligations to pay amounts based on an entity's performance or changes in the entity's net assets

54. In December 2022, the IASB tentatively decided to require an entity to disclose the total gains or losses during a reporting period that arise from remeasuring financial liabilities containing contractual obligations to pay amounts based on an entity's performance or changes in its net assets and that are measured at fair value through profit or loss. These disclosures, together with the proposed disclosures of terms and conditions tentatively agreed to by the IASB in April 2021, will help to meet the information needs of users of financial statements.

55. In Agenda Paper 5B of the December 2022 meeting, the staff explained that a financial liability that contains a contractual obligation to pay amounts based on an entity's performance or changes in its net assets would generally be measured at fair value through profit or loss. This is because the financial liability would likely be a stand-alone derivative financial liability; an embedded derivative that is not closely related to a host financial liability and is separated; or an entire (hybrid) contract that is designated at fair value through profit or loss because the contract contains one or more embedded derivatives that would otherwise be required to be separated. The 2018 DP referred to examples such as shares redeemable at fair value and equity-indexed interest or principal payments embedded in a host debt instrument.

56. Applying paragraph 20(a)(i) of IFRS 7, the net gain or net loss on financial liabilities designated as at fair value through profit or loss would be presented or disclosed separately from the net gain or net loss on financial liabilities mandatorily measured at

fair value through profit or loss (eg financial liabilities that meet the definition of held for trading in IFRS 9). In addition, for financial liabilities designated as at fair value through profit or loss, the amount of gain or loss presented in other comprehensive income (OCI) is required to be shown separately from the amount recognised in profit or loss.

57. The staff recommend a further disaggregation for both financial liabilities designated and mandatorily measured at fair value through profit or loss. In other words, an entity should disclose separately the amount of the total gains or losses included in the paragraph 20(a)(i) disclosures that arise from remeasuring financial liabilities containing contractual obligations to pay amounts based on the entity's performance or changes in the entity's net assets in each reporting period.

58. The staff note that the proposed disclosure is only for these types of financial liabilities that are measured at fair value through profit or loss. As described in paragraph 53(b) of this paper, the staff recommend separate disclosure of the remeasurement gain or loss on financial liabilities arising from application of paragraph 23 of IAS 32. In addition, there are proposed disclosure requirements in the Exposure Draft: *Amendments to the Classification and Measurement of Financial Instruments* regarding financial liabilities with contractual terms that could change the timing or amount of contractual cash flows and are measured at amortised cost.

Question for the IASB
3. Does the IASB agree with the staff recommendations in paragraphs 41, 45, 48, 53 and 57 of this paper?