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## Capital Markets Advisory Committee meeting

Date	<b>8 March 2024</b>
Project	<b>Financial Instruments with Characteristics of Equity</b>
Topic	<b>Overview of the IASB's proposals in the Exposure Draft</b>
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## Purpose of this session

- Provide an overview of:
  - the FICE project;
  - the presentation proposals with illustrative examples; and
  - the disclosure proposals with additional explanation and illustrative examples.
- Obtain feedback on the usefulness of the proposals for investors

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# Information for participants

## Questions for CMAC members

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## Background information

Overview of the FICE project

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Next steps

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## Proposals in the Exposure Draft

Presentation

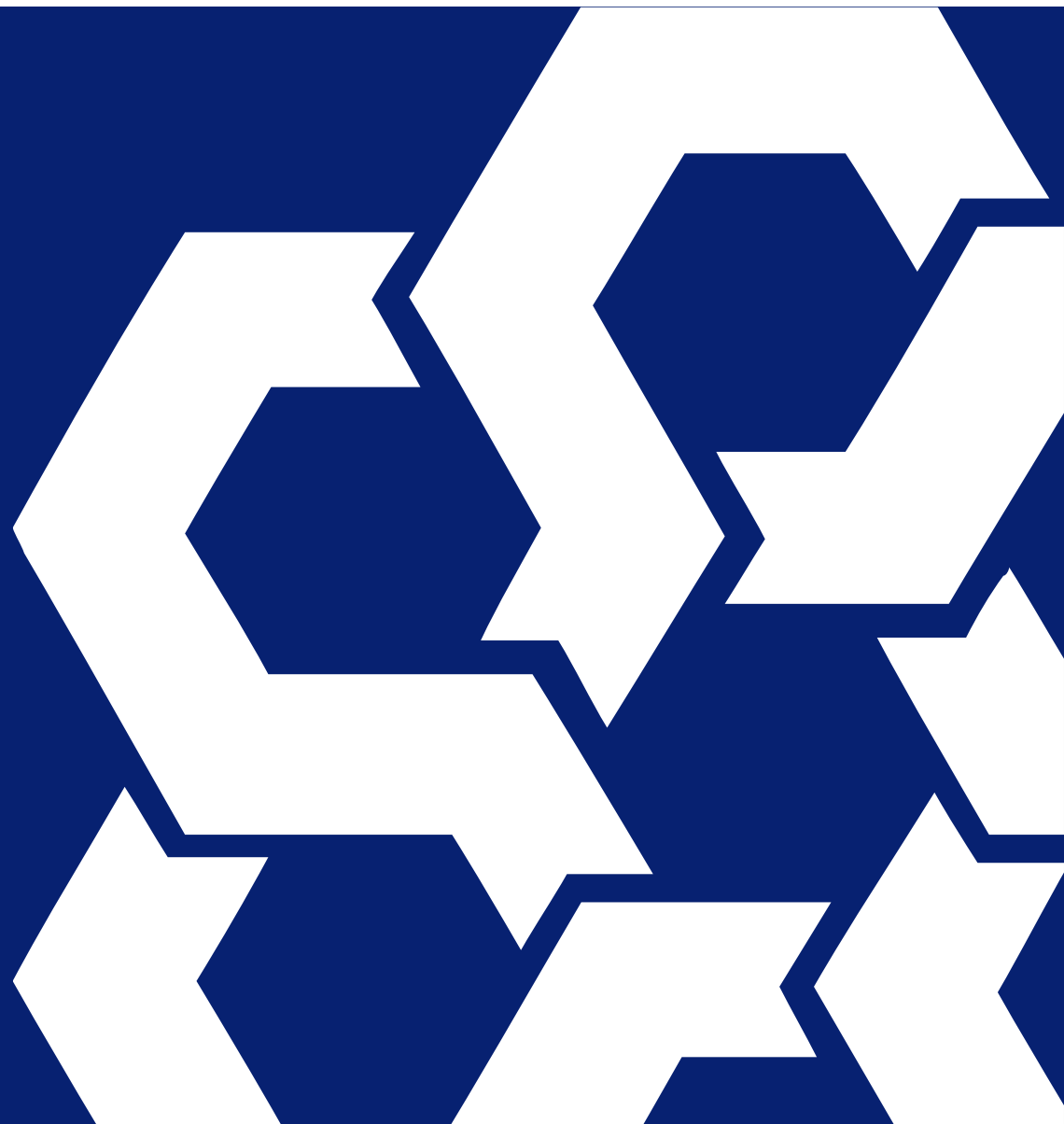
10–12

Disclosures

14–28

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# Questions for CMAC members



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## Questions for CMAC members

**1**

Do you believe the separate presentation of amounts attributable to ordinary shareholders in the primary financial statements would provide useful information? Please share your reasons.

**2**

Do you believe the proposed disclosures would provide useful information? Please share your reasons.

In the Exposure Draft—we have also asked stakeholders who disagree with any of the proposals to explain what they would suggest instead and why.

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# Background information



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# Overview of the project



**Improve information entities provide in their financial statements about financial instruments that they have issued**

## Approach:

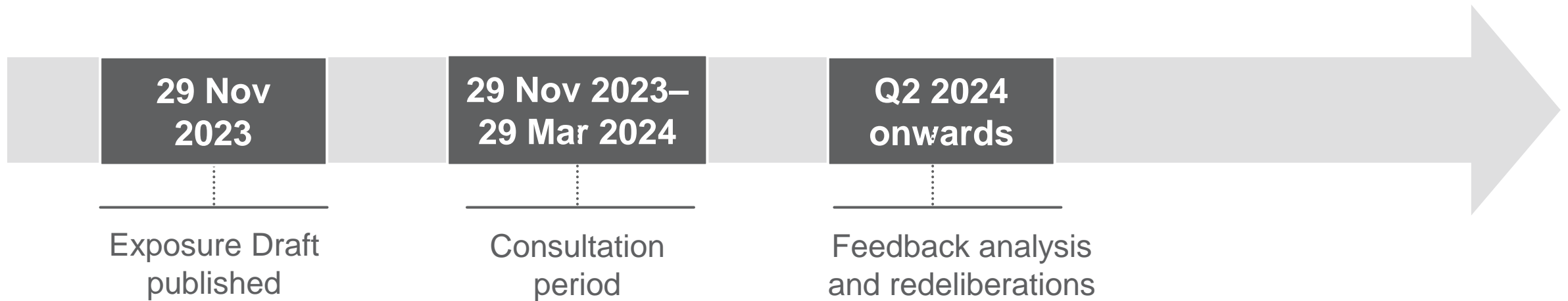
- Improve presentation and disclosure
- Address practice issues by clarifying underlying classification principles
- Provide application guidance and illustrative examples

A [snapshot](#) is also available on our website.

## Address challenges in applying IAS 32:

- The effects of relevant laws or regulations
- Fixed-for-fixed condition for derivatives
- Obligation to purchase an entity's own equity instruments
- Contingent settlement provisions
- Shareholder discretion
- Reclassification of financial liabilities and equity instruments

## Next steps



**Link to the consultation:**

<https://www.ifrs.org/projects/work-plan/financial-instruments-with-characteristics-of-equity/exposure-draft-and-comment-letters/>

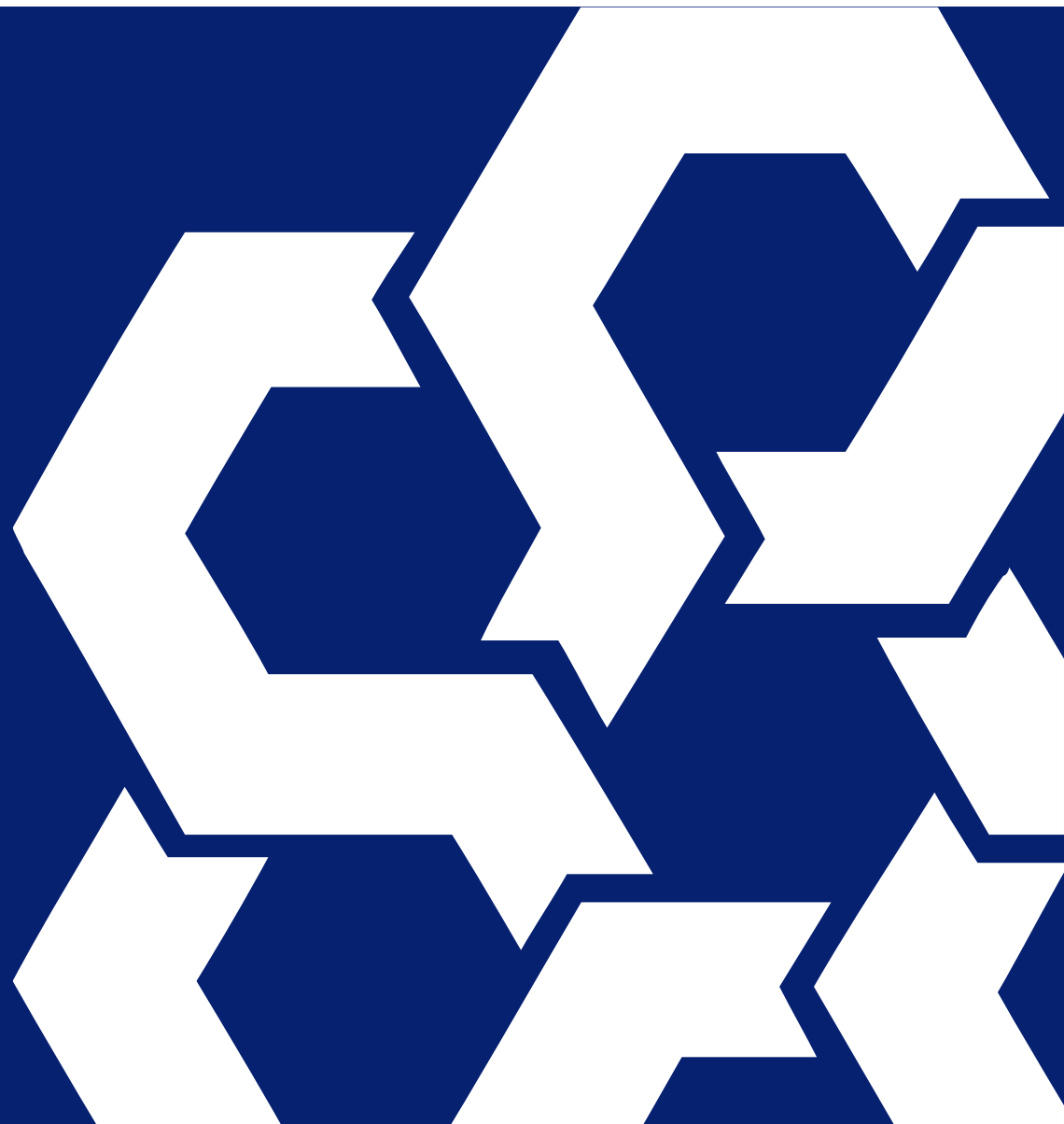


Consultation closes  
29 March 2024



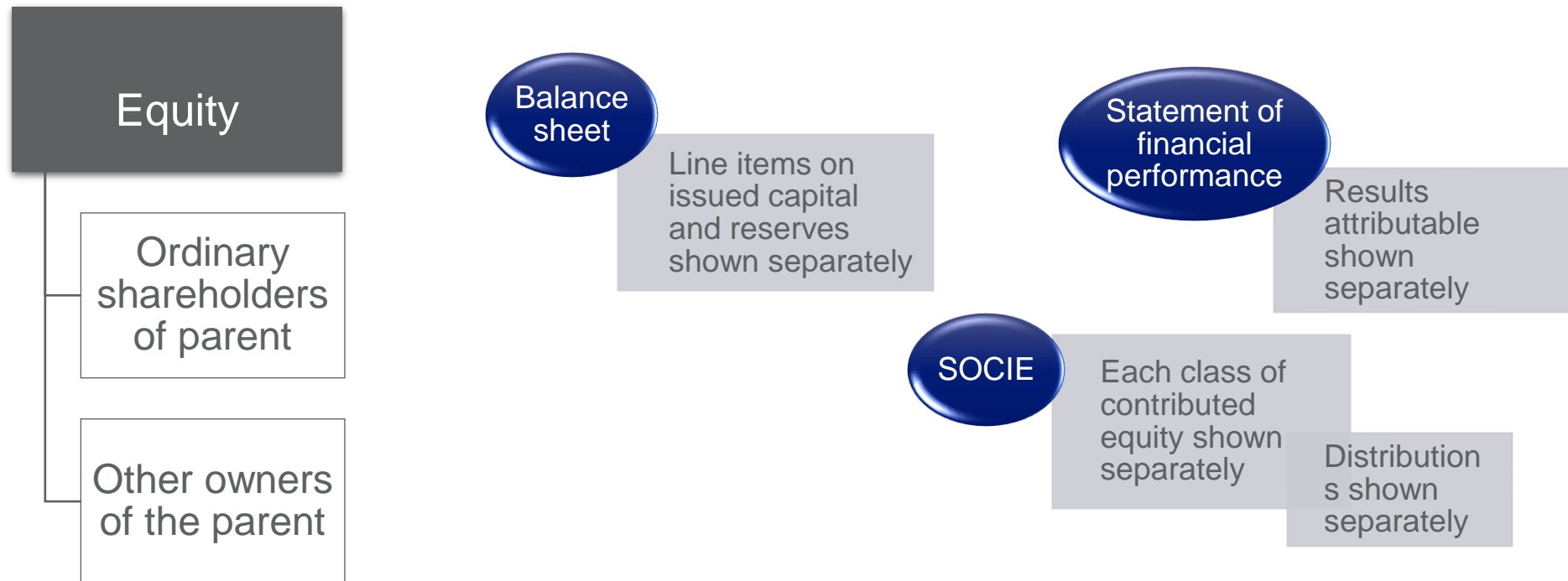
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# Presentation proposals



# 1 Presentation—Proposed amendments to IAS 1

To ensure amounts attributable to ordinary shareholders are clearly visible on an entity’s statement of financial position, statement(s) of financial performance and statement of changes in equity, an entity will be required to present:



# 1 Illustrative presentation

Statement of profit or loss (extract)	2020 CU million	2019 CU million
Profit attributable to:		
Ordinary shareholders of the parent	82,000	39,400
Other owners of the parent	15,000	13,000
Non-controlling interests	24,250	13,100
<b>Profit for the year</b>	<b>121,250</b>	<b>65,500</b>

Balance sheet (extract)	2020 CU million	2019 CU million
Share capital	642,000	600,000
Retained earnings	200,500	127,700
Other reserves	10,200	21,200
<b>Equity attributable to ordinary shareholders of the parent</b>	<b>852,700</b>	<b>748,900</b>
Equity attributable to other owners of the parent	51,000	34,000
Non-controlling interests	70,050	48,600
<b>Total equity</b>	<b>973,750</b>	<b>831,500</b>

Proposed improvements to presentation in the financial statements

Proposed improvements to presentation in the financial statements

1

# Illustrative presentation (continued)

Statement of changes in equity (extract)	Share capital	Retained earnings	Other reserves	Equity attributable to ordinary shareholders of the parent	Equity attributable to other owners of the parent	Non-controlling interests	Total equity
Balance at 1 January 20X6	600,000	97,500	(400)	697,100	21,000	29,900	748,000
<b>Changes in equity for 20X6</b>							
Dividends	–	(10,000)	–	(10,000)	–	–	(10,000)
Total comprehensive income for the year	–	40,200(a)	21,600	61,800	13,000	18,700	93,500
<b>Balance at 31 December 20X6</b>	<b>600,000</b>	<b>127,700</b>	<b>21,200</b>	<b>748,900</b>	<b>34,000</b>	<b>48,600</b>	<b>831,500</b>
<b>Changes in equity for 20X7</b>							
Issue of share capital	42,000	–	–	42,000	8,000	–	50,000
Dividends	–	(9,000)	–	(9,000)	(6,000)	–	(15,000)
Total comprehensive income for the year	–	81,600(b)	(10,800)	70,800	15,000	21,450	107,250
Transfer to retained earnings	–	200	(200)	–	–	–	–
<b>Balance at 31 December 20X7</b>	<b>642,000</b>	<b>200,500</b>	<b>10,200</b>	<b>852,700</b>	<b>51,000</b>	<b>70,050</b>	<b>973,750</b>

(a) The amount included in retained earnings for 20X6 of 40,200 represents profit attributable to ordinary shareholders of the parent of 39,400 plus remeasurements of defined benefit pension plans of 800.

(b) The amount included in retained earnings for 20X7 of 81,600 represents profit attributable to ordinary shareholders of the parent of 82,000 plus remeasurements of defined benefit pension plans of 400.

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# Disclosure proposals

A large, abstract geometric pattern on the right side of the slide, consisting of interconnected white and dark blue hexagonal shapes that create a complex, crystalline structure.

2

## Disclosures—Proposed amendments to IFRS 7

Not applicable to stand-alone derivatives

### Terms & Conditions

- Debt-like characteristics
- Equity-like characteristics
- Characteristics that determine the classification

### Priority on liquidation

- Nature and priority of claims against an entity
- T&Cs about priority on liquidation for particular instruments

### Potential dilution

- Maximum number of additional ordinary shares
- Reduced by minimum number of shares for repurchase

### Other disclosures

- Reclassifications
- Remeasurement gains or losses on liabilities based on entity's performance/net assets
- Obligations to redeem own equity instruments
- Significant judgements
- Terms that become/stop being effective with passage of time
- Compound instruments—initial allocation between components

Scope of IFRS 7

Equity instruments issued

## 2

## Disclosures—terms and conditions



### Objective

Help investors better understand the nature, amount, timing and uncertainty of cash flows arising from issued financial instruments



### Scope

- Financial instruments with characteristics of both debt and equity
- Includes compound instruments
- Excludes standalone derivatives

### Requirements

Highlight:



- cash flow characteristics that are not ‘typical’ of the instrument's classification
- key features that determine classification
- the amounts allocated initially to the financial liability and equity components of compound financial instruments

## 2

## Debt-like characteristics in equity instruments

Even though the entity has no contractual obligation to deliver cash, contractual terms:

- give rise to cash flows that have similar characteristics of nature, timing or amount to those of a financial liability; or
  - may cause an entity to deliver debt-like cash flows.
- 
- For example, preference shares not redeemable by the holder, classified as equity because the entity has the contractual right to avoid/defer payment until liquidation.
  - Debt-like characteristics—fixed cumulative coupon amounts, specified coupon payment dates and fixed principal amount.



## 2

## Equity-like characteristics in financial liabilities

- Contractual terms that give rise to cash flows that have similar characteristics of nature, timing or amount to those of ordinary shares.
- Do not negate any contractual obligation on the issuer to deliver cash but may affect the amount or timing of the cash flows an entity has a contractual obligation to deliver.
- May result in an entity delivering its own equity instruments to settle an obligation or not paying the full amount of the obligation.

For example, a financial liability that requires an entity to settle the instrument by delivering a variable number of own shares to the holder.

## 2

## Terms and conditions illustrative disclosure

### Perpetual subordinated notes

At 31 December 2020, the total perpetual subordinated notes outstanding amounted to CU3,986 million and are included in Company X's equity. The table below includes the **key terms of these financial instruments**.

	Notional amount	Initial call date	Coupon reset after initial call date	2020 CU million	2019 CU million
5.5% Fixed Rate Subordinated Notes	USD 1,000m	January 2025	10.5%	690	714
4.5% Fixed Rate Subordinated Notes	EUR 750m	March 2028	Market rate	647	658
4% Fixed Rate Subordinated Notes	EUR 2,000m	October 2032	Market rate	1,724	-
3% Fixed Rate Subordinated Notes	GBP 1,000m	January 2027	Market rate	925	910
				<b>3,986</b>	<b>2,282</b>

## 2 Terms and conditions illustrative disclosure (continued)

### *Coupon*

These notes bear a fixed rate of coupon until their initial call dates. After the initial call dates, if they are not redeemed, the coupon on the notes reset. The coupon on the USD subordinated notes reset to 10.5%. The coupon on the other notes are fixed periodically in advance for five-year periods, based on prevailing market interest rates plus credit spreads of Company X, fixed at issuance.

Company X has discretion to defer coupons on these notes. The deferred coupons accumulate and become payable at the call date if the notes are called, or when Company X is liquidated, if the notes are not called.

Company X is prevented from paying dividends or other distributions in respect of its ordinary shares, or from repurchasing its ordinary shares, until the cumulative coupons on the perpetual subordinated notes have been paid in full.

## 2

# Terms and conditions illustrative disclosure (continued)

### *Redemption option*

These notes are redeemable at the option of Company X at the initial call date or any fifth anniversary after this date. The amount redeemable will be the notional amount plus accumulated coupons.

### *Classification*

These notes are classified as equity instruments because Company X has the unconditional contractual right to defer coupons and principal repayments until liquidation of Company X.

## 2

## Disclosures—Priority on liquidation: nature and priority of claims



### Objective

Provide information about nature and priority of claims against the entity that arise from financial instruments



### Scope

All financial liabilities and equity instruments within the scope of IAS 32



### Requirements

Categorise financial instruments by differences in nature and priority, distinguishing between:

- secured and unsecured
- contractually subordinated and unsubordinated
- issued/owed by parent and issued/owed by subsidiaries

## 2

## Priority on liquidation illustrative disclosure

### *Nature and priority of claims*

As at 31 Dec 2020 (CU million)			
		Issued / owed by	
	Consolidated	Parent	Subsidiaries
<b>Secured and unsubordinated</b>			
Senior secured debt (a)	1,200	–	1,200
Lease liabilities (a)	920	780	140
<b>Unsecured and unsubordinated</b>			
Trade and other payables	1,450	320	1,130
Senior unsecured debt (a)	450	–	450
<b>Unsecured and subordinated</b>			
Subordinated liabilities (see note 15)	590	480	110
<b>Classified as financial liabilities</b>	<b>4,610</b>	<b>1,580</b>	<b>3,030</b>
<b>Unsecured and subordinated</b>			
Perpetual notes (see note 18)	200	200	–
Irredeemable preference shares (See note 19)	400	400	–
Non-controlling interest	1,350	–	1,350
Other reserves	15,000	10,000	5,000
Ordinary share capital	8,500	8,500	–
<b>Classified as equity</b>	<b>25,450</b>	<b>19,100</b>	<b>6,350</b>
<b>Total</b>	<b>30,060</b>	<b>20,680</b>	<b>9,380</b>

(a) Included in the “Borrowings” line item in the statement of financial position.

## 2

## Disclosures—Priority on liquidation: contractual terms about priority



### Objective

Provide information about the risks and returns of financial instruments on liquidation of the entity



### Scope

- Financial instruments with characteristics of both debt and equity
- Includes compound instruments
- Excludes standalone derivatives

### Requirements



Disclose terms and conditions about priority of financial instruments on liquidation, including:

- terms that indicate priority
- terms that could lead to changes in priority
- details of intragroup arrangements such as guarantees

## 2 Terms and conditions illustrative disclosure

### *Priority on liquidation—subordinated notes*

In the event of the respective issuer’s liquidation, any amounts due in respect of the subordinated notes rank junior to all present and future unsubordinated claims of the respective issuer and rank senior to the respective issuer’s ordinary shares, and if any, preference shares. Subordinated notes do not rank pari passu with one another. Some subordinated notes are contractually subordinated to other subordinated notes.

	2020 CU million	2019 CU million
USD 1,000m 5.5% Fixed Rate Subordinated Notes due January 2025	690	714
EUR 750m 4.5% Fixed Rate Subordinated Notes due March 2028	647	658
EUR 2,000m 4% Fixed Rate Subordinated Notes due October 2032	1,724	-
GBP 1,000 3% Fixed Rate Subordinated Notes due January 2027	925	910
	<b>3,986</b>	<b>2,282</b>



## 2

## Disclosures—maximum dilution of ordinary shares

### Objective



- Provide information about dilution that could arise from any potential increase in number of issued ordinary shares
- Not to replace Diluted EPS calculation

### Scope



- All instruments and transactions settled by delivering ordinary shares
- Includes IFRS 2 instruments and transactions (entities can leverage existing IFRS 2 disclosures)

### Requirements



- Underlying principle is for an entity to assume:
  - maximum possible increase in number of shares for instruments that could be settled by delivering own shares
  - minimum reduction in number of shares for instruments to repurchase own shares
- Disclosures include key terms and conditions relevant to understanding the likelihood of maximum dilution and the possibility for unknown dilution

## 2 Maximum dilution illustrative disclosure

Instruments	Maximum number of additional ordinary shares	Key terms and conditions relating to the instrument/transaction
Convertible bonds B	250	In the event of a change of control of Company X prior to the conversion date, the conversion ratio is adjusted downwards to a pre-determined strike price.
Convertible bonds D	350	Issuer holds an option to settle in shares or cash (equal to the value of the shares).
Convertible bonds (A and C)	600	Holder holds an option to convert the bond at a specified conversion date using a specified conversion ratio.

## 2

## Maximum dilution illustrative disclosure (continued)

Instruments	Maximum number of additional ordinary shares	Key terms and conditions relating to the instrument/transaction
Mandatorily convertible note F	100	Subject to a cap of 100 shares and a floor of 10 shares.
Number of share options in the scope of IFRS 2 outstanding at reporting date	100	Refer to note x (IFRS 2 disclosures on share options).
Number of known unvested shares from share awards in the scope of IFRS 2 at reporting date	100	Refer to note y (IFRS 2 disclosures on share awards).

## 2 Maximum dilution illustrative disclosure (continued)

Instruments	Maximum number of additional ordinary shares	Key terms and conditions relating to the instrument/transaction
Maximum number of additional ordinary shares	1,500	
Unknown number of additional ordinary shares	unknown dilution from Share-settled bond E	The number of shares will depend on the share price at settlement date
<b>Total maximum number of additional ordinary shares</b>	<b>1,500 + unknown dilution from Share-settled Bond E</b>	
Less: minimum reduction in the number of ordinary shares		
Share buy-back	(100)	Commitment to buy 100 –500 shares.
<b>Net maximum number of additional ordinary shares</b>	<b>1,400 + unknown dilution from Share-settled Bond E</b>	

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Thank you

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