

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG FR TEG-CFSS. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG FRB or EFRAG FR TEG-CFSS. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG FRB, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances

## Financial Instruments with Characteristics of Equity

### Cover Note

#### Introduction and objective

- 1 The objectives of the session are:
  - (a) to provide EFRAG FR TEG – CFSS with key messages from the IASB’s feedback summary on the Exposure Draft *Financial Instruments with Characteristics of Equity* (“the ED”).
  - (b) to obtain EFRAG FR TEG-CFSS views on the topics to be prioritised by the IASB in its re-deliberations.
- 2 Questions for EFRAG FR TEG – CFSS are in Agenda paper 04-02.

#### Background

- 3 The IASB published its ED on 29 November 2023. Thereafter, on 11 April 2024, EFRAG published its [Final Comment Letter](#).
- 4 At the May 2024 IASB meeting, the IASB staff presented a high-level summary of the feedback and key themes emerging from comment letters and investor outreach activities on the ED (the feedback summary). The same document will be presented at the ASAF meeting on 8-9 July 2024.
- 5 The objectives of the ASAF meeting are to obtain views from ASAF members on the feedback summary and to identify topics which they should prioritise in their re-deliberations.

#### EFRAG Secretariat comments

- 6 The EFRAG Secretariat presents the main conclusions of the IASB’s feedback summary in agenda paper 04-02, comparing them with the key messages reflected in the EFRAG’s Final Comment Letter.
- 7 In general, the EFRAG Secretariat observes significant similarity in the assessment between the IASB’s feedback summary and the EFRAG’s Final comment letter, both in terms of the issues identified and level of support for/ disagreement with the IASB’s proposals.
- 8 Therefore, considering priorities for the re-deliberations, the EFRAG Secretariat proposes to maintain the initial approach elaborated in its Final Comment Letter, namely to suggest that the IASB should:

- (a) prioritise the re-deliberations for the topics where, in EFRAG’s view, significant improvements are necessary, if such improvements could be achieved in the scope of the current project (**contingent settlement provisions, reclassification of financial liabilities and equity instruments and disclosures**), as well as other IASB proposals which EFRAG agreed with in its Final Comment Letter (**the fixed-for-fixed condition, shareholder’s discretion, presentation and transition requirements**); and
  - (b) separate the topics on the **effects of relevant laws and regulations and written put options on non-controlling interest** from the remaining topics in the ED and deal with them in a separate project.
- 9 Such an approach would allow to proceed with the implementation of most of the IASB’s proposals without unnecessary delay. However, even if suggesting a separate project for the two topics (the effects of relevant laws and regulations; and written put options on non-controlling interest), EFRAG highlights the urgency of finding a solution for these two topics swiftly.

#### **Agenda papers**

- 10 In addition to this cover note, the agenda papers for this session are:
- (a) Agenda paper 04-02 – Comparison of the IASB’s feedback summary with EFRAG’s comment letter;
  - (b) Agenda paper 04-03 – Financial Instruments with Characteristics of Equity – Feedback summary (the IASB staff paper for ASAF, background information); and
  - (c) Agenda paper 04-04 – EFRAG’s Feedback Statement on EFRAG’s Final Comment Letter (background information).