This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG. 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 Board or EFRAG TEG. 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 Board, 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
Update on Disclosures

Introduction and Objective

1 The objective of this paper is to provide an update to EFRAG TEG members on the IASB's project *Financial Instruments with Characteristics of Equity* ('FICE') relating to disclosures.

2 In the 2018 Discussion Papers on FICE, the IASB proposed potential improvements to the disclosure requirements on priority of claims on liquidation, potential dilution of ordinary shares and contractual terms and conditions.

3 Over the course of 2020, the IASB Staff conducted outreach on potential refinements to the disclosures proposed in the 2018 DP with users of financial statements (both equity and debt analysts), preparers and accounting standard setters.

4 In November 2020, EFRAG FIWG members discussed potential refinements to the disclosure requirements proposed by the IASB Staff (before discussions with IASB Board members) and provided the below feedback.

5 Below is an overview of the latest IASB tentative decisions, a summary of EFRAG FIWG and EFRAG TEG discussions and an EFRAG Secretariat analysis regarding:

   (a) Information about priority on liquidation;

   (b) Information about potential dilution; and

   (c) Information about terms and conditions.

6 Appendix 1 to this paper provides a summary of EFRAG's comment letter on the 2018 IASB DP.

7 Appendix 2 to this paper provides some illustrative examples from IASB Staff papers on the disclosure proposals.

Information about priority on liquidation

IASB tentative decisions

8 On disclosure of the nature and priority of claims against an entity, in its May 2021 meeting, the IASB tentatively decided to require:

   (a) an entity to disclose and categorise in the notes its claims that are financial instruments in a way that reflects differences in their nature and priority, and at a minimum, to distinguish between:

      (i) secured and unsecured financial instruments;

(ii) contractually subordinated and unsubordinated financial instruments; and

(iii) those issued or owed by the parent and those issued or owed by subsidiaries; and

(b) the disclosures to be made for all financial liabilities and equity instruments that are within the scope of IAS 32 *Financial Instruments: Presentation*.

9 On disclosure of terms and conditions about priority on liquidation for particular financial instruments, in its May 2021 meeting, the IASB tentatively decided to require:

(a) an entity to disclose in the notes:

(i) terms and conditions that indicate priority on liquidation;

(ii) terms and conditions that could lead to changes in priority on liquidation;

(iii) that a particular type of financial instrument has more than one level of contractual subordination, if applicable (for example, if some subordinated liabilities are contractually subordinated to other subordinated liabilities);

(iv) narrative information when an entity is aware of significant uncertainty about the application of relevant laws or regulations that could affect how priority will be determined on liquidation; and

(v) details of intra-group arrangements such as guarantees that may affect their priority on liquidation (for example, which entities are providing and receiving guarantees); and

(b) the disclosures to be made for all financial instruments with characteristics of both debt and equity, including compound instruments, but excluding stand-alone derivative instruments (i.e. the same scope as the terms and conditions disclosure).

An entity would be required to make the disclosures described in (a) as part of the disclosures about terms and conditions on which the IASB Board tentatively agreed at its April 2021 meeting.

Some points from IASB Staff papers which are not in the IASB tentative decisions

10 The EFRAG Secretariat notes that, as per the May 2021 IASB Staff paper 5, the IASB Staff proposed the disclosure objective as "*to provide information about the nature and priorities of claims against an entity that arise from financial instruments*". The previous reference to an entity's capital structure[1] has been removed in order to avoid confusion for users as this term is a widely used term in the investor community.

EFRAG FIWG discussions (November 2020)

11 In November 2020, EFRAG FIWG discussed potential refinements to the disclosures included in the DP and provided the following feedback:

(a) welcomed the IASB staff proposal that 'if an entity is subject to regulation that specifies a resolution process (e.g., a bank), either before or instead of, liquidation, the entity provides information about priority on that basis';

[1] "*to enable investors to better understand an entity's capital structure facilitating the assessment of the strength of the entity's financial position, the nature of the claims against the entity's assets and how those claims affect the liquidity and solvency of the entity*."

(b) considered that for banks, it was important to 'disclose the fact that the legal priority of claims on liquidation differs from the priority purely based on the contractual terms'. In particular, it was considered important to provide information on the legal priority under a resolution/bail-in mechanism. This is because European banks were not required to reflect in their contracts the legislation on bank recovery and resolution, hence disclosure should consider both legal and contractual priority;

(c) entities that currently have many subsidiaries may find difficult to provide, in their consolidated financial statements, a table showing 'priority of financial instruments on liquidation of each individual entity based on contractual terms of the instruments'. Thus, it was fundamental to define the right scope for these disclosures (e.g., only subsidiaries that have issued significant financial instruments for funding purposes in the market);

(d) questioned whether users of financial statements asked information about the underlying assets when analysing waterfall payment structures;

(e) when providing information about priority on liquidation, it was important to give management some flexibility so that they can provide, according to their views, the most relevant information about company's priority on liquidation. For that, the IASB would have to provide more general principles around the disclosure requirements and the underlying disclosure objective;

(f) noted that for non-financial institutions such disclosures were relevant, although not directly related to resolution/liquidation. For example, there were many events that took place before liquidation, such as change of control or initial public offering, where this information was also useful;

(g) noted that financial institutions were already providing a lot of information related to priority of claims and questioned whether the IASB would allow cross-references to information outside of the financial statements (e.g., website of the company); and

(h) acknowledged that financial institutions were heavily regulated and had to provide a lot of information about their financial instruments for transparency reasons. However, for non-financial unlisted institutions, disclosing the contractual terms of financial instruments may also raise confidentiality issues. Considering this, it was important to have one set of disclosure principles that would encompass both sides of the spectrum.

EFRAG TEG discussions

12 In its December 2020 meeting, EFRAG TEG-CFSS welcomed improvements to disclosures on the priority of claims on liquidation.

13 EFRAG TEG-CFSS members highlighted that the interaction between the contractual terms and the law (e.g., bail-in instruments) raised many challenges. Thus, members welcomed the IASB efforts to address these challenges with improvements to disclosures. In addition, if short-term liabilities were in the scope of such disclosures, then the IASB should also consider interim financial statements.

EFRAG Secretariat analysis

14 The EFRAG Secretariat considers that the IASB tentative decisions are, in general in line with EFRAG's comment letter and EFRAG's suggestions on the IASB's DP whereby EFRAG supported the DP's proposals to improve disclosures on priority on liquidation.

15 Most of the comments made by EFRAG FIWG in its November meeting seem to be addressed. The EFRAG Secretariat notes that a concern by EFRAG FIWG relating to disclosing contractual terms of financial instruments for non-listed non-financial

entities remains. In addition, on EFRAG FIWG's and EFRAG TEG point on the importance to provide information on a legal priority rather than based on terms and conditions, the EFRAG Secretariat notes that as per the February IASB Staff paper, in the IASB Staff's view, the contractual priority should be in line with the applicable laws and the legal framework that the contract is subject to. However, the EFRAG Secretariat reiterates the concern of EFRAG FIWG that European banks were not required to reflect in their contracts the legislation on bank recovery and resolution, hence disclosure should consider both legal and contractual priority.

16 On disclosure of the nature and priority of claims against an entity:

(a) The EFRAG Secretariat agrees with the minimum categories of instruments needed in order to disclose the differences in the nature and priority of these instruments as we consider that this will provide useful information to users of financial statements and increasing visibility regarding the priority within the financial statements.

(b) The disclosures being applicable to all financial liabilities and equity instruments that are under IAS 32 would ensure that the information provided to users is comparable between reporting periods.

17 On disclosure of terms and conditions about priority on liquidation for particular types of financial instruments, the EFRAG Secretariat considers that these disclosures will provide useful information to users to estimate the risks and return on these instruments. However, the EFRAG Secretariat considers it key to define debt-like features or equity-like features or to provide additional guidance as in practice, it may be difficult to assess this.

18 Furthermore, the EFRAG Secretariat notes that the wording 'liquidation' raises a number of challenges, as stated in EFRAG's comment letter. More specifically, entities prepare financial statements on a going concern basis and real-life situations can be more complex than simply liquidation. For example, if an entity fails to satisfy debt holders' claims, debt holders may prefer to take control of the entity for restructuring rather than enter into liquidation. Similarly, for regulated financial entities, the issue can be more related to a 'resolution' than to 'liquidation' and this would bring complexity to the distinction between debt and equity, as many instruments would be, on the trigger event for resolution, converted into shares or even written down before actual liquidation.

(a) The EFRAG Secretariat notes that as per the September 2021 IASB paper, the IASB Staff indicate that the IASB could consider clarifying whether the reference to 'liquidation' in paragraph 25(b) of IAS 32 refers only to the very end point when an entity ceases to exist or ceases to trade (as implied by the Conceptual Framework and IAS 1).

Questions for EFRAG TEG

19 Does EFRAG TEG have comments on the IASB's tentative decisions regarding information about priority on liquidation?

20 In particular, do you agree with the scope of the disclosures? Please explain.

Information about potential dilution

IASB tentative decisions

21 At its April 2021 meeting, 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.

Some points from IASB Staff papers which are not in the IASB tentative decisions

22 As per the February 2021 IASB Staff paper 5C, the IASB Staff indicated that the dilution disclosures proposed are different from the requirements under IAS 33 Earnings per Share. The DEPS calculations under IAS 33 aim to maximise the dilution of basic earnings per share and contain various requirements and assumptions for the calculations depending on the type of potential ordinary share. On the other hand, the proposed potential dilution disclosures would provide information about dilution that could arise from any potential increase in the number of issued ordinary shares regardless of the current conditions at the reporting date.

23 Also, as per the February 2021 IASB Staff paper 5C, the IASB Staff, considering feedback from investors, standard-setters and preparers considered that the disclosures on dilution should be required by all entities, i.e., both listed and unlisted entities. The IASB Staff did not consider that the disclosures would be too onerous because they would not require determining the market price of ordinary shares at the reporting date or the average market price over a reporting period, which would be required to provide IAS 33 disclosure.

EFRAG FIWG discussions (November 2020)

24 In November 2020, EFRAG FIWG discussed potential refinements to the disclosures included in the DP and provided the following feedback:

(a) there were questions on the interaction between IFRS 2 *Share-based Payment* and IAS 32 *Financial Instruments: Presentation*, in particular whether disclosures on potential dilution would be different depending on whether the financial instruments were within the scope of IFRS 2 or IAS 32;

(b) suggested that the IASB clarifies the articulation of the proposed disclosures with the disclosures that already exist under IAS 33 *Earning per shares*; in particular the differences and similarities between them to mitigate the risk of duplication and disclosure overload;

(c) raised questions on whether the disclosures were required for the 'reporting entities' that are listed and unlisted. For unlisted entities, not all disclosure requirements may be applicable, e.g., in absence of a share price. That is,

whether they applied to separate and consolidated financial statements of the listed and unlisted entities; and

(d) considered that the IASB may need to require qualitative disclosures on financial instruments for a fixed amount that are settled with a variable number of shares (which in theory can result in 'infinite' dilution).

EFRAG TEG discussions

25 In its December 2020 meeting, EFRAG TEG-CFSS welcomed improvements to disclosures on the potential dilution.

26 On disclosures about potential dilution, EFRAG TEG-CFSS members highlighted the importance of having additional information for both listed and non-listed entities and having a better definition of dilution.

EFRAG Secretariat analysis

27 The EFRAG Secretariat considers that the IASB tentative decisions are, in general in line with EFRAG's comment letter and EFRAG's suggestions on the IASB's DP whereby EFRAG supported improving the disclosures on dilution..

28 The EFRAG Secretariat welcomes the disclosure proposals as it would help users perform their analyses even for unlisted entities. The disclosures would help the users to understand any potential dilution and also to be aware of any significant changes between reporting periods.

29 The EFRAG Secretariat considers that this information should be disclosed together with key terms and conditions that are relevant to understanding the potential dilution.

Question for EFRAG TEG

30 Does EFRAG TEG have comments on the IASB's tentative decisions regarding information about potential dilution?

Information about terms and conditions

IASB tentative decisions

31 At its April 2021 meeting, 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.

Some points from IASB Staff papers which are not in the IASB tentative decisions

32 Taking into account all the feedback from stakeholders on this topic and especially the needs of users of financial statements, the IASB Staff believe the objective of these disclosures should be to help users of financial statements better understand:

(a) the nature, amount, timing and uncertainty of cash flows arising from financial instruments issued by an entity, in particular for those instruments that have characteristics of both debt and equity;

(b) information not captured through classification as equity or financial liabilities but that is considered relevant to understand the nature of the financial instruments; and

(c) the reason for classification as financial liabilities or equity instruments (e.g., why an instrument is classified as equity despite having debt-like features or why an instrument is classified as a financial liability despite having equity-like features).

33 The IASB Staff indicated that debt-like features in equity instruments are features that result in cash flows that have similar characteristics to those of a debt instrument. Since these are equity-classified instruments, debt-like features do not create contractual obligations to transfer cash. Debt-like features may specify the amount or timing of the cash flows, which the entity has the contractual right to avoid. Debt-like features may influence the entity to transfer debt-like cash flows even if it has no obligation to do so.

34 Also, the IASB Staff indicated that equity-like features in financial liabilities are those features that result in cash flows that have similar characteristics to those of ordinary shares. Since these are liability-classified instruments, equity-like features do not generally negate the issuer's contractual obligations to transfer cash where such obligations exist. Rather, equity-like features may affect the amount or timing of the cash flows, which the entity is obliged to transfer. However, in some cases, equity-like features may result in the entity transferring its own equity instruments to settle an obligation or the issuer not paying the full amount of the obligation.

35 Furthermore, the IASB Staff took into consideration the additional research on regulatory disclosure requirements, a summary of which is in the February 2021 IASB paper 5A, in refining the disclosures. Also, as per the April 2021 IASB paper 5A, the IASB Staff conducted further research to understand the types of information that are generally available to investors based on listing requirements that apply when securities are initially offered to the public or admitted to trading on a regulated market. These disclosures are not necessarily provided in the financial statements and may not be subject to the same financial reporting processes and controls as the information reported in the financial statements. The IASB Staff acknowledged that not all instruments are listed and some offers of transferable securities to the public are exempt from the obligation to publish a prospectus. They also do not necessarily consider the information available in prospectuses as a substitute for information to be disclosed in the financial statements, especially if information in the prospectus is only applicable at the date the prospectus is published.

EFRAG FIWG discussions (November 2020)

36 In November 2020, EFRAG FIWG discussed potential refinements to the disclosures included in the DP and provided the following feedback:

(a) noted that financial institutions are already required to provide tabular information on the key terms and conditions of capital instruments to regulators (EBA). Thus, suggested that the IASB provides some flexibility to financial institutions so that they can recycle and use similar information under IFRS Standards (to avoid duplication);

(b) appreciated disclosures on significant judgement exercised when classifying financial instruments; such disclosures have proven helpful under other standards (e.g., IFRS 10) already;

(c) suggested that the IASB clearly limits the scope of such disclosures to avoid disclosure overload (avoid having disclosures on all financial instruments issued by a reporting entity and focus rather on instruments that are used for long-term funding purposes); and

(d) highlighted the importance of having some form of field-testing of the IASB proposals.

EFRAG TEG discussions

37 In its December 2020 meeting, EFRAG TEG-CFSS welcomed improvements to disclosures on information about terms and conditions.

38 EFRAG TEG-CFSS members highlighted the risk of disclosure overload and suggested that the IASB focus on the most relevant and material financial instruments (e.g., those with characteristics of equity and debt) and allow cross references to existing regulatory information.

EFRAG Secretariat analysis

39 The EFRAG Secretariat considers that the IASB tentative decisions seem to be in line with EFRAG's proposals in its comment letter. Also, in general, EFRAG FIWG and EFRAG TEG comments on disclosure overload have been taken into account and the scope has been narrowed.

40 The EFRAG Secretariat welcomes limiting the disclosures in order to avoid disclosure overload and thereby welcomes focusing the disclosures on the most relevant financial instruments, i.e., those with characteristics of equity and debt. Furthermore, the EFRAG Secretariat considers that these disclosures will help users to understand these complex financial instruments in order to better forecast future cash flows and better assess and understand classification of these instruments, and the differences between instruments.

41 However, as stated above, the EFRAG Secretariat considers it key to define debt-like features or equity-like features or to provide additional guidance as in practice, it may be difficult to assess this. For example, cooperative shares that are redeemed at fixed amount on liquidation if retained earnings are positive (rather than residual when retained earnings are negative). This raises the question of whether cooperative shares have a debt-feature (fixed amount on liquidation when there are positive results).

42 Furthermore, the EFRAG Secretariat considers it important to provide information about early redemptions and incentives to pay, particularly for instruments with contingent settlement features as stated in EFRAG's comment letter.

Questions for EFRAG TEG

43 What are your views on the narrowing of the scope in paragraph 31 above? In particular, does EFRAG TEG consider it feasible in practice to apply the IASB's tentative decisions? Please explain.

44 In particular, do you agree with the IASB tentative decisions to scope out stand-alone derivatives from the disclosures on terms and conditions? Please explain.

45 Does the narrower scope described in paragraph 31 above allow flexibility in order to use similar information already being disclosed to regulators (issue raised by EFRAG TEG in paragraph 36(a))?

Appendix 1: EFRAG's comment letter on the 2018 DP relating to Disclosures

Information about priority on liquidation

1 In its final comment letter (here), EFRAG generally welcomed the DP's proposed disclosures about the priority of claims on liquidation, potential dilution and information about terms and conditions. EFRAG considered that improvements to existing disclosures was a key part of this project, not only for the consolidated financial statements of a group but also to the separate financial statements of the entities within a group.

2 EFRAG also supported the DP's proposal to improve disclosures on priority of financial liabilities and equity instruments on liquidation. Nonetheless, EFRAG noted that some considerations would have to be taken into account in terms of the reporting entity which is being considered. EFRAG noted that, in most jurisdictions, it is the legal entity that has the capacity to enter into agreements or contracts, assume obligations, incur and pay debts, sue and be sued in its own right, and is ultimately held responsible for its actions. Considering this, EFRAG recommended the IASB to continue to develop proposals to improve disclosures on priority of claims on liquidation both on separate and, if practicable, consolidated financial statements and any interactions between the two.

3 Finally, EFRAG considered that such disclosures should reflect the carrying amounts presented in the statement of financial position and not the fair value amounts required by IFRS 7 Financial Instruments: Disclosures. This is because fair value measurement would require entities to calculate the fair value of their instruments on own equity and would break the link to the statement of financial position. In addition, EFRAG noted that fair value amounts would be even more onerous for non-listed entities.

Information about potential dilution

4 In its comment letter, EFRAG supported the proposal in the DP to improve disclosures on dilution, particularly disclosures around the total number of ordinary shares outstanding or potentially outstanding at the end of the period and their effects.

5 However, EFRAG noted that currently IAS 33 Earnings per Share applies only to entities whose ordinary shares or potential shares are publicly traded. Considering this, EFRAG recommended that the IASB further considers the scope of such disclosures. That is, whether such disclosures would only apply to listed entities and whether they should apply to both separate and consolidated financial statements.

6 Finally, EFRAG noted that in its comment letter to the IASB Discussion Paper Conceptual Framework for Financial Reporting, EFRAG identified potential ways to disclose dilutive effects: (a) scenario analysis, depicting the instruments in issue and their rights and/or payoffs in various material scenarios; and/or (b) the provision by the entity of financial models showing the rights holders of various instruments have on net cash inflows, and how the number and types of these instruments may change.

Information about terms and conditions

7 In its comment letter, EFRAG considered that the IASB should give high priority to additional disclosures on the terms and conditions of financial instruments with characteristics of equity. In particular, EFRAG noted that for financial instruments that have many features, it is often difficult to understand what the key features are that lead to the classification of equity or liability (e.g., bail-in instruments).

8 Some points to consider were noted as:

(a) how to disclose the information about write downs;

(b) key features that lead to the classification as equity or liability and how judgement has been applied;

(c) information about early redemptions and incentives to pay; and

(d) equity and liability characteristics within an instrument, regardless the classification, and related risks.

Appendix 2: Illustrative examples from IASB Staff papers on the disclosure proposals

Information about priority on liquidation

1 Below is an example of how the disclosures could be provided in the consolidated financial statements, as per the May 2021 IASB Staff paper 5:

Note 12 Nature and priority of claims arising from financial instruments

	As of 31 Dec 2020 (CU million)		
		Issued/owed by	
	Consolidated	parent	subsidiaries
Secured and unsubordinated			
Senior secured debt (a)	1,200	-	1,200
Lease liabilities (a)	920	780	140
Unsecured and unsubordinated			
Trade and other payables	1,450	320	1,130
Senior unsecured debt (a)	450	-	450
Unsecured and subordinated			
Subordinated liabilities (see note 15)	590	480	110
Classified as financial liabilities	*4,610*	*1,580*	*3,030*
Unsecured and subordinated			
Perpetual notes (see note 18)	200	200	-
Irredeemable preference shares (See note 19)	500	400	100
Non-controlling interest	1,250	-	1,250
Shareholders' equity	8,500	8,500	-
Classified as equity	*10,450*	*9,100*	*1,350*
Total	***15,060***	***10,680***	***4,380***

(a) They are included in the 'Borrowings' line item in the statement of financial position.

Note 15 Subordinated liabilities

	As of 31 Dec 2020 (CU million)	As of 31 Dec 2019 (CU million)
EUR100mil 7.125% subordinated notes due 2025	110	110
GBP250mil 6.75% senior subordinated notes due 2030	230	230
USD225mil 7.20% subordinated notes due 2033	165	-
Other subordinated liabilities each less than CU50 millio	85	85
Total subordinated liabilities	590	425

In the event of the respective issuer's liquidation, any amounts due in respect of the subordinated liabilities 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 and perpetual notes. Subordinated liabilities listed in the table above do not rank pari passu with one another. Some subordinated liabilities are contractually subordinated to other subordinated liabilities.

[other key terms and conditions as discussed at the April 2021 Board meeting, for example, 'equity-like' features in these liabilities and the features that determine their financial liability classification]

Information about potential dilution

2 Below is an example of the maximum dilution disclosure that would be provided as per the April 2021 IASB Staff paper 5C (Refer also to paragraphs 41-48 of the IASB paper on the details of the instruments):

Instruments	***Maximum number of additional ordinary shares to be disclosed***	***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.
Contingently convertible bond E	50	Conversion contingent on the occurrence of non-viability event X. Redeemable at the option of the issuer for cash.
Share-settled bond F	50 Or unknown dilution (if unlisted shares)	Depending on the share price at settlement date a higher number of shares might need to be delivered.
Mandatorily convertible note G	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).
Maximum number of additional ordinary shares	**1,600**	

Less: minimum reduction in the number of ordinary shares		
Share buy-back	(100)	Commitment to buy 100 –500 shares.
Net maximum number of additional ordinary shares	**1,500**	

Information about terms and conditions

3 Paragraphs 28 – 29 of the April 2021 IASB Staff paper 5A provide examples of debt-like features in equity instruments and equity-like features in financial liability instruments.

4 In addition, this April IASB Staff paper provides the following examples on how an entity can disclose information on terms and conditions:

(a) Company X has perpetual subordinated notes that are classified as equity instruments

Note 16 Perpetual subordinated notes

At 31 December 2020, the total perpetual subordinated notes outstanding amounted to CU3,985 million (less net-of-tax transaction costs) and are included in the Company'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	Jan 2025	10.5%	690	714
4.5% Fixed Rate Subordinated Notes	EUR 750m	Mar 2028	market rate	647	658
4% Fixed Rate Subordinated Notes	EUR 2,000m	Oct 2032	market rate	1,724	-
3% Fixed Rate Subordinated Notes	GBP 1,000m	Jan 2027	market rate	925	910
				3,985	2,282

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.

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.

Priority on liquidation

[Information about priority of the notes on liquidation of Company X (see Agenda Paper 5B for this meeting.)]

(b) Company Y has convertible bonds that are accounted for as financial liabilities in their entirety

Note 12 Long-term borrowings

	2020 CU million	2019 CU million
Bonds	27,500	29,920
Bank loans	1,500	2,300
Lease liaiblities	9,700	10,820
Other long-term borrowings	3,215	4,250
	41,915	47,290

On 1 April 2020, Company Y issued CU3.2 billion of convertible bonds. These are included in *Bonds* in the table above.

The convertible bonds bear coupon of 1.5% and mature in February 2024.

At maturity, holders of the bonds are entitled to convert the bonds into ordinary shares of Company Y at a fixed contractual conversion price of CU2.70. If, prior to the maturity date of the convertible bonds, Company Y issues ordinary shares in the market at a price lower than the conversion price of the convertible bond, the conversion price will be adjusted to be the same as the price of the shares that are issued. If there are multiple issuances at a price lower than the conversion price, the conversion price will be adjusted to the same as the latest issuance price. Because of this potential adjustment to the conversion price, the conversion option could be settled by delivering a variable number of shares. Therefore, the convertible bonds are classified as financial liabilities in their entirety.

[Information about priority of the convertible bonds on liquidation of Company Y (See Agenda Paper 5B for this meeting)].

For information about potential dilution, see note 19. (See Agenda Paper 5C for this meeting)

(c) Company Z has mandatory convertible bonds that are accounted for as compound instruments

Note 18 Mandatory convertible bonds

On 1 April 2020, Company Z issued CU1.2 billion of mandatory convertible bonds.

Mandatory convertible bonds bear coupon of 1.2% and mature in December 2023. At maturity, the bonds convert into ordinary shares of Company Z at a fixed contractual conversion price of CU5.50.

These bonds are accounted for as compound instruments applying IAS 32. The fair value of future coupons (CU 0.1 billion) is recognised as financial liabilities in Borrowings because Company Z has no contractual right to avoid paying those coupons. The residual amount (CU 1.1 billion), after deducting the fair value of the liability from the fair value of the instrument as a whole is recognised in shareholders' equity. The equity component represents the fixed number of ordinary shares to be delivered at maturity.

For information about potential dilution, see note 19. (See Agenda Paper 5C for this meeting)

[Information about priority of the mandatory convertible bonds on liquidation of Company Y (See Agenda Paper 5B for this meeting).]