This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG FR TEG and EFRAG FRB. 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. 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.

Key messages for EFRAG's Draft Comment letter on FICE

Issues Paper

Objective

1 The objective of this paper is to provide EFRAG's key messages for the draft comment letter based on the Exposure Draft on Financial Instruments with Characteristics of Equity. This paper was first created based on the IASB's tentative decisions and has been updated based on the ED.

Key messages for EFRAG Draft Comment Letter on FICE

2 A summary of the IASB proposals and possible key messages for EFRAG Draft Comment letter can be found below. These key messages are based on the proposals in the ED.

Key IASB tentative decisions	Notes to constituents	Key messages to be considered for EFRAG DCL
Classification of financial instruments		
Project direction and list of issues Cover letter		***Project Direction*** • **EFRAG welcomes the IASB's efforts and approach to address issues that arise in practice related to IAS 32 *Financial Instruments: Presentation* by clarifying some of the underlying principles in IAS 32 and adding application guidance to facilitate consistent application of the principles.** • EFRAG notes that this project is particularly relevant for financial institutions that issue new and complex financial products developed in the aftermath of the financial crisis, such as bail-in instruments, which are testing the requirements in IAS 32. • EFRAG notes that the **IFRS Interpretations Committee (IFRS IC)** received several submissions related to the application challenges of IAS 32 and that in many cases it was unable to reach a conclusion. • The IASB tried to address the conceptual challenges related to the distinction between equity and liability within its **Conceptual Framework project** but decided to further explore how to distinguish between liabilities and equity in its FICE research project.

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		• In its FICE project the IASB issued a **Discussion Paper in 2008** where it proposed a new approach for classification and presentation of financial instruments within the scope of IAS 32. In its comment letter, EFRAG noted that it had not identified consensus on a more conceptual approach to distinguish debt from equity and suggested the IASB focusing on targeted improvements to current requirements in IAS 32 and other related standards. • EFRAG welcomes that the IASB's Exposure Draft is in line with EFRAG's suggestion in its comment letter. Nonetheless, as highlighted in our comment letter, the IASB should avoid classification changes for financial instruments that currently, to EFRAG's knowledge, do not raise concerns in practice. If any new clarification brings about such changes this should be justified by a clear explanation of why it leads to a better accounting outcome. • Finally, EFRAG highlights the importance of having a clear view on the classification changes resulting from this project to better assess the impact of the IASB proposals and assess whether the benefits will outweigh the costs. For that purpose, it will be fundamental to test the IASB proposals with stakeholders. ***List of issues addressed by the IASB*** • EFRAG also supports the **list of issues that the IASB considered** in this project, except for some of the issues mentioned below in the letter which EFRAG considers that it should address in the future, including:

Key IASB tentative decisions	Notes to constituents	Key messages to be considered for EFRAG DCL
		○ whether a liability should be recognised for a Mandatory Tender Offer; and ○ measurement issues that arise for some financial instruments that include obligations to redeem own equity instruments, where there are different views in practice on how to determine the "full amount" or "present value of the redemption amount (e.g., the use of the words "worst case" or "maximum amount" for instruments with a cap and floor). ***Importance of having an accurate effect analysis*** • **EFRAG highlights the importance of assessing, through fieldwork and outreach events, the likely effects of the changes proposed by the IASB**. In particular, the importance of applying the proposed changes to individual transactions or contracts as if the proposed Standard was already in effect. This with the objective of better assessing: ○ whether there are any unintended consequences arising from the IASB's proposals (e.g. on classification of financial assets for the holder of the financial instrument); ○ the potential classification changes on financial instruments under the scope of IAS 32, including classification changes from equity to financial liabilities; and ○ the costs and benefits of the IASB proposals, including those arising from the new disclosures.

Key IASB tentative decisions	Notes to constituents	Key messages to be considered for EFRAG DCL
Q1: The effects of applicable laws on the contractual terms of financial instruments	• The IASB is proposing a principle to determine whether the rights and obligations arising from a legal requirement are taken into account in classifying the financial instrument as a financial liability or equity and in determining the 'substance of the contractual arrangement'.	• EFRAG welcomes the IASB's discussions on the interaction between the terms and conditions of a contract and applicable law to avoid a blanket rejection of the effects of the law from classification (avoid a strict contract-only approach). • EFRAG acknowledges that the combination of both contractual and legal regulations (enforceable framework) are necessary to understand the contract. However, EFRAG considers that taking into account the full context of the law and contract would be beyond the scope of the FICE project and there would be unintended consequences, particularly when considering that IFRS 9 is a contractual-based Standard. • EFRAG welcomes the IASB's approach of clarifying the effects of applicable laws on the contractual terms of financial instruments without fundamentally reconsidering the existing principles and requirements in IAS 32, IFRS 9 and IFRIC 2. Such clarifications are important to address many questions that arise around the classification of financial instruments such as Bail-in Instruments and ordinary shares with statutory minimum dividend (e.g., whether general bail-in powers derived from law need to be included in the contract). • EFRAG also agrees that when applying the proposed principles, an entity should not be required to separate a single obligation into two liabilities ie a financial and non-financial liability in cases such as distribution of dividends above a percentage required by law.

Key IASB tentative decisions	Notes to constituents	Key messages to be considered for EFRAG DCL
		• However, EFRAG highlights some practical challenges that arise from applying the IASB’s proposals. In particular, EFRAG notes that it may be difficult to assess whether the terms explicitly stated in the contract are actually in addition to what is established by law (i.e., an entity would have to consider all elements of the law to assess whether the rights and obligations are in addition to those), particularly for international groups with subsidiaries in many different jurisdictions with different law requirements. Therefore, the IASB proposals need to be connected to its disclosure proposals, where preparers explain the interaction between the contractual terms and applicable law; • EFRAG highlights the importance of testing the IASB’s approach against some well-known financial instruments, such as bail-in instruments and instruments that involve mandatory distribution of dividends by law or by contractual terms, to understand whether there are any unintended consequences on the classification of financial instruments under IAS 32 and IFRS 9. • EFRAG also calls for the IASB to ensure that there are no unintended consequences of the application of law and regulation with paragraph 20 of IFRS 17; • Finally, EFRAG considers that Mandatory Tender Offers (MTO) is an important issue that needs to be addressed in the future;

Key IASB tentative decisions	Notes to constituents	Key messages to be considered for EFRAG DCL
		Potential question to constituents in EFRAG DCL • Applying the IASB proposals on the effects of applicable laws on the contractual terms of financial instruments, do you expect any classification changes on instruments such as (i) Bail-in instruments, (ii) Ordinary shares with statutory minimum dividends, (iii) IFRIC 2-type instruments and (iv) limited life companies. • Do you expect any classifications changes to other financial instruments? ***Potential questions for a separate survey on EFRAG Initial Impact Assessment*** • Applying the IASB proposals on the effects of applicable laws on the contractual terms of financial instruments, do you expect any classification changes on instruments such as (i) Bail-in instruments, (ii) Ordinary shares with statutory minimum dividends, (iii) IFRIC 2-type instruments and (iv) limited life companies? • Do you expect any classifications changes to other financial instruments?
Q2: Financial instruments settled in own equity instruments (including 'fixed-for-fixed' condition in IAS 32)	• EFRAG notes that a number of the submissions to the IFRS IC on IAS 32 were related to the fixed-for-fixed condition. When analysing the issues, the IFRS IC also identified that there was diversity in practice in many issues	• **EFRAG welcomes the IASB's efforts to clarify the principles in IAS 32 on the fixed-for-fixed condition** to particular derivatives on own equity as currently this is one of the main sources of accounting challenges to solve. As there is limited guidance in IAS 32 on the fixed-for-fixed condition, various questions have arisen in practice on how requirements in IAS 32 should be interpreted and applied in practice (e.g., adjustment clauses that alter the conversion ratio to prevent dilution). This lack of clarity has also led to diversity in practice.

Key IASB tentative decisions	Notes to constituents	Key messages to be considered for EFRAG DCL
	related to the application of the fixed-for-fixed condition. This is due to the fact that currently IAS 32 provides limited guidance on how to interpret the fixed-for-fixed condition. As a result, the IFRS IC either reported the issues to the IASB and/or requested the IASB to better explain the requirements in IAS 32 • The IASB developed is proposing two principles to meet the 'fixed-for-fixed' condition: a foundation principle and adjustment principle that would apply to the classification of derivatives on own equity.	• **In general, EFRAG supports the IASB's proposed foundation principle and adjustment principles** as the clarifications proposed by the IASB would improve consistency and are fairly aligned with current practice. ***Foundation principle*** • **EFRAG supports the IASB's proposed foundation principle** that is based on the certainty of the amount of cash exchanged per unit of equity instrument. This principle seems to stem from the current wording for the fixed-for-fixed condition in paragraph 16(b)(ii) of IAS 32 and is aligned with current practice. The IASB's proposed foundation principle would require that the issuer knows the **exact exchange amount or conversion ratio at the inception of the derivative (predetermined amount or formula at the inception of the contract), even if the number of shares to be delivered or the amount of consideration is unknown at inception.** The principle can be expressed as fixed functional currency units per share or a fixed number of shares for each functional currency unit. • As currently IAS 32 does not address a fact patten that involves a share-for-share exchange where both legs of the exchange are a fixed number of own shares, EFRAG supports that IASB's proposal to introduce new guidance and classify as equity a contract that can be settled by **exchanging a fixed number of non-derivative own equity instruments with a fixed number of another type of non-derivative own equity instruments**.

		Adjustment principle • EFRAG also supports the IASB's proposed adjustment principle that will encompass preservation adjustments and passage of time adjustments. Nonetheless, EFRAG considers that it is important that the IASB provides guidance to help preparers to assess whether an adjustment is a preservation adjustment or a passage of time adjustment, depending on what they are intended to compensate the bondholder for (the distinction might not always be clear). Such guidance could be under the form of a decision tree (same line of thinking as in the illustrative examples). ***Adjustment principle – preservation adjustments*** • **On preservation adjustments,** EFRAG generally agrees with the IASB's proposals, which aims to allow equity classification as long as the adjustments preserve the relative economic interests of the future shareholders to an equal or a lesser extent compared to the existing underlying equity instrument holders.). For example, change of control provisions, except round down features. ***Adjustment principle – passage of time adjustments*** • EFRAG welcomes the IASB's proposal to allow passage of time adjustments in order classify a derivative as equity. We also welcome the fact that the adjustment should in principle have the effect of fixing the cash amount per share in terms of present value (i.e. the value varies only with the passage of time). • In general, EFRAG also agrees that the adjustment has to be pre-determined at inception (i,e, pre-determined amount or a pre-determined formula as long as the

Key IASB tentative decisions	Notes to constituents	Key messages to be considered for EFRAG DCL
		inputs to the formula only vary with time (ie time is the only input). However, EFRAG notes that some derivatives on own equity have the strike price indexed to a variable such as an interest rate benchmark related or an inflation index. In cases where the benchmark interest rate represents the time value of money that is relevant to the derivative and the inflation index is not leveraged and relates to inflation in the issuer's own economic environment, it could be argued that the adjustments are based on a pre-determined formula where the inputs to the formula only vary with time (i.e. time is the only input) and thus meet the fixed for fixed condition. • Finally, EFRAG welcomes that the IASB will not reconsider the requirements that were added to IAS 32 in 2009 for 'foreign currency rights issues and will retain the foreign currency rights issue exception, as it is considered useful. ***Potential question for a separate survey on EFRAG Initial Impact Assessment*** • Do you believe that the IASB's proposals on fixed-for-fixed condition help you in determining the classification of the financial instruments that you currently issue? • Applying the IASB proposals on the fixed-for-fixed condition, do you expect classification changes to derivatives on own equity? • If so, are they related to the foundation principle, preservation adjustments and/or passage of time adjustments? • Please identify the derivatives on own equity that would be affected.

Key IASB tentative decisions	Notes to constituents	Key messages to be considered for EFRAG DCL
		• Do you expect any unintended consequences (e.g. foreign currency rights issue)?
Q3: Obligations to redeem own equity instruments (eg put options on non-controlling interests)	• The IASB is proposing clarifications to the recognition and measurement of obligations to redeem own equity instruments, including the accounting on initial recognition and on expiry their presentation (gross basis), and their initial and subsequent measurement	• EFRAG welcomes the IASB's discussions as this is a topic where there are different views on how to account for contracts that contain an obligation to purchase an entity's own equity instruments (e.g. NCI puts) and where companies use different accounting policies when accounting for such obligations, particularly the initial accounting within equity and the presentation of the subsequent measurement of the redemption amount. • EFRAG supports the requirements in paragraphs 21 and 23 of IAS 32 on gross presentation, if an entity uses a variable number of own equity instruments to settle a contract, that contract is a financial liability and that on initial recognition a financial liability is recognised by removing the amount from equity. **EFRAG therefore welcomes the IASB's clarification on the gross presentation of the liability for redemption obligations to purchase an entity's own equity instruments**, even when an entity uses a variable number of (the parent's) own equity instruments to settle a contract. Such clarification has the benefit of ensuring consistency on the accounting for obligations to purchase an entity's own equity instruments and not fundamentally changing the gross presentation requirements in paragraph 23 of IAS 32. • On the **initial accounting within equity**, EFRAG notes that current practice is mixed due to lack of guidance in IAS 32. Some consider it logical to derecognise the NCI, while others consider such derecognition inappropriate. The IASB concluded that if the entity

Key IASB tentative decisions	Notes to constituents	Key messages to be considered for EFRAG DCL
		does not yet have access to the rights and returns associated with ownership of the equity instruments to which the obligation relates, then the related NCI should continue to be recognised. • EFRAG acknowledges that it is counter-intuitive to a have a redemption amount recognised as a liability (reflecting a claim from NCI) and at the same time have the related NCI recognised within equity (the contra to the liability would be a general reduction). EFRAG also acknowledges that these clarifications will lead to a classification change for many companies that consider more relevant to derecognise the non-controlling interest. • Nonetheless, EFRAG considers that the IASB's clarifications have the benefit of addressing current diversity in practice and improve comparability. The IASB's proposals have also the benefit of clarifying why and when a NCI component should not be derecognised and the benefit of being consistent to the requirements in IFRS 10, particularly in regard to rights of non-controlling shareholders to dividends even when holders of an NCI put. • As noted in Question 4, there are different views on subsequent measure of the liabilities under the scope of IAS 32. More specifically, whether the liability should remain measured at the full amount of the conditional obligation subsequently or whether the probability and estimate of the timing of the contingent event occurring should be considered.

Key IASB tentative decisions	Notes to constituents	Key messages to be considered for EFRAG DCL
		• On the **presentation of the subsequent measurement of the redemption amount**, EFRAG acknowledges that there are stakeholders who disagree and find it counter-intuitive to have measurement changes being presented in profit or loss (e.g., it is difficult for management to explain the entity's performance if such instruments impact profit or loss). EFRAG acknowledges that there are also other issues related to the measurement of the liability such as the existence of caps (on options with caps, there are different views on whether a financial liability should be measured at the capped amount). EFRAG regrets that the IASB has not addressed the issues related to measurement in a more comprehensive way, including the measurement of financial instruments that contain caps. • Nonetheless, EFRAG welcomes the IASB's tentative decision to remove the reference to IFRS 9 *Financial Instruments* for subsequent measurement from paragraph 23 of IAS 32 (to avoid any confusion and reduce diversity in practice about how to calculate the carrying amount of the financial liability subsequently). Nonetheless, more guidance would be welcomed on this topic. ***Potential question to constituents in EFRAG DCL*** • Do you have concerns that the subsequent measurement of the financial liability arising from obligations to purchase an entity's own equity instruments would ignore probability? Please explain.

Key IASB tentative decisions	Notes to constituents	Key messages to be considered for EFRAG DCL
		Potential question for a separate survey on EFRAG Initial Impact Assessment • Applying the IASB proposals on obligations to redeem own equity instruments, do you expect classification changes to derivatives on own equity? • If so, please indicate the financial instruments that would be affected and how the classification would change. • On initial accounting within equity, do you recognise the obligation to redeem an entity's own equity instruments against NCI equity component or another equity component? If another equity component, which one?
Q4: Financial instruments with contingent settlement provisions	• The IASB is proposing clarifications to the initial recognition and measurement of financial instruments with contingent settlement provisions and clarify the terms "liquidation" and "not genuine"	• EFRAG welcomes the IASB's proposals to clarify initial recognition and measurement of financial instruments with contingent settlement provisions. Such clarifications seem to be fairly aligned with current practice and current requirements in IAS 32. • EFRAG agrees that the liability component of a compound financial instrument with contingent settlement provisions should be measured at the full amount of the obligation (even if IFRS 9 currently requires a financial liability to be recognised at fair value on initial recognition) as this is in line with existing principles in IAS 32 and provides relevant information to users (i.e., would reflect that immediate settlement may be required); • On subsequent measurement of financial instruments with contingent settlement provisions, EFRAG notes that there are different views on whether the liability should

Key IASB tentative decisions	Notes to constituents	Key messages to be considered for EFRAG DCL
		remain measured at the full amount of the conditional obligation subsequently or whether the probability and estimate of the timing of the contingent event occurring should be considered. Some see the benefits on the IASB's approach on subsequent measurement where an entity is required to measure the liability at the present value of the redemption amount and ignore the probability and estimated timing of the counterparty exercising that redemption right. Such an approach has the benefit of being consistent with initial measurement requirements, not introducing significant changes to current requirements and not adding complexity to the measurement calculation, as it would involve significant judgement, continuous reassessment and additional costs to preparers. However, there are also stakeholders who consider that it is preferable to measure the liability that arise from hybrids at a probability-weighted amount as the market prices of the financial instruments consider probabilities and it is the basis for the amortised cost accounting; • EFRAG welcomes the IASB's clarification that payments at the issuer's discretion are recognised in equity even if the equity component of a compound financial instrument has an initial carrying amount of zero. However, EFRAG believes that the IASB's proposals have to be properly linked to the proposals on disclosures and presentation requirements to ensure that users understand why payments of interest are recognised as dividends; • However, EFRAG highlights that if the payments at the discretion of the issuer are recognised as equity, then an entity cannot hedge the interest payments made in

Key IASB tentative decisions	Notes to constituents	Key messages to be considered for EFRAG DCL
		foreign currency. This is because IAS 21 is silent on how to translate equity items and any revaluations of these equity items would be recognised in equity. This could be a problem for entities that issue these instruments in a currency that is different from its functional currency; • on the meaning of 'liquidation', considering that different jurisdictions have different requirements for the liquidation process (different stages and may take significant time until complete close of business), the IASB should clearly explain the meaning of 'process of permanently ceasing operations' (e.g. providing some examples or indicators such as mass layoff, plant closing, ceasing to do business or trade (i.e. no revenue), liquidation of all assets); and • on the meaning of 'non-genuine', it might be useful to link this clarification to the concepts of 'not being legally enforceable' and 'not substantive' and to see how non-genuine is used in other IFRS Standards. ***Potential question to constituents in EFRAG DCL*** • Do you have concerns that the initial and subsequent measurement of the financial liability (or liability component of a compound financial instrument) arising from a contingent settlement provision would ignore probability? Please explain • From the IASB's proposals, do you expect a classification change on how payments to holders are recognised in the financial statements?

Key IASB tentative decisions	Notes to constituents	Key messages to be considered for EFRAG DCL
		• If so, will such change affect your hedge accounting? ***Potential questions for a separate survey on EFRAG Initial Impact Assessment*** • Applying the IASB proposals on financial instruments with contingent settlement provisions, do you expect classification changes to derivatives on own equity? • If so, please indicate the financial instruments that would be affected and how the classification would change. • Do you consider whether measurement of a financial liability (or liability component) arising from a contingent settlement provision should reflect the probability and estimated timing of occurrence of the contingent event on and after initial recognition? Please explain.
Q5: Shareholders' discretion	• The IASB is proposing non-exhaustive factors an entity would be required to consider in assessing whether shareholder decisions are treated as entity decisions • Factors include whether: ○ a shareholder decision is routine in nature—made in the ordinary course of the entity’s business activities ->	• Highlight the difficulty and subjectivity of developing guidance on how to determine whether the shareholders are acting in their individual capacity or as part of the entity's operating and corporate governance processes. • Any proposed factors should help preparers in reaching a conclusion on whether the shareholder’s decision should be treated as a decision of the entity or of the shareholder – the outcome should be clear. • Conceptually, EFRAG considers that an entity being required to consider the factors, even though non-exhaustive, provides helpful guidance on whether an entity has an unconditional right to avoid delivering cash or another financial asset.

Key IASB tentative decisions	Notes to constituents	Key messages to be considered for EFRAG DCL
	treated as an entity's decision. ○ a shareholder decision relates to an action proposed or a transaction initiated by the entity's management for shareholder approval –> unlikely to be treated as an entity's decision. ○ different classes of shareholders benefit differently from a shareholder decision -> unlikely to be treated as an entity's decision.	• However, caution that the IASB's factors-based approach may have a high impact on current requirements and change significantly current practice. If the new factors lead more often to the conclusion that the decision of shareholders is not within the control of the entity, this would lead to the reclassification of some instruments (from equity to financial liabilities), having a significant impact on current practice. • EFRAG, at this stage, is unsure of the outcome of the four factors and will conduct testing to gather evidence on the impact of the factors. • In addition, EFRAG considers that IAS 1 paragraph 122[1] would help and provide transparency to users on the judgements made in making the assessment of whether a shareholder decision is treated as a decision of the entity. ***Potential question to constituents in EFRAG DCL*** • Do you expect changes in classification from the IASB proposals, particularly changes to the classification of financial instruments from equity to liability?

[1] Paragraph 122 of IAS 1: "*An entity shall disclose, along with its significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), 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*."

Key IASB tentative decisions	Notes to constituents	Key messages to be considered for EFRAG DCL
	○ exercise of a shareholder decision-making right enables a shareholder to require the entity to redeem—or pay a return on—its shares in cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability) -> unlikely to be treated as an entity's decision	***Potential questions for a separate survey on EFRAG Initial Impact Assessment*** • Do you agree with the factors being proposed in para AG28A? Please explain why. What other factors should be considered? • Do you expect any change in practice from the IASB's clarifications on shareholders' discretion?
Q6: Reclassification between financial liabilities and equity instruments	• The IASB is proposing to prohibit reclassification unless paragraph 16E of IAS 32 applies or the substance of the contractual arrangement changes because of a change in circumstances external to the contractual arrangement (e.g., a change in an entity's functional currency or a change in an entity's group structure)	• Welcome the IASB's efforts to address the issue of lack of guidance on reclassification in IAS 32. • Express concerns on the IASB's proposals related to reclassification that reclassification of 'passage-of-time changes' would be prohibited (even when it provides useful information to users). There are disclosure requirements about terms and conditions that become, or stop being, effective with the passage of time before the end of the contractual term of the instrument. If this information is needed by users, then EFRAG questions why it is not relevant that the instrument be reclassified if the change from passage of time is such that the

Key IASB tentative decisions	Notes to constituents	Key messages to be considered for EFRAG DCL
		reason why it was classified, for example as a financial liability, is no longer applicable. • In addition, we acknowledge that there some guidance in paragraph 32C relating to what 'external to the contractual arrangement' means. However, we are unclear if this also means as per law and regulation. • EFRAG suggests allowing reclassification if there are changes to the effective terms and conditions of the financial instruments. • If the IASB continues to prohibit reclassification, we agree with the measurement proposals on reclassification as this is consistent with paragraph 16F of IAS 32. ***Potential questions for a separate survey on EFRAG Initial Impact Assessment*** • Do you agree with the IASB's proposals not to reclassify a financial liability or an equity instrument unless paragraph 16E of IAS 32 applies or the substance of the contractual arrangement changes because of a change in circumstances external to the contractual arrangement? Please explain why. • If not, do you consider that it would be significantly costly to assess at each reporting date whether an instrument would be reclassified? Please explain why.
Q7: Disclosures of financial instruments		
General comments	• **Note to constituents**: EFRAG will be conducting a field-test and will	• Welcome the improvements to disclosures on the nature and priority of on the entity; information about terms and conditions and potential dilution.

Key IASB tentative decisions	Notes to constituents	Key messages to be considered for EFRAG DCL
	organise/attend outreach events with various stakeholders during the consultation period of EFRAG's draft comment letter to gather input on IASB proposals including disclosures.	• It is important to test with European Stakeholders whether the IASB's proposals on disclosures are clear and can be implemented by entities that have many complex financial instruments. For that purpose, the IASB should organise a field-test focused on disclosures to better assess their feasibility and related costs, i.e., a cost/benefit assessment. • Concerns about disclosure overload (if the scope of the disclosures is too wide) and suggest allowing cross references to existing regulatory information.
Scope of IFRS 7 and general disclosures (Q (a) –(c) and (e))	• The IASB is proposing to expand the objective of IFRS 7 to enable users of financial statements to understand how an entity is financed and what its current and potential ownership structures are • In addition, the IASB is proposing include disclosure requirements for compound financial instruments	• Supportive of the IASB proposals as currently there are no specific disclosure requirements in IFRS 7 with regard to an entity's issued equity instruments or equity components of compound instruments. • Agrees with the proposed disclosure requirements for compound financial instruments as disclosures would provide users with clarity on which components were part of a compound instrument before separation.
Financial liabilities containing contractual obligations to pay amounts based on an entity's performance or changes in its net assets	• The IASB is proposing to require an entity with financial liabilities containing contractual obligations to pay amounts based on an entity's performance or changes in its net assets and measured at	• Disaggregation of gains or losses would help users of financial statements to understand the effect of an issuing entity's performance or changes in net assets in profit or loss.

Key IASB tentative decisions	Notes to constituents	Key messages to be considered for EFRAG DCL
(Q(d))	fair value through profit or loss to disclose in each reporting period the gains or losses that arise from remeasuring such financial liabilities separately from the gains or losses on other financial liabilities.	• However, refer to the scope of the disclosures, particularly on the criteria that disclosures would only be provided when the instruments are measured at fair value (e.g. shares redeemable at fair value and equity-index interest or principal embedded in a host debt instrument). Such criteria would exclude instruments that are measured at amortised cost but are "fair value like" (i.e. measured at amortised cost with continuous catch-up adjustments linked to the net assets of the entity without separately presenting the interest component); and • Highlight the importance of testing the disclosures against different instruments to understand whether the IASB is restricting the scope too much and excluding instruments that could be similar to fair value measurement. ***Potential questions for a separate survey on EFRAG Initial Impact Assessment*** • Do you consider that that the scope should be restricted only to financial liabilities measured at fair value through profit or loss? Please explain why.
Disclosures - The nature and priority of claims against an entity on liquidation (Q (a))	• The IASB is proposing to require an entity to group claims arising from financial liabilities and equity instruments within the scope of IAS 32 into classes of claims based on their contractual nature and priority on liquidation and provide some disclosures at a minimum. For example, separating	• Welcomes and supports the IASB's proposals. However, there are challenges on providing the disclosures as follows. • With respect to distinguishing between contractually subordinated and unsubordinated financial instruments: ○ entities may face challenges determining whether priority stem from the contract or from related law/regulation. For example, in some jurisdictions such as

Key IASB tentative decisions	Notes to constituents	Key messages to be considered for EFRAG DCL
	between subordinated and unsubordinated claims.	Sweden, payments to government have higher priority, therefore, all other liabilities are subordinated, regardless of what is in the contract. ○ There are also other areas of complexity such as the legal structure of international groups. Whether or not an instrument is secured or subordinated, it will depend on regulatory requirements and local legislation. The legal framework may change depending on the jurisdiction on where the instruments have been issued. Therefore, even though, the IASB proposals reflect minimum disclosures to be provided, EFRAG considers that it may be useful to also provide information based on subgroups if they are located in different jurisdictions (with different local legal requirements) and information on how the structure of the group affects priority. ***Potential question for a separate survey on EFRAG Initial Impact Assessment*** • Do preparers foresee significant issues with providing the minimum disclosure requirements? Please explain. [will list the minimum disclosures required]
Disclosures - Terms and conditions of financial instruments with both financial liability and equity characteristics (Q(b))	The IASB is proposing that an entity is required to disclose: • the terms and conditions of financial instruments that determine their classification as financial liabilities or equity instruments.	• Supports disclosures on the terms and conditions that determine classification as financial liabilities or equity instruments • Welcomes the disclosures on 'debt-like' and 'equity-like' characteristics which will provide useful information to users of financial statements. For example, for compound instruments with a zero-value equity component, these disclosures would help users to understand why payments are recognised as dividends.

Key IASB tentative decisions	Notes to constituents	Key messages to be considered for EFRAG DCL
	• Cash flow characteristics not representative of classification: ○ 'debt-like characteristics' for instruments classified as equity instruments; ○ 'equity-like characteristics' for instruments classified as financial liabilities.	• EFRAG's preliminary view is that these characteristics will help entities to apply these concepts in practice. EFRAG will consult its stakeholders to ask whether they agree with the debt-like characteristics and equity-like characteristics and whether there are other characteristics which should be considered. • Regarding a compound instrument, if an entity chooses the fair value option on the liability side and there is a derivative against it, but the entity is not exposed to the derivative component in the instrument itself, question whether quantitative disclosures on the derivative component would provide useful information. • Other comments relating to the effects of laws on contractual terms: ○ There are no additional disclosures proposed on legal requirements that could affect the timing and amount of future cash flows of issued financial instruments. ○ EFRAG considers that for example, if a financial instrument is classified as equity but the effects of law changes that financial instrument to be more liability-like, e.g., being converted into a variable number of shares in specific circumstances, disclosures describing these changes by law would provide useful information. This is also linked to disclosures relating to 'debt-like' or 'equity-like' features.

Key IASB tentative decisions	Notes to constituents	Key messages to be considered for EFRAG DCL
		Potential questions to constituents in DCL and Potential questions for a separate survey on EFRAG Initial Impact Assessment • Do you agree with the guidance provided on debt-like characteristics and equity-like characteristics (in paragraphs B5B–B5G of IFRS 7) including providing both quantitative and qualitative information? Please explain. • Do you consider that there are other characteristics which should be considered? Please explain. • Are there any significant operational concerns in providing these disclosure requirements? Please explain.
Disclosures - Terms and conditions about priority on liquidation (Q(b))	• The IASB is proposing that an entity shall provide information that enables users of financial statements to understand the priority on liquidation of each class of financial instruments. **Note to members**: - Paragraph B5H(b) of IFRS 7 mentions that for the banking industry, the terms and conditions relating to	• On disclosures about priority on liquidation, the interaction between the contractual terms and the law (e.g., bail-in instruments) raised many challenges. Therefore, EFRAG welcomes the IASB efforts to address the challenges with improvements on disclosures relating to terms and conditions about priority on liquidation. • Reference to our response to Q4 regarding clarification on the term liquidation. • In addition, some user stakeholders indicated that that priority on liquidation would be particularly useful if it showed the capital and funding structure of the group.

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	conversion and write-down could change the priority of those instruments on liquidation if resolution occurs before liquidation.	***Potential questions for a separate survey on EFRAG Initial Impact Assessment*** • Are there any significant concerns in providing these disclosure requirements? Please explain.
Disclosures - Terms and conditions that become, or stop being, effective with the passage of time (Q(c))	• The IASB is proposing that an entity should disclose information about terms and conditions of financial liabilities (including all stand-alone derivatives) that become, or stop being, effective with the passage of time before the end of the instrument's contractual term.	• Reiterate concerns on the IASB's proposals related to reclassification while requiring disclosures on terms and conditions that become, or stop being, effective with the passage of time.
Disclosures - Potential dilution (Q(d))	• The IASB is proposing to require an entity to provide information that enables users of financial statements to understand the potential dilution to the entity's ownership structure resulting from financial instruments issued at the reporting date. To meet this objective, an entity shall disclose information about the maximum	• Welcome the IASB's refinements to the disclosures proposed, in particular, having more disclosures on potential maximum dilution of ordinary shares. • Not clear in which order to provide the disclosures on terms and conditions about priority on liquidation, i.e., based on resolution or based on liquidation.

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	dilution of ordinary shares in a table (to the extent possible) for each class of ordinary shares.	• Highlight the importance of having additional information about dilution for both listed and non-listed entities and having a better definition of dilution compared to IAS 33[2] as in practice it is not always clear what dilution is. • Should law be considered when looking at potential dilution and maximum number of shares? ***Potential questions for a separate survey on EFRAG Initial Impact Assessment*** • Are there any significant concerns in providing these disclosure requirements? Please explain.
Obligations to redeem own equity instruments (Q(e))	• The IASB is proposing to require entities to disclose certain information for instruments containing obligations to redeem its own equity instruments.	• Support for the IASB's tentative decisions because this would enable users to understand the accounting treatment for obligations to redeem own equity instruments. ***Potential questions for a separate survey on EFRAG Initial Impact Assessment*** • Are there any significant concerns in providing these disclosure requirements? Please explain.

[2] Paragraph 5 of IAS 33 "*Dilution is a reduction in earnings per share or an increase in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions*."

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Q8: Presentation		
Presentation of equity instruments, including obligations that arise only on liquidation (e.g., perpetual instruments):	• IASB is proposing to amend the requirements in IAS 1 to ensure amounts attributable to ordinary shareholders are clearly visible on an entity's primary financial statements and improve disclosures on equity instruments within IFRS 7	• EFRAG acknowledges the inherent limitations of any binary debt-equity split and therefore welcomes the IASB's efforts to improve the presentation (particularly the presentation of perpetual instruments). • Support for the IASB's tentative decision to separately present the amounts attributable to ordinary shareholders from other owners in the primary financial statements. Such presentation will help users in better understanding the ordinary shareholders value. • Suggest replacing the term 'other owners of the parent' by 'other equity providers' to reflect the fact that other equity providers could not necessarily be owners of the business. • In addition, EFRAG highlights that the new disaggregation requirements in the forthcoming IFRS 18 General Presentation and Disclosure are likely to improve disaggregation, including within equity. • However, raise questions on how the IASB's tentative decisions should be applied in practice. • For example, how the allocation to issued capital and reserves attributable to ordinary shareholders of the parent and those attributable to other owners of the parent should

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		be done. Similarly, explain how the attribution should be made within the statement of financial performance. • Note that it will not always be an easy split as currently there are several subcategories within issued capital (with multiple classes of shares) and reserves and there is diversity practice on the presentation of items within equity (e.g., share premiums, retained earnings, dividend pushers and translation differences); and • Call for additional application guidance and illustrative examples to ease implementation (more detailed examples, including on how to allocate profit or loss to other owners of the parent, whether it should be done in accordance with IAS 33). • In addition, note that the IASB's proposals would put pressure on the definition of ordinary shareholders, as there are cases in which it is difficult to assess whether a specific class of shareholders is considered as ordinary shareholders. • To welcome that the IASB will not change the classification of perpetual instruments (financial instruments that contain obligations that only arise on liquidation of the entity that are classified as equity), which would require a significant change to current requirements in IAS 32 and could cause a market disruption (e.g. may cause early redemption, make it less attractive for issuers and increase their cost of capital). • EFRAG also considers that it would be useful to require, when material, entities that issue perpetual instruments to present them as a separate line item within equity, in

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		the statement of financial position and in a separate column in the statement of changes in equity. ***Potential question for a separate survey on EFRAG Initial Impact Assessment and questions to constituents*** • Considering the guidance provided by the IASB, will you be able to allocate profit or loss to "Ordinary shareholders of the parent" and "Other owners of the parent". • In your jurisdiction do you anticipate any issues due to interaction of the IASB proposals with regulatory requirements on presentation of equity?
Q9: Transition		
Fully retrospective approach	• The IASB is proposing to require an entity to apply the proposed amendments retrospectively with the restatement of comparative information. • Also, there are some transition requirements for entities already applying IFRS Accounting Standards and no additional transition relief for first-time adopters.	• To cautiously welcome the IASB approach but to highlight concerns of more changes expected in practice than anticipated and as a result, this will also impact transition. Therefore, sufficient time is needed for implementation. • Express concerns on retrospective application, for example, there could be an impact on coefficients linked to debt/equity could be triggered due to the restatements and may cause breaches. • Supports relief proposed not to require the restatement of information for more than one comparative period in order to minimise costs. • Explore an optional transition relief to not apply the full retrospective approach to instruments that do not exist at the time of initial application of the amendments, similar

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		to the approach taken in other recent standards. IFRS 9 has a similar transitional relief (paragraph 7.2.1 of IFRS 9) whereby entities shall not apply IFRS 9 to items that have already been derecognised at the date of initial application. However, in practice, this IFRS 9 transition relief had operational challenges. Therefore, EFRAG suggests for this transition relief to be optional. • Furthermore, EFRAG suggests that those entities that apply hedge accounting should not apply the fully retrospective approach because this could give rise to accounting mismatches which would not reflect the performance of the entity. For example, for hybrids that had been debt accounted and interest rate risk has been hedged, if interest is recognised in equity upon transition, retrospective application would give rise to open derivatives with fair value changes that would impact profit or loss, thereby causing accounting mismatches. • EFRAG also suggests that IASB consider providing a transition relief if a reclassification occurred because of a change in circumstances external to the contractual arrangement (please refer to Question 6 for more details). EFRAG suggests that classification based on current terms and conditions of a financial instrument could be used for prior comparative period. ***Potential question to constituents in EFRAG DCL*** • Are there other concerns relating to transition requirements and suggested solutions.

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		Potential question for a separate survey on EFRAG Initial Impact Assessment • Do you agree with retrospective application with the restatement of comparative information? Please explain. • Are there other significant concerns on transition that needs to be considered? Please explain.
Q10: Disclosures for subsidiaries without public accountability ('SWPA')		
Disclosures for SWPA	• The IASB is proposing to propose consequential amendments to be made to the IFRS Accounting Standard Subsidiaries without Public Accountability after it has been issued (expected to be issued in Q1 2024). The amendments within the FICE project would add to the future Standard part of the disclosure requirements that are to be proposed in the FICE ED.	• Include a disclaimer that IASB is requesting comments on consequential amendments to a future IFRS Standard that had not yet been issued or endorsed. • Therefore, EFRAG should be careful on the process. This could also raise the issue of partial endorsement of future consequential amendments in case the IFRS SWPA would not be endorsed in Europe. • Generally, agree with the IASB's proposals, which seem to be a fair balance between costs and benefits related to providing disclosures. Nonetheless, EFRAG will make a cost and benefit analysis on the disclosures for SWPA during the consultation period, particularly on disclosures on the nature and priority of claims against an entity. • To note that EFRAG comments and concerns on full disclosure requirements in Question 7 remain valid.

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		• However, highlight that financial institutions, including insurance companies, are out of the scope of the forthcoming IFRS Standard for subsidiaries without public accountability. This means that their subsidiaries applying IFRS would have to provide a comprehensive package of new disclosures on financial liabilities and equity, without any reduction. ***Potential question to constituents in EFRAG DCL*** • Do Constituents consider that the proposed reduced disclosure requirements for subsidiaries without public accountability and in particular disclosures on the nature and priority of claims on liquidation strike the balance between costs for preparers and benefits for the users of financial statements? ***Potential question for a separate survey on EFRAG Initial Impact Assessment*** • Views on feasibility of the applying the reduced disclosures.
Other comments		
Other potential improvements to disclosures in IAS 1 on restrictions to transfer cash	There are no IASB decisions on this. This point comes from EFRAG's comment letter to the 2018 FICE DP which will be reiterated in the DCL.	• The IASB did not propose further disclosures on restrictions to transfer cash because they indicated that there are specific disclosure requirements in IAS 7 and IFRS 7 and if these disclosures are not sufficient, 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.

Key IASB tentative decisions	Notes to constituents	Key messages to be considered for EFRAG DCL
		• Indicate that EFRAG still considers that additional disclosure proposals would be useful for users of financial statements. • Reiterate what was said in EFRAG's comment letter to the 2018 DP: ○ As mentioned in EFRAG's comment letter in response to the Discussion Paper, issued by the IASB in 2018, many users have mentioned in the past that they often look for information about the nature and extent of any significant restrictions of the entity's ability to transfer funds to its shareholders in the form of cash dividends or any significant restrictions of the entity's ability to repay debt. To address user's needs, IAS 1 could require additional disclosures about the impact of externally imposed capital requirements (e.g., those resulting from borrowing arrangements, legal/regulatory requirements or contractual arrangements) or the existence of any other significant restriction (e.g., solvency test, cash flow test, non-distributable reserves) on the entity's ability to transfer, in practice, funds to its shareholders and creditors.