

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 – EFRAG Secretariat assessment of classification outcomes under the different approaches				
Instrument	Alpha	Beta	Gamma	IAS 32
Non-derivative instruments				
Ordinary shares Obligation to transfer economic resources only at liquidation at an amount equal to a pro-rata share of the entity's net assets on liquidation.	EQUITY <i>Settlement not prior to liquidation</i>	EQUITY <i>Amount not independent of the entity's economic resources</i>	EQUITY <i>Settlement not prior to liquidation and amount not independent of the entity's economic resources</i>	EQUITY No contractual obligation to pay dividend or redeem shares.
Ordinary bonds Obligation to transfer a specific amount of cash at a specified time prior to liquidation.	LIABILITY <i>Settlement prior to liquidation</i> Related income or expenses presented in profit or loss as the liability is not solely dependent on the residual amount.	LIABILITY <i>Amount independent of the entity's economic resources</i> Related income or expenses presented in profit or loss as the liability is not solely dependent on the residual amount.	LIABILITY <i>Settlement prior to liquidation and amount independent of the entity's economic resources</i> Related income or expenses are presented in profit or loss as the liability is not solely dependent on the residual amount.	LIABILITY Meets the definition of liability. Contractual obligation to pay cash in the future. Related income and expenses presented in profit or loss.

Financial Instruments with Characteristics of Equity – EFRAG Secretariat assessment of classification outcomes under the different approaches

Instrument	Alpha	Beta	Gamma	IAS 32
<p>Shares redeemable for their fair value</p> <p>Obligation to redeem the shares at fair value in cash on demand of the holder and assuming that it does not meet the puttables exception in IAS 32.</p>	<p align="center">LIABILITY</p> <p><i>Settlement prior to liquidation</i></p> <p>Financial liability measured at fair value through OCI (no recycling) as the amount of the claim solely depends on the residual amount.</p>	<p align="center">EQUITY</p> <p><i>Amount not independent of the entity's economic resources</i></p> <p>Total comprehensive income is potentially attributed to this class of equity and the carrying amount of this class of equity is updated to reflect the attribution.</p>	<p align="center">LIABILITY</p> <p><i>Settlement prior to liquidation</i></p> <p>Financial liability measured at fair value through OCI (no recycling) as the amount of the claim solely depends on the residual amount.</p>	<p align="center">LIABILITY</p> <p>Meets the definition of liability. Contractual obligation to redeem the shares for cash. Financial liability at fair value through profit or loss.</p>
<p>Shares redeemable for their fair value</p> <p>Obligation to redeem the shares at fair value in cash on demand of the holder and assuming that it does meet the puttables exception in IAS 32.</p>	<p align="center">EQUITY</p> <p>The puttable exception might continue to be required under the Alpha approach.</p>	<p align="center">EQUITY</p> <p><i>Amount not independent of the entity's economic resources</i></p> <p>Total comprehensive income is potentially attributed to this class of equity and the carrying amount of this class of equity is updated to reflect the attribution.</p>	<p align="center">EQUITY</p> <p>The puttable exception might continue to be required under the Gamma approach.</p>	<p align="center">EQUITY</p> <p>Carrying amount is not directly updated for subsequent changes, (but additional disclosure in IAS 1).</p>
<p>Non-cumulative preference shares</p> <p>Obligation to transfer at liquidation the share of the remaining economic resources.</p>	<p align="center">EQUITY</p> <p><i>Settlement not prior to liquidation</i></p> <p>Total comprehensive income is potentially attributed to this class of equity and the carrying amount of this class of equity is updated to reflect the attribution as it is other than ordinary shares.</p>	<p align="center">EQUITY</p> <p><i>Amount not independent of the entity's economic resources</i></p> <p>Total comprehensive income is potentially attributed to this class of equity and the carrying amount of this class of equity is updated to reflect the attribution as it is other than ordinary shares.</p>	<p align="center">EQUITY</p> <p><i>Settlement not prior to liquidation and amount not independent of the entity's economic resources</i></p> <p>Total comprehensive income is potentially attributed to this class of equity and the carrying amount of this class of equity is updated to reflect the attribution as it is other than ordinary shares.</p>	<p align="center">EQUITY</p> <p>Equity if they are non-redeemable and the payment is at the ultimate discretion of the entity's shareholders. Otherwise it is a liability.</p>

Financial Instruments with Characteristics of Equity – EFRAG Secretariat assessment of classification outcomes under the different approaches

Instrument	Alpha	Beta	Gamma	IAS 32
<p>Cumulative preference shares</p> <p>Obligation to transfer at liquidation the unpaid dividends accumulated over time and the share of the remaining economic resources.</p>	<p>EQUITY</p> <p><i>Settlement not prior to liquidation</i></p> <p>Total comprehensive income is potentially attributed to this class of equity and the carrying amount of this class of equity is updated to reflect the attribution as it is other than ordinary shares.</p>	<p>LIABILITY</p> <p><i>Amount independent of the entity's economic resources</i></p> <p>Changes in the carrying amount recognised in profit or loss as the liability is not solely dependent on the residual amount.</p>	<p>LIABILITY ⚠</p> <p><i>Amount independent of the entity's economic resources</i></p> <p>Changes in the carrying amount are recognised in profit or loss as the liability is not solely dependent on the residual amount.</p> <p>(consistently with an ordinary bond)</p>	<p>EQUITY ⚠</p> <p>Equity if they are non-redeemable and the payment is at the ultimate discretion of the entity's shareholders.</p> <p>Otherwise it is a liability.</p>
<p>Callable preferred shares with resets</p> <p>Preference shares that an entity is allowed to redeem on specific dates. No contractual obligation to pay dividends or to call the instrument. If the entity does not redeem the preference shares, the redemption amount increases over time at a predetermined rate (e.g. step-up dividend clause).</p>	<p>Not discussed by the IASB</p>	<p>Not discussed by the IASB</p>	<p>LIABILITY ⚠</p> <p><i>Amount independent of the entity's economic resources</i></p> <p>Changes in the carrying amount are recognised in profit or loss as the liability is not solely dependent on the residual amount.</p>	<p>EQUITY ⚠</p> <p>No contractual obligation to pay the dividends or to call the instrument.</p>

Financial Instruments with Characteristics of Equity – EFRAG Secretariat assessment of classification outcomes under the different approaches

Instrument	Alpha	Beta	Gamma	IAS 32
<p>Share-settled bonds</p> <p>Obligation to settle the claim by delivering a variable number of own shares equal to a fixed amount (i.e. obligation to deliver a variable number of shares equal to an amount independent of the entity's economic resources).</p>	<p align="center">EQUITY</p> <p align="center"><i>Settlement not prior to liquidation¹</i></p> <p>Total comprehensive income is potentially attributed to this class of equity and the carrying amount of this class of equity is updated to reflect the attribution as it is other than ordinary shares.</p>	<p align="center">LIABILITY</p> <p align="center"><i>Amount independent of the entity's economic resources</i></p> <p>Related income or expenses presented in profit or loss as the liability is not solely dependent on the residual amount.</p>	<p align="center">LIABILITY</p> <p align="center"><i>Amount independent of the entity's economic resources</i></p> <p>Related income or expenses are presented in profit or loss as the liability is not solely dependent on the residual amount.</p>	<p align="center">LIABILITY</p> <p>Meets the definition of liability. Contractual obligation that will be settled in a variable number of own shares whose value equals a fixed amount.</p> <p>Related income or expenses presented in profit or loss.</p>
Convertible instruments				
<p>Convertible bond</p> <p>Obligation to deliver, at the option of the holder, a specified amount of cash or a fixed number of shares.</p>	Not discussed by the IASB	Not discussed by the IASB	<p>COMPOUND INSTRUMENT</p> <p>Derivative component: liability/equity exchanges²</p> <p>Convertible bond under the Gamma approach is similar to IAS 32. However, the total comprehensive income is potentially attributed to this class of equity and the carrying amount of this class of equity is potentially updated to reflect the attribution as it is other than ordinary shares.</p>	<p>COMPOUND INSTRUMENT</p> <p>The liability component is measured first, and the difference between the proceeds of the bond issued and the fair value of the liability is assigned to the equity component.</p>

¹ Although the instrument is “settled” with the delivery of a variable number of own shares equal to a fixed amount, the entity is not required to transfer economic resources (e.g. cash) at that date; only at liquidation. Thus, the settlement is not prior to liquidation.

² The IASB Staff has identified three different types of derivatives: asset/equity exchanges; equity/liability exchanges and liability/equity exchanges.

Financial Instruments with Characteristics of Equity – EFRAG Secretariat assessment of classification outcomes under the different approaches

Instrument	Alpha	Beta	Gamma	IAS 32
<p>Foreign currency denominated convertible bond</p> <p>The counterparty has the right to elect to receive a fixed number of ordinary shares of the entity, in lieu of the payment of an amount in a foreign currency.</p>	Not discussed by the IASB	Not discussed by the IASB	<p align="center">LIABILITY</p> <p>Derivative component: liability/equity exchange</p> <p>The whole convertible bond, including the conversion option, would be classified as a liability in its entirety as the amount of the claim does not solely depend on the residual amount.</p> <p>If certain criteria is met, gains and losses related to this liability can be separately presented in OCI.</p>	<p align="center">LIABILITY</p> <p>The whole convertible bond, including the conversion option, would be classified as a liability in its entirety.</p>
<p>Reverse convertible bond</p> <p>Obligation to deliver, at the option of the issuer, a specified amount of cash or a fixed number of shares.</p>	Not discussed by the IASB	Not discussed by the IASB	<p align="center">EQUITY</p> <p>Derivative component: liability/equity exchange</p> <p>The entity has the unconditional right to avoid transferring cash until liquidation and to settle the claim at an amount that is not independent of the entity's economic resources.</p>	<p align="center">EQUITY</p> <p>An unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation.</p>
<p>Derivative that redeems or repurchases a liability of a fixed amount in exchange for delivering a fixed number of equity instruments ('Physically settled')</p>	Not discussed by the IASB	Not discussed by the IASB	<p align="center">EQUITY</p> <p>Derivative component: liability/equity exchange</p> <p><i>Does not require a transfer of economic resources before liquidation and the amount of</i></p>	<p align="center">EQUITY</p> <p>Meets the definition of equity.</p> <p>The right to convert a liability into a fixed number of ordinary shares of the entity is classified as equity.</p>

Financial Instruments with Characteristics of Equity – EFRAG Secretariat assessment of classification outcomes under the different approaches

Instrument	Alpha	Beta	Gamma	IAS 32
			<i>the claim is solely dependent on the residual amount.</i>	
A bond with a conversion obligation to deliver a variable number of own equity instruments to equal a fixed amount of cash, subject to a cap and a floor.	Not discussed by the IASB	Not discussed by the IASB	LIABILITY in its entirety <i>Conversion obligation is not an equity instrument as the amount changes in response to an amount independent of the economic resources of the entity under one possible settlement outcome.</i>	LIABILITY Discussed by the Interpretations Committee in May 2014. The issuer's obligation to deliver a variable number of the entity's own equity instruments is a non-derivative that meets the definition of a financial liability
Derivative instruments on own equity				
Forward to sell own shares ('gross physical settlement') Receive a fixed amount of cash equal to forward price in exchange for delivering a fixed number of own shares.	EQUITY asset/equity exchange <i>Does not require a transfer of economic resources before liquidation</i> Total comprehensive income is potentially attributed to this class of equity and the carrying amount of this class of equity is updated to reflect the attribution as it is other than ordinary shares.	EQUITY asset/equity exchange <i>Amount solely depends on the residual amount</i> Total comprehensive income is potentially attributed to this class of equity and the carrying amount of this class of equity is updated to reflect the attribution as it is other than ordinary shares.	EQUITY asset/equity exchange <i>Does not require a transfer of economic resources before liquidation and amount solely depends on the residual amount</i> Total comprehensive income is potentially attributed to this class of equity and the carrying amount of this class of equity is updated to reflect the attribution as it is other than ordinary shares.	EQUITY Meets the definition of equity. Contractual obligation that is settled by exchanging a fixed amount of cash for a fixed number of its own equity instruments.

Financial Instruments with Characteristics of Equity – EFRAG Secretariat assessment of classification outcomes under the different approaches

Instrument	Alpha	Beta	Gamma	IAS 32
<p>Forward to sell own shares ('net share settlement')</p> <p>Receive variable number of own shares worth for the forward price and deliver a fixed number of own shares (net position).</p>	<p>EQUITY</p> <p>asset/equity exchange</p> <p><i>Does not require a transfer of economic resources before liquidation</i></p> <p>Total comprehensive income is potentially attributed to this class of equity and the carrying amount of this class of equity is updated to reflect the attribution as it is other than ordinary shares.</p>	<p>EQUITY</p> <p>asset/equity exchange</p> <p><i>Amount solely depends on the residual amount</i></p> <p>Total comprehensive income is potentially attributed to this class of equity and the carrying amount of this class of equity is updated to reflect the attribution as it is other than ordinary shares.</p>	<p>EQUITY ⚠</p> <p>asset/equity exchange</p> <p><i>Does not require transfer of economic resources before liquidation and amount solely depends on the residual amount</i></p> <p>Total comprehensive income is potentially attributed to this class of equity and the carrying amount of this class of equity is updated to reflect the attribution as it is other than ordinary shares.</p>	<p>LIABILITY ⚠</p> <p>It does not meet the definition of an equity instrument. (financial liability at fair value through profit or loss)</p>

Financial Instruments with Characteristics of Equity – EFRAG Secretariat assessment of classification outcomes under the different approaches

Instrument	Alpha	Beta	Gamma	IAS 32
<p>Forward to sell own shares ('net cash settlement')</p> <p>Receive a fixed amount of cash equal to forward price and deliver cash equal fair value of a fixed number of own shares (net position).</p>	<p>LIABILITY</p> <p>asset/equity exchange</p> <p><i>Requires a transfer of economic resources before liquidation</i></p> <p>Changes in the carrying amount presented separately, eventually in OCI (no recycling) as the amount is solely dependent on the residual amount.</p>	<p>EQUITY</p> <p>asset/equity exchange</p> <p><i>Amount solely depends on the residual amount</i></p> <p>Total comprehensive income is potentially attributed to this class of equity and the carrying amount of this class of equity is updated to reflect the attribution as it is other than ordinary shares.</p>	<p>LIABILITY</p> <p>asset/equity exchange</p> <p><i>Requires a transfer of economic resources before liquidation</i></p> <p>Changes in the carrying amount presented separately in OCI (no recycling) as the income and expense that arise from the liability solely depends on the residual amount.</p>	<p>LIABILITY</p> <p>A contract that will be settled in cash is a financial liability even if the amount of cash is based on changes in the market price of the entity's own equity.</p> <p>(financial liability at fair value through profit or loss)</p>
<p>Written call option on own shares ('gross physical settlement')</p> <p>Receive a fixed amount of cash equal to strike price in exchange for delivering a fixed number of own shares.</p>	<p>EQUITY</p> <p>asset/equity exchange</p> <p><i>Does not require a transfer of economic resources before liquidation</i></p> <p>Total comprehensive income is potentially attributed to this class of equity and the carrying amount of this class of equity is updated to reflect the attribution as it is other than ordinary shares.</p>	<p>EQUITY</p> <p>asset/equity exchange</p> <p><i>Amount solely depends on the residual amount.</i></p> <p>Total comprehensive income is potentially attributed to this class of equity and the carrying amount of this class of equity is updated to reflect the attribution as it is other than ordinary shares.</p>	<p>EQUITY</p> <p>asset/equity exchange</p> <p><i>Does not require a transfer of economic resources before liquidation and amount solely depends on the residual amount.</i></p> <p>Total comprehensive income is potentially attributed to this class of equity and the carrying amount of this class of equity is updated to reflect the attribution as it is other than ordinary shares.</p>	<p>EQUITY</p> <p>Meets the definition of equity. Contractual obligation that is settled by exchanging a fixed amount of cash for a fixed number of its own equity instruments.</p>



Financial Instruments with Characteristics of Equity – EFRAG Secretariat assessment of classification outcomes under the different approaches

Instrument	Alpha	Beta	Gamma	IAS 32
<p>Written call option on own shares ('net share settlement')</p> <p>Receive a variable number of shares worth for the strike price and deliver fixed number of shares (net position).</p>	<p>EQUITY</p> <p>asset/equity exchange</p> <p><i>Does not require a transfer of economic resources before liquidation</i></p> <p>Total comprehensive income is potentially attributed to this class of equity and the carrying amount of this class of equity is updated to reflect the attribution as it is other than ordinary shares.</p>	<p>EQUITY</p> <p>asset/equity exchange</p> <p><i>Amount solely depends on the residual amount</i></p> <p>Total comprehensive income is potentially attributed to this class of equity and the carrying amount of this class of equity is updated to reflect the attribution as it is other than ordinary shares.</p>	<p>EQUITY ⚠</p> <p>asset/equity exchange</p> <p><i>Does not require a transfer of economic resources before liquidation and amount solely depends on the residual amount</i></p> <p>Total comprehensive income is potentially attributed to this class of equity and the carrying amount of this class of equity is updated to reflect the attribution as it is other than ordinary shares.</p>	<p>LIABILITY ⚠</p> <p>It does not meet the definition of an equity instrument. (financial liability at fair value through profit or loss)</p>
<p>Written call option on own shares ('net cash settlement')</p> <p>Receive a fixed amount of cash equal to strike price and deliver cash equal fair value of a fixed number of own shares (net position).</p>	<p>LIABILITY</p> <p>asset/equity exchange</p> <p><i>Requires a transfer of economic resources before liquidation</i></p> <p>Changes in the carrying amount presented separately in OCI (no recycling) as the amount is solely dependent on the residual amount.</p>	<p>EQUITY</p> <p>asset/equity exchange</p> <p><i>Amount solely depends on the residual amount</i></p> <p>Total comprehensive income is potentially attributed to this class of equity and the carrying amount of this class of equity is updated to reflect the attribution as it is other than ordinary shares.</p>	<p>LIABILITY</p> <p>asset/equity exchange</p> <p><i>Requires a transfer of economic resources before liquidation</i></p> <p>Changes in the carrying amount presented separately in OCI (no recycling) as the income and expense that arise from the liability solely dependents on the residual amount.</p>	<p>LIABILITY</p> <p>A contract that will be settled in cash is a financial liability even if the amount of cash is based on changes in the market price of the entity's own equity. (financial liability at fair value through profit or loss)</p>

Financial Instruments with Characteristics of Equity – EFRAG Secretariat assessment of classification outcomes under the different approaches



Instrument	Alpha	Beta	Gamma	IAS 32
<p>Forward to sell own shares - indexed to the value of gold ('gross physical settlement')</p> <p>Receive a fix amount of cash equal to forward price and deliver a variable number of ordinary shares indexed to the value of gold.</p>	<p align="center">EQUITY</p> <p align="center">asset/equity exchange</p> <p><i>Does not require a transfer of economic resources before liquidation</i></p> <p>Total comprehensive income is potentially attributed to this class of equity and the carrying amount of this class of equity is updated to reflect the attribution as it is other than ordinary shares.</p>	<p align="center">LIABILITY</p> <p align="center">asset/equity exchange</p> <p><i>Amount not solely depends on the residual amount (it is partially dependent)</i></p> <p>Financial liability at fair value through profit or loss.</p>	<p align="center">LIABILITY</p> <p align="center">asset/equity exchange</p> <p><i>Amount does not solely depend on the residual amount (it is partially dependent)</i></p> <p>Financial liability at fair value through profit or loss.</p>	<p align="center">LIABILITY</p> <p>Meets the definition of liability. The entity uses a variable number of its own equity instruments as a means to settle the contract.</p> <p>Financial liability at fair value through profit or loss.</p>
<p>Forward to sell own shares - indexed to the value of gold ('net share settlement')</p> <p>Receive variable amount of own shares worth for the forward price and deliver a variable number of ordinary shares worth of a fixed amount of ounces of gold (net position)</p>	<p align="center">EQUITY</p> <p align="center">asset/equity exchange</p> <p><i>Does not require a transfer of economic resources before liquidation</i></p> <p>Total comprehensive income is attributed to this class of equity and the carrying amount of this class of equity is updated to reflect the attribution as it is other than ordinary shares.</p>	<p align="center">LIABILITY</p> <p align="center">asset/equity exchange</p> <p><i>Amount does not solely depend on the residual amount (it is partially dependent)</i></p> <p>Changes in the carrying amount recognised in profit or loss.</p>	<p align="center">LIABILITY</p> <p align="center">asset/equity exchange</p> <p><i>Amount does not solely depend on the residual amount (it is partially dependent)</i></p> <p>Financial liability at fair value through profit or loss.</p>	<p align="center">LIABILITY</p> <p>Meets the definition of liability. The entity uses a variable number of its own equity instruments as a means to settle the contract.</p> <p>Financial liability at fair value through profit or loss.</p>

Financial Instruments with Characteristics of Equity – EFRAG Secretariat assessment of classification outcomes under the different approaches

Instrument	Alpha	Beta	Gamma	IAS 32
<p>Commodity indexed forward/written call option contract ('gross physical settlement')</p> <p>Receive a variable amount of cash based on some commodity index (e.g. 1 ounce of gold) in exchange for delivering a fixed number of ordinary shares.</p>	<p>EQUITY</p> <p>asset/equity exchange</p> <p><i>Does not require a transfer of economic resources before liquidation</i></p> <p>Total comprehensive income is potentially attributed to this class of equity and the carrying amount of this class of equity is updated to reflect the attribution as it is other than ordinary shares.</p>	<p>LIABILITY</p> <p>asset/equity exchange</p> <p><i>Amount does not solely depend on the residual amount (it is partially dependent)</i></p> <p>Changes in the carrying amount recognised in profit or loss.</p>	<p>LIABILITY³</p> <p>asset/equity exchange</p> <p><i>Amount does not solely depend on the residual amount (it is partly dependent)</i></p> <p>Changes in the carrying amount recognised in profit or loss.</p>	<p>LIABILITY</p> <p>Meets the definition of liability.</p> <p>Obligation that must be settled by exchanging a fixed number of own shares for a variable amount of cash.</p> <p>Changes in the carrying amount (FV) reflected in profit or loss.</p>
<p>A foreign currency forward contract ('gross physical settlement')</p> <p>Receive a fixed amount of foreign currency in exchange for delivering a fixed number of ordinary shares.</p>	<p>Not discussed by the IASB</p>	<p>Not discussed by the IASB</p>	<p>LIABILITY </p> <p>asset/equity exchange</p> <p><i>Requires a transfer of economic resources before liquidation and amount does not solely depend on the residual amount (it is partly dependent)</i></p> <p>Financial liability at fair value through OCI if certain criteria is met as the amount is neither completely independent of the entity's economic resources, nor solely dependent on the residual amount; variability related to foreign currency.</p>	<p>EQUITY or LIABILITY </p> <p>Classified as liabilities unless they meet the foreign currency rights issue exception.</p>

³ Under the Gamma approach, the outcome is always a liability regardless the type of settlement.

Financial Instruments with Characteristics of Equity – EFRAG Secretariat assessment of classification outcomes under the different approaches

Instrument	Alpha	Beta	Gamma	IAS 32
<p>Written put option on own shares ('gross physical settlement')</p> <p>Obligation to purchase of a fixed number of own shares in exchange for a fixed amount of cash (strike price) at the option of the holder.</p>	<p>Not discussed by the IASB</p>	<p>Not discussed by the IASB</p>	<p>LIABILITY + EQUITY leg </p> <p>equity/liability exchange</p> <p>An entity's contractual obligation to purchase its own shares gives rise to a liability component for the present value of the redemption amount.</p> <p>Derecognise the fair value of the ordinary shares on which a written put is issued from the ordinary shares subclass of equity.</p> <p>The option feature represents an equity component as it meets the 'solely dependent' condition. The carrying amount of this class of equity is potentially updated to reflect the attribution of comprehensive income.</p>	<p>LIABILITY + EQUITY leg </p> <p>Meets the definition of equity. Contractual obligation that is settled by exchanging a fixed amount of cash for a fixed number of its own equity instruments.</p> <p>However, an entity's contractual obligation to purchase its own equity instruments gives rise to a financial liability for the present value of the redemption amount.</p>

Financial Instruments with Characteristics of Equity – EFRAG Secretariat assessment of classification outcomes under the different approaches

Instrument	Alpha	Beta	Gamma	IAS 32
<p>Written put option on own shares ('net share settlement')</p> <p>Obligation to purchase of a fixed number of own shares in exchange for delivery of a variable number of own shares worth the strike price agreed (net position).</p>	<p>Not discussed by the IASB</p>	<p>Not discussed by the IASB</p>	<p>LIABILITY + EQUITY leg ⚠</p> <p>equity/liability exchange</p> <p>The liability component represents the entity's contractual obligation to deliver a variable number of shares.</p> <p>The equity component represents the conversion option. This component would be potentially remeasured through attribution mechanism.</p>	<p>LIABILITY ⚠</p> <p>Meets the definition of liability. The entity uses a variable number of its own equity instruments as a means to settle the contract.</p> <p>Financial liability at fair value through profit or loss.</p>
<p>Written put option on own shares ('net cash settlement')</p> <p>Receive an amount of cash equal to the fair value of a fixed number of own shares and deliver cash equal to strike price (net position).</p>	<p>Not discussed by the IASB</p>	<p>Not discussed by the IASB</p>	<p>LIABILITY</p> <p>equity/liability exchange</p> <p><i>Requires a transfer of economic resources before liquidation</i></p> <p>Changes in the carrying amount presented separately in OCI (no recycling) as the income and expense that arise from the liability solely depends on the residual amount.</p>	<p>LIABILITY</p> <p>A contract that will be settled in cash is a financial liability even if the amount of cash is based on changes in the market price of the entity's own equity.</p> <p>(financial liability at fair value through profit or loss)</p>

Financial Instruments with Characteristics of Equity – EFRAG Secretariat assessment of classification outcomes under the different approaches

Instrument	Alpha	Beta	Gamma	IAS 32
<p>Fair value written put option on non-controlling interest ('gross physical settlement')</p>	<p>Not discussed by the IASB</p>	<p>Not discussed by the IASB</p>	<p>LIABILITY equity/liability exchange</p> <p>The option feature of the standalone option is nil and all of the returns on the claim will be captured by the liability component.</p> <p>An entity's contractual obligation to purchase its own shares gives rise to a liability component for the present value of the redemption amount. Changes in the carrying amount presented separately in OCI (no recycling) as the income and expense that arise from the liability solely dependents on the residual amount.</p>	<p>LIABILITY</p> <p>An entity's contractual obligation to purchase its own equity instruments gives rise to a financial liability for the present value of the redemption amount.</p>
<p>Foreign currency denominated written call option</p> <p>Require the delivery of a fixed number of own share in exchange for a fixed amount in a foreign currency.</p>	<p>Not discussed by the IASB</p>	<p>Not discussed by the IASB</p>	<p>LIABILITY ⚠️ equity/liability exchange</p> <p>The whole instrument, including the conversion option, would be classified as a liability in its entirety as the amount does not solely dependent on the residual amount.</p>	<p>LIABILITY or EQUITY ⚠️</p> <p>Meets the definition of a liability in IAS 32 unless it meets the rights issue exception in IAS 32.</p>

Financial Instruments with Characteristics of Equity – EFRAG Secretariat assessment of classification outcomes under the different approaches

Instrument	Alpha	Beta	Gamma	IAS 32
Derivatives on own equity which require the entity to deliver a variable number of shares equal to a fixed amount.	<p align="center">EQUITY</p> <p align="center">asset/equity exchange</p> <p><i>Does not require a transfer of economic resources before liquidation</i></p> <p>Total comprehensive income is potentially attributed to this class of equity and the carrying amount of this class of equity is updated to reflect the attribution as it is other than ordinary shares.</p>	<p align="center">LIABILITY</p> <p align="center">asset/equity exchange</p> <p><i>Amount not solely dependent on the residual amount</i></p> <p>Changes in the carrying amount recognised in profit or loss as the liability is not solely dependent on the residual amount.</p>	<p align="center">LIABILITY</p> <p align="center">asset/equity exchange</p> <p><i>Amount not solely dependent on the residual amount</i></p> <p>Related gains or losses in profit or loss as the liability is not solely dependent on the residual amount.</p>	<p align="center">LIABILITY</p> <p>It does not meet the definition of an equity instrument. (financial liability at fair value through profit or loss)</p>
Financial instruments that meet the exception in paragraphs 16A to 16D.	<p align="center">EQUITY</p> <p><i>The puttables exception might continue to be required.</i></p>	<p align="center">EQUITY</p> <p><i>The puttables exception might continue to be required.</i></p>	<p align="center">EQUITY</p> <p><i>The puttables exception might continue to be required.</i></p>	<p align="center">EQUITY</p>

Financial Instruments with Characteristics of Equity – EFRAG Secretariat assessment of classification outcomes under the different approaches

Instrument	Alpha	Beta	Gamma	IAS 32
Contingent convertible instruments				
<p>Contingently convertible feature (Co-Co) into variable amount of own shares</p> <p>(e.g. convertible bond , with conversion, deliver a variable amount of shares equal to a fixed amount, upon events outside control of entity, e.g. Tier 1 capital falling below specific threshold)</p>	Not discussed by the IASB	Not discussed by the IASB	<p>LIABILITY in its entirety</p> <p><i>Amount not solely dependent on the residual amount</i></p> <p>Related gains or losses in profit or loss as the liability is not solely dependent on the residual amount.</p>	<p>Different views in practice</p> <p>Discussed by the Interpretations Committee in January 2014 and the entity's obligation to deliver a variable number of its own equity instruments (upon the occurrence of a contingent non-viability event) meets the definition of a financial liability.</p>
<p>Contingently convertible feature (Co-Co) into fixed number of own shares</p> <p>(e.g. convertible bond with fixed interest payments with conversion, deliver a fixed amount of shares, upon events outside control of entity, e.g. Tier 1 capital falling below specific threshold)</p>	Not discussed by the IASB	Not discussed by the IASB	<p>COMPOUND</p> <p>The liability component is measured first, and the difference between the proceeds of the bond issued and the fair value of the liability is assigned to the equity component if the amount solely dependent on the residual. This component would be potentially remeasured through attribution mechanism.</p>	<p>Different views in practice</p>