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Financial Instruments with Characteristics of Equity

Cover Note

Introduction and objective

- 1 The objective of this session is to prepare for the upcoming ASAF meeting, i.e., to discuss potential changes to the presentation and disclosure requirements compared to the Exposure *Draft Financial Instruments with Characteristics of Equity* ('ED') which was issued in November 2023.
- 2 At its October 2024 meeting, the IASB discussed:
 - (a) the detailed feedback on the proposed presentation requirements and some of the proposed disclosure requirements set out in the ED;
 - (b) an analysis of this feedback; and
 - (c) potential changes to the proposed presentation and disclosure requirements in response to the feedback
- 3 In February 2025, the IASB Staff made further analysis on (a) potential presentation approaches for the presentation of equity instruments and (b) disclosures.
- 4 The IASB has not made any tentative decisions on the presentation and disclosure requirements. The IASB Staff will consult on these topics with their consultative groups and will bring their recommendations to the IASB for discussion and decision-making at a future meeting.

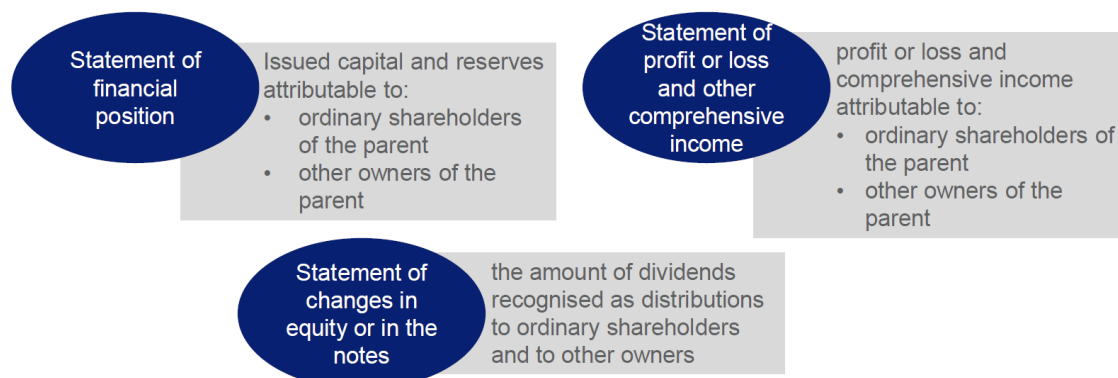
Presentation proposals

High level ED proposals

- 5 The ED proposals concerning presentation issues are summarised below:

Presentation—Proposed amendments to IAS 1

To improve information about amounts attributable to ordinary shareholders, the Exposure Draft proposed that an entity should be required to present:



High level summary of EFRAG's comment letter

- 6 In its [Comment letter to the ED](#) published in April 2024 EFRAG supported the IASB's proposal to present the amounts attributable to ordinary shareholders separately from other owners of the parent in the primary financial statements emphasising that it is fundamental for the users of financial statements to have information about multiple equity providers and financial instruments disaggregated in the proposed way, as this would help them better understand how the proceeds will be distributed on the sale of a business and evaluate the ordinary shareholders' value.
- 7 However, EFRAG had several concerns regarding the proposals of the ED which were also reflected in the Comment letter. In particular, EFRAG raised questions on the practical application of the IASB's proposals, 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 be performed on the statement of financial position and the statement of financial performance.

High level feedback that the IASB received on the ED

- 8 Overall positive feedback from investors:
 - (a) Most investors generally supported the presentation proposals saying they would highlight the complexity of an entity's ownership structure;
 - (b) Many investors expressed concerns about a lack of application guidance on the basis and methods for determining amounts for separate presentation and some suggested additional disclosures; and
 - (c) Some investors anticipated a method consistent with the requirements in IAS 33 *Earnings per Share* to calculate profit attributable to other owners of the parent.
- 9 Mixed feedback from other stakeholders:
 - (a) General appreciation to enhance presentation requirements;
 - (b) Main concern was lack of application guidance on the basis and methods for determining amounts for separate presentation, e.g. whether and how to align with the requirements in IAS 33; and

- (c) Other concerns relating to the distinction between ordinary shareholders and other owners and cost/benefit impact.

High level changes to the ED proposals

- 10 Refer to the IASB slides in Agenda paper 06-02 and for further details, the issues paper that was discussed with EFRAG FIWG – Agenda paper 06-03.

Summary of EFRAG FIWG discussions

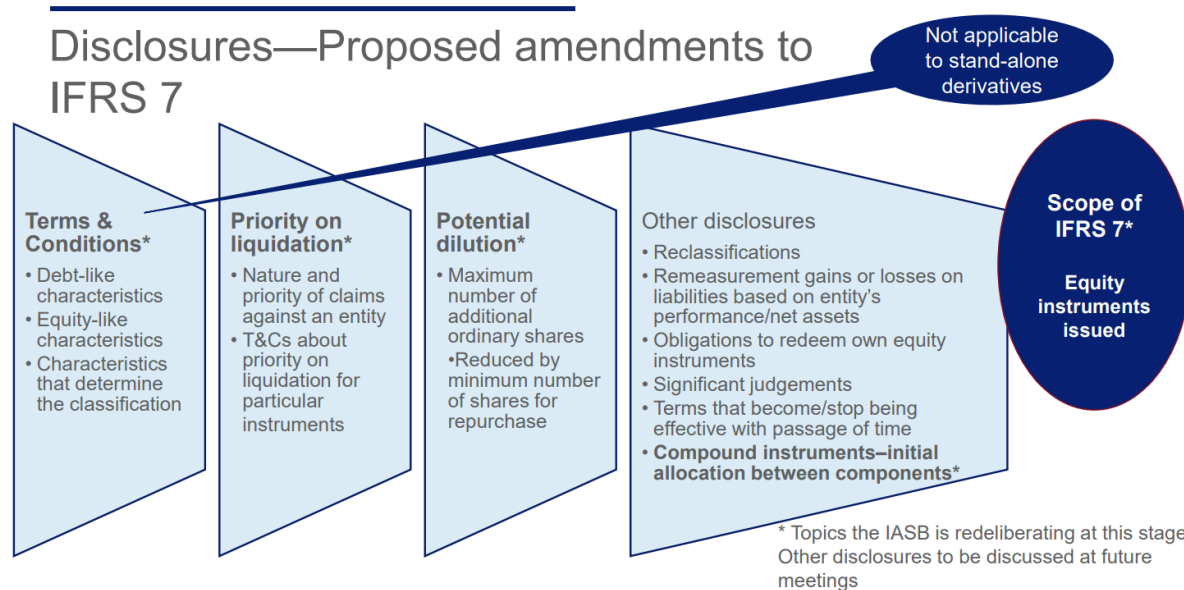
- 11 Members generally agreed with the proposals of the IASB staff supported by the IASB members.
- 12 In particular, members emphasised that the proposed simplifications (notably, the proposal not to require attribution of issued capital and reserves between different types of owners of the parent) represent a significant relief.
- 13 Members generally agreed that, in principle, the IASB’s preferred approach (the Bridge approach) is the best one. However, given potential issues resulting from that approach (e.g., identification of some complex instruments as participating or non-participating), members further emphasise the importance of disclosures to ensure transparency of this information for users.
- 14 Referring to the attribution of profit or loss to different types of holders of equity instruments are based on the contractual rights of the instruments as at the reporting date, one member questioned how to treat bail-in instruments. He considered that they should be excluded.

Disclosures proposals

High level ED proposals



Disclosures—Proposed amendments to IFRS 7



High level summary of EFRAG’s comment letter

- 15 EFRAG, in its comment letter, while agreeing with the disclosure proposals, suggested that the IASB should ensure that proposed disclosure requirements are clear and could be implemented by entities and also that there is an adequate balance between the benefits

for users of financial statements and the costs to preparers, particularly on disclosures of terms and conditions related to priority on liquidation. More detailed information is provided in the table below.

- 16 More detailed information can be found in Agenda paper 06-04.

High level feedback that the IASB received on the ED

- 17 Generally, many respondents appreciated the IASB's efforts to provide more useful information to users of financial statements and improve transparency and understandability.

- 18 Whilst many respondents understood the need to provide further information to users of financial statements, most respondents raised significant concerns about the proposed disclosure requirements because:

- (a) the increased volume of the proposed disclosures would be onerous, especially for preparers that have a short timetable for financial reporting, resulting in significant costs;
- (b) some proposals would be complex and difficult to produce, resulting in practical application challenges for preparers; and
- (c) some information would not be useful for users of financial statements in their decision making and could have the negative consequence of obscuring more relevant information about an entity's issued financial instruments.

- 19 Therefore, those respondents encouraged the IASB to balance the information needs of users of financial statements with the costs and operational burden for entities to prepare the information.

- 20 *Scope and objective of IFRS 7* – Most respondents agreed with expanding the scope and objective of IFRS 7.

- 21 *Terms and conditions* – There were mixed views:

- (a) Some respondents (users and many standard-setters) that it would help users of financial statements gain a better understanding of the nature of equity instruments with 'debt-like characteristics' and financial liabilities with 'equity-like characteristics';
- (b) Most other respondents raised concerns about the granularity of the information required and the potential burden on preparers to prepare and provide the information.

- 22 *Nature and priority of claims on liquidation* – Most respondents questioned the operability and usefulness of the information and complexities that would arise in a group structure which operates in multiple jurisdictions.

- 23 *Potential dilution* – Most respondents raised concerns about the overlap with IAS 33 Earnings per Share and that it may create confusion.

High level changes to the ED proposals

- 24 Refer to the IASB slides in Agenda paper 06-02 for changes suggested to the ED proposals. Further details can be found in Agenda paper 06-04 which was discussed with EFRAG FIWG.

Summary of EFRAG FIWG discussions

- 25 Members generally welcomed that the IASB was considering the stakeholder feedback and reducing disclosures.
- 26 *Disclosures on nature and claims* - There was general agreement to move away from the focus on liquidation but questioned what would the revised disclosures look like.
- 27 *Potential dilution* – One member indicated that when AT1 instruments with equity conversion (floating number of shares with a floor), are converted, the bank would be close to a resolution situation. This would result in the number of shares being significantly diluted; however, the share price would be very high compared to the resolution share price, resulting in an extreme value transfer to shareholders.
- 28 *Timeline of the proposals* - One member indicated that given the timeline to complete the project by 2026, and effective date of IFRS 18 being 2027, this member did not consider that the FICE presentation and disclosure proposals should be expedited before the other proposals.

Assessing the timeline of the proposals

- 29 There was a suggestion from an IASB member to explore whether it would be feasible to expedite the presentation and disclosure proposals before finalising the other remaining proposals so that entities could apply them at the same time as they first apply IFRS 18 *Presentation and Disclosure in Financial Statements*.
- 30 The IASB Staff do not consider that they should be expedited separately because the effective date of IFRS 18 is fast approaching (1 January 2027) and finalising classification and other amendments may result in other disclosures.
- 31 Also, in EFRAG's comment letter, EFRAG suggested that the IASB should separate the topics on the effects of relevant laws and regulations and written put options on non-controlling interest from the remaining topics in the ED and deal with them in a separate project. This is because EFRAG considered that the implementation of the other IASB proposals should not be delayed due to these two topics as they would provide clarifying information on classification requirements and useful information for both disclosure and presentation requirements. Nevertheless, even if suggesting a separate project for the two topics (the effects of relevant laws and regulations; and written put options on non-controlling interest), EFRAG highlighted the urgency to find a solution for these two topics swiftly.

Agenda papers

- 32 In addition to this cover note, the agenda papers for this session are:
- (a) Agenda paper 06-02 - ASAF paper; and
 - (b) Agenda paper 06-03 – Issues paper on presentation requirements discussed with EFRAG FIWG – for background; and
 - (c) Agenda paper 06-04 – Issues paper on disclosure requirements discussed with EFRAG FIWG – for background.

Questions for EFRAG FR TEG-CFSS

33 Presentation proposals:

- (a) Do you agree that the IASB's preferred approach (the Bridge approach) would best balance the needs of investors with the costs to preparers of preparing the additional information?
- (b) Is there anything else the IASB needs to consider if it proceeds with this presentation approach?

34 Disclosure proposals:

- (a) Do you think the suggested changes (including reductions) to the proposed disclosure requirements would address most stakeholder concerns?
- (b) Are there any remaining concerns the IASB needs to consider before finalising the amendments?

35 Considering paragraphs 29 to 31 above, in your view, is there anything else the IASB should consider that would be relevant in assessing the timing of finalising the presentation and disclosure requirements?