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[Issues paper discussed with EFRAG FIWG on 28 February 2025](#)

Financial Instruments with Characteristics of Equity – Presentation of equity instruments Issues Paper

Objective

- 1 The objective of this session is to obtain EFRAG FIWG's views concerning presentation requirements of equity instruments addressed in the scope of the Financial Instruments with Characteristics of Equity ('FICE') project as discussed at the IASB February 2025 meeting.
- 2 The IASB staff's paper (5A) can be found [here](#).

Structure of the paper

- 3 Context of the discussions over the presentation of equity instruments preceding the February 2025 IASB meeting is summarised in paragraphs 8 to 15.
- 4 The IASB staff's proposals for the February 2025 IASB meeting are summarised in paragraphs 16 to 39.
- 5 Discussions of IASB members are summarised in paragraphs 40 to 41.
- 6 EFRAG Secretariat analysis is presented in paragraphs 42 to 46.
- 7 Questions to EFRAG FIWG members are presented in paragraphs 47 to 49.

Context

Summary of the proposals in the ED

- 8 The [Exposure Draft *Financial Instruments with Characteristics of Equity – Proposed amendments to IAS 32, IFRS 7 and IAS 1*](#) published in November 2023 ('the ED') included the following presentation proposals intended to meet the information needs of users of the financial statements:
- (a) To enhance transparency about issued instruments classified as equity, line items in the statement of financial position that present issued capital and reserves attributable to:
 - (i) Ordinary shareholders of the parent;
 - (ii) Other owners of the parent;
 - (b) To distinguish between returns attributable to ordinary shareholders and returns attributable to other owners, an allocation of profit or loss and other comprehensive income attributable to:
 - (i) Non-controlling interests;
 - (ii) Ordinary shareholders of the parent;
 - (iii) Other owners of the parent; and
 - (c) To provide information about the effect that different features of equity instruments have on the distribution of returns between equity instruments, either in the statement of changes in equity or in the notes, the amount of dividend recognised as distributions to ordinary shareholders and to other owners.
- 9 Additionally, the ED proposed disclosure requirements to supplement the presentation proposals, including disclosing information about the nature and priority of claims on liquidation, the terms and conditions of financial instruments with both financial liability and equity characteristics and potential dilution of ordinary shares.

Summary of the feedback to the ED received by the IASB

- 10 Stakeholders raised concerns about the anticipated challenges with implementing the proposals in the ED, especially with regards to potential application and practical challenges or significant expected costs of providing the information. Some of the concerns they raised were as follows:

- (a) Lack of the definition of ‘ordinary shareholders’ and ‘other owners’, and how to determine whether a particular class of equity instruments is considered similar to ordinary shares.
- (b) With regards to the statement of profit or loss and other comprehensive income:
 - (i) The potential for inconsistencies with the requirements of IAS 33; and/or
 - (ii) How to allocate other comprehensive income between ordinary shareholders and other owners of the parent.
- (c) In the statement of financial position, what basis should be used for the allocation of reserves between ordinary shareholders and other owners of the parent, particularly for entities with complex capital structures or that have issued equity instruments with different rights and claims against the entity.

EFRAG’s feedback on the proposals of the ED

- 11 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.
- 12 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.

The October 2024 IASB meeting

- 13 In Agenda Paper [5B](#) of the October 2024 IASB meeting, the IASB staff discussed alternative approaches to the separate presentation between different equity holders compared to the proposed approach in the ED. More specifically, the staff suggested a preliminary preferred approach based on the features of equity instruments that are frequently mentioned as examples of instruments for which separate presentation would provide useful information (‘the October approach’), while grouping all other owners of equity instruments together.

- 14 During the October 2024 IASB meeting, some IASB members supported the general direction of the IASB staff’s suggested approach. However, other IASB members were concerned that introducing a different ‘cut’ within equity instruments that would be different from the ‘cut’ made by IAS 33 Earnings per Share could be confusing to users of financial statements and would result in additional complexity for both preparers and investors.
- 15 Therefore, IASB members asked the IASB staff how stakeholders’ concerns could best be addressed through potential further refinements to either the ED or October approaches or another presentation approach that could be discussed with our consultative groups.

Summary of the IASB staff’s proposals for the February 2025 IASB meeting

- 16 The IASB staff are of the view that, for the purposes of presenting the attribution of profit or loss, equity instruments could be differentiated based on their participation rights. However, because participation could refer to participation in profit, participation in residual interests, or both, the IASB staff think ‘participating’ instruments would need to be defined.
- 17 The following table illustrates the view of the IASB staff:

	<i>Participate in profit</i>	<i>Participate in residual interests</i>
Group A (eg ordinary shares)	Yes	Yes
Group B	Yes	No
Group C	No	Yes
Group D (eg AT1 instruments)	No	No

- 18 Following the feedback received at the October 2024 IASB meeting, the IASB staff has proposed a set of simplifications as well as three potential approaches which could address the stakeholders’ concerns. In addition to the “(Revised) ED approach” (Approach 1) and “(Revised) October approach” (Approach 2) which were presented previously, the IASB staff has first introduced “the Bridge approach” (Approach 3). These three approaches are summarised below.

Proposed simplifications

- 19 The IASB staff acknowledged stakeholders’ concerns about the practical challenges of attributing issued capital and reserves to different equity holders, as the regulatory requirements which may be determined by local laws in different jurisdictions and not be based on the requirements of IFRS Accounting Standards. Therefore, **the IASB staff suggested not requiring the attribution of issued capital and reserves between different types of owners of the parent as proposed in the ED** nor specifying when or how transfers within equity are made between different owners.
- 20 Similarly, to address stakeholders’ concerns and simplify the proposed requirements in the statement of comprehensive income, **the IASB staff suggested not requiring the allocation of comprehensive income between the various equity holders of the parent** emphasising that many users of financial statements considered such information as a ‘nice to have’ and not a necessity.
- 21 Introducing these simplifications would allow the IASB staff to **focus on separate presentation in the statement of profit or loss** as users of financial statements consider the attribution of profit or loss for the period to different types of equity instrument holders to be more important when assessing the performance and returns of an entity. Nonetheless, to satisfy investors’ needs for transparency, the IASB staff think that some potential disclosure requirements could be explored.

Approach 1 (“The Revised ED approach”)

- 22 The Revised ED approach implies presenting profit or loss attributable to ordinary shareholders separately and aggregating all other equity instrument holders of the parent—this approach is based on the presentation proposals in the ED.
- 23 The Revised ED approach can be illustrated as follows:

Statement of profit or loss (extract)	20X7	20X6
Profit attributable to:		
Ordinary shareholders of the parent	X	X
Other equity instrument holders of the parent	X	X
Non-controlling interests	X	X
Profit for the year	X	X

- 24 The IASB staff are of the view that this approach would align with the requirements in IAS 33 (for calculating basic EPS) to a large extent, which was also suggested by some users of financial statements. To achieve maximum alignment with IAS 33, the IASB staff suggest:
- (a) aligning the definition of ordinary shareholders with the definition of ordinary shares in paragraph 5 of IAS 33;
 - (b) requiring the profit attribution to ordinary shareholders in a consistent method to the calculation of the numerator for basic EPS.
- 25 The following considerations were mentioned by the IASB staff as advantages of the Revised ED approach:
- (a) The distinction between ordinary shares and other equity instruments is consistent with the focus in IAS 33 on measuring the interests of each ordinary share of a parent entity in the performance of the entity over the reporting period.
 - (b) Investors would benefit from receiving direct and relevant information associated with ordinary shares on the face of the statement of profit or loss.
- 26 However, the IASB staff noted that IAS 33 is an old Standard which may not fully reflect the increased complexity of financial instruments. Therefore, in their view, separately presenting profit attributions to ordinary shareholders might not necessarily provide investors with the useful information they asked for and/or could give rise to more application questions or diversity in practice developing.
- 27 The IASB staff has further referred to potential application issues associated with this approach:
- (a) The distinction between ordinary shares and other equity instruments may be challenging in some cases due to their intricate and overlapping features. In practice, entities do not always classify instruments as ordinary shares consistently with their legal form.
 - (b) There may be numerous challenges related to application of the existing IAS 33, e.g.:
 - (i) Adjustments for "preference dividends" required by paragraphs 12 and 14 of IAS 33;
 - (ii) Concerns with regards to participating equity instruments, e.g. whether they are considered as ordinary shares and whether their EPS is required to be presented;

- (iii) Some preference shares might not have a preferential right to distributions, but could, along with other equity instruments, be participating instruments (Group A and Group B illustrated in paragraph 17 above). The profit attributable to participating instruments is not required to be separately presented under the Revised ED approach and will be included in profit attributable to other equity instrument holders.

28 However, the IASB staff noted that even after resolving these application issues, the Revised ED approach would still face challenges in aligning the profit attributable to ordinary shareholders with the numerator used to calculate basic EPS, due to some different treatment of equity transactions.

29 The IASB staff concluded that, given that paragraph 70(a) of IAS 33 requires the disclosure of amounts used as the numerators in calculating basic EPS—profits attributable to the ordinary equity holders of the parent—and a reconciliation to the parent’s profit or loss, this approach would provide only limited additional information for entities already within the scope of IAS 33.

Approach 2 (“The Revised October approach”)

30 The Revised October approach implies presenting profit or loss attributable to participating instrument holders (being ordinary shareholders and other participating instrument holders) separate from non-participating instrument holders—this approach is based on the October approach presented by the IASB staff at the October 2024 IASB meeting.

31 This approach was based on feedback from investors and other stakeholders about the importance of information about perpetual instruments such as Additional Tier 1 (AT1) instruments. Following the comments of IASB members received at the October 2024 IASB meeting, the IASB staff further refined the approach with a requirement of the separate presentation of profit attributable to non-participating instruments (Group C and Group D illustrated in paragraph 17 above) while profits attributable to ordinary shareholders and other participating instruments would be presented in aggregate. The Revised October approach can be illustrated as follows:

Statement of profit or loss (extract)	20X7	20X6
Profit attributable to:		
Ordinary shareholders and other participating instrument holders	X	X
Non-participating instrument holders	X	X
Non-controlling interests	X	X
Profit for the year	X	X

- 32 As explained by the IASB staff, although under this approach ordinary shares will be grouped with other participating instruments, investors would still be provided with information that enables them to understand that other participating instruments are presented together with ordinary shares because of their similar profit participation rights. Entities that are applying IAS 33, would still be required to disclose the numerator in calculating basic EPS for ordinary shares.
- 33 In the IASB staff's view, separate presentation of profit attributable to non-participating instrument holders would enhance transparency for non-participating instruments, notably perpetual instruments, which addresses concerns shared in stakeholder feedback. Furthermore, in the IASB staff's view, this approach could strengthen the link between the primary financial statements and the proposed disclosures for equity instruments with debt-like characteristics.
- 34 The IASB staff emphasises that by not requiring the split between ordinary shareholders and other participating instrument holders, this approach avoids the drawbacks associated with the Revised ED approach, as further detailed in paragraph 81 of the IASB staff paper [5A](#). However, the IASB staff acknowledges that this approach could face criticism for not fully satisfying investors' information needs, e.g. why separate presentation of profit attributable to ordinary shareholders is not required when entities have to calculate this information for the purposes of IAS 33.

Approach 3 ("The Bridge approach")

- 35 The Bridge approach implies presenting separately profit or loss attributable to ordinary shareholders (included in Group A illustrated in paragraph 17 above), other participating instrument holders (included in Group A or Group B illustrated in paragraph 17 above), and non-participating instrument holders (Group C and Group D illustrated in paragraph 17 above) - this approach tries to bridge the gap between the Revised ED approach and the Revised October approach. The Bridge approach can be illustrated as follows:

Statement of profit or loss (extract)	20X7	20X6
Profit attributable to:		
Ordinary shareholders of the parent	X	X
Other participating instrument holders of the parent	X	X
Non-participating instrument holders of the parent	X	X
Non-controlling interests	X	X
Profit for the year	X	X

- 36 In the IASB staff view, the advantages of this approach include:
- As with the Revised ED approach, this approach builds on the existing requirements in IAS 33 and achieves alignments as much as possible.
 - Also consistent with Revised ED approach, presenting profit attributable to ordinary shareholders best satisfies investors' needs by providing the most relevant information associated with ordinary shares.
 - Although the approach still requires distinction between ordinary shares and other participating instruments, it addressed some of the main concerns about the Revised ED approach by not grouping other participating instruments with non-participating instruments. In addition, by requiring separate presentation of other participating instruments, it would achieve further alignment with IAS 33 in this regard.
 - Like the Revised October approach, it enhances transparency about non-participating instruments and strengthens the connection with disclosures for equity instruments with debt-like characteristics.
- 37 On the contrary, the Bridge approach might share the same disadvantages of the Revised ED approach with regards to the potential to extend the application questions in IAS 33 to the proposed presentation requirements. However, in the IASB staff's view, the risk under the Bridge approach is lower than for the Revised ED approach because both ordinary shares and other participating instruments are presented separately, thereby reducing the need for significant judgements to be made.

Summary of the 3 approaches

- 38 For convenience, a comparison of the three approaches can be illustrated as follows:

Statement of profit or loss (extract)	Revised ED approach	Revised October approach	Bridge approach
Profit attributable to:			
Ordinary shareholders of the parent	X	X	X
Other participating instrument holders of the parent	X	X	X
Non-participating instrument holders of the parent		X	X
Non-controlling interests	X	X	X
Profit for the year	X	X	X

 Amounts to be aggregated

Additional disclosure requirements

39 To enhance transparency of the proposed presentation requirements, the IASB staff considers additional disclosure requirements including, e.g.:

- (a) Information about which equity instruments relate to the line items presented separately in the statement of profit or loss (i.e., ordinary shares, other equity instruments, participating instruments, and non-participating instruments). These disclosures could also potentially include information about movements between these categories during the reporting period;
- (b) Additional disclosures to explain the terms and conditions of participating instruments (without any debt-like features) because these would not be covered by the proposed terms and conditions disclosures;
- (c) Disclosure of the amount of cumulative undeclared dividends of non-participating instruments (importance for such information for valuation purposes was emphasised by investors).

IASB meeting on 18 February 2025

40 The purpose of the session at the IASB meeting was to obtain members views on the IASB staff analysis (notably, the three approaches proposed) and next steps. The IASB was not asked to make any decisions.

41 Below are some key points discussed during the IASB's meeting:

- (a) Most members agreed that presentation issues concerning the statement of profit or loss should be given a clear priority over other presentation issues (i.e., those related to the balance sheet and the statement of other comprehensive income).
- (b) Almost all members expressed their preference (often a strong preference) for the Bridge approach. Even though no vote was taken, it was concluded that the preference in favour of this approach was a clear direction for next steps. Members had varied view as to what their 'second best' approach would be.
- (c) When discussing priorities for users, members mentioned specifically (i) a need to clearly see the part of profit or loss attributable to ordinary shareholders, and (ii) a need for disclosure of components which may be distributed, e.g. actual vs hypothetical distribution (i.e. actual dividends declared from the current year result vs accumulated retained earnings eligible for distribution as dividends).
- (d) Whilst members agreed, in general, that it was necessary to discuss the proposed changes with consultative groups, their views as to how exactly these consultations should be performed varied. Some members considered that all three approaches should be presented as part of the consultations, otherwise important information could be missed. Others preferred to concentrate on the Bridge approach, excluding one or both other approaches from the consultations. The predominant approach, though, was to concentrate on the Bridge approach while also referring to other two approaches (e.g., as an appendix to the discussion materials for the meetings with consultative groups).
- (e) Several members noted that 'ordinary shareholders' and 'participating'/'non-participating' instruments should be more clearly defined (only a definition of 'ordinary shares' exist as of now – paragraph 5 of IAS 33).
- (f) Several members noted that the Bridge approach may imply a need of alignment with IAS 33 which may give rise to certain complications. However, they mostly consider such issues inferior to the merits of the Bridge approach.
- (g) Members emphasised a need for transparent disclosures in order to provide the users with sufficient information over complex financial instruments. They noted that, in this respect, they did not see costs as a major concern as complex instruments would be mostly issued by banks who, generally, were expected to have the necessary information readily available.

EFRAG Secretariat analysis

- 42 The EFRAG Secretariat agrees with the simplifications proposed, prioritisation of presentation issues related to the statement of profit or loss over those related to the balance sheet and the statement of other comprehensive income, as such an approach best serves the primary needs of users of the financial statements, especially of investors.
- 43 Similar to the majority of the IASB members, the EFRAG Secretariat prefers the Bridge approach among the three approaches proposed in the IASB staff agenda paper. The EFRAG Secretariat considers that this approach best addresses the presentation issues, including the need for investors to see result attributable to ordinary shareholders presented separately in the statement of profit or loss. At the same time, it encompasses the key advantage of the Revised October approach by enhancing transparency for non-participating instruments. The EFRAG Secretariat emphasises, however, that this approach may create new issues which need to be sufficiently addressed, e.g. clear definitions of “ordinary shareholders” and “participating”/“non-participating” instruments, as well as alignment with requirements of IAS 33.
- 44 The EFRAG Secretariat notes as well that for certain instruments, clearly allocating result between ‘other participating holders of the parent’ and ‘non-participating holders of the parent’ may be challenging. As an example, a share with a minimum dividend may be considered as either participating (if the dividend is above this minimum level) or non-participating (if the dividend is below this minimum level). The EFRAG Secretariat understands that some IASB members also had doubts that a clear brightline may be drawn in certain cases between the result attributable to ‘other participating’ and ‘non-participating’ holders assuming instead, that in such case, the information needs of the users could be addressed via disclosures.
- 45 The EFRAG Secretariat supports further discussions over these proposals with the consultative groups. Given the clear preference for the Bridge approach, as evidenced by discussions at the IASB February 2025 meeting, the EFRAG Secretariat agrees with the proposed manner of this outreach, i.e. focusing on the Bridge approach while informing the stakeholders of the two alternatives, e.g. referring them to relevant documents or appendices.
- 46 In line with the IASB discussions, the EFRAG Secretariat emphasises the importance of transparent disclosures that would provide users with sufficient information, particularly regarding complex financial instruments.

Questions for EFRAG FIWG

47 Does EFRAG FIWG agree with the EFRAG Secretariat analysis of the presentation issues?

In particular:

(a) Do you agree with the simplifications proposed by the IASB staff?

(b) Do you have preferences among the three approaches proposed the IASB staff?

(c) What are your views concerning the proposed next steps of the IASB staff?

48 What are your views on the importance of presentation issues in the scope of the FICE project?

49 Do you any other comments or observations on the presentation issues of the FICE project (e.g., additional disclosure requirements)?