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Issues paper discussed with EFRAG FIWG on 28 February 2025

Financial Instruments with Characteristics of Equity (FICE)

Issues Paper

Objective

- 1 The objective of this paper is for EFRAG FIWG to discuss the proposed disclosure requirements subsequent to the Exposure Draft *Financial Instruments with Characteristics of Equity* (the 'ED').

Introduction

- 2 The proposed disclosures in the ED included:
 - (a) terms and conditions of financial instruments with both financial liability and equity characteristics—information about debt-like characteristics in equity instruments, equity-like characteristics in financial liabilities, and key features that determine classification;
 - (b) terms and conditions of compound financial instruments—features that determine classification and amounts allocated on initial recognition to the liability and equity components;
 - (c) nature and priority of claims against the entity on liquidation arising from all financial liabilities and equity instruments in the scope of IAS 32 Financial Instruments: Presentation—categorised claims, distinguished between secured/unsecured and contractually subordinated/unsubordinated, and separate disclosures for instruments issued by the parent and those issued by subsidiaries in the consolidated financial statements; and

- (d) potential dilution of ordinary shares—maximum dilution of the entity’s ordinary shares arising from financial instruments that could be settled in ordinary shares, including key terms and conditions relevant to understanding the likelihood of maximum dilution and the possibility for unknown dilution.
- 3 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.

Overall comments received by the IASB on the proposed disclosure requirements and recent IASB discussions

Overall comments received by the IASB on the proposed disclosure requirements

- 4 Generally, many respondents appreciated the IASB’s efforts to provide more useful information to users of financial statements and improve transparency and understandability.
- 5 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.
- 6 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.
- 7 *Scope and objective of IFRS 7* – Most respondents agreed with expanding the scope and objective of IFRS 7.
- 8 *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.
- 9 [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.
- 10 [Potential dilution](#) – Most respondents raised concerns about the overlap with IAS 33 *Earnings per Share* and that it may create confusion.

Recent IASB discussions

- 11 In October 2024, the IASB discussed the detailed feedback from comment letters and outreach on some of the proposed disclosure requirements. The IASB also discussed potential changes to the proposed amendments related to these disclosure proposals. The IASB was not asked to make any decisions. IASB members generally acknowledged that these changes would be responsive to concerns relating to disclosure overload because those changes aim to reduce the burden on preparers while still meeting the needs of users of financial statements and provided feedback for the IASB Staff to consider (reflected in the February 2025 IASB Staff paper 5B). The October 2024 IASB Staff papers are the following: (a) [detailed feedback](#) and (b) [feedback analysis](#). The IASB
- 12 In February 2025, the IASB Staff explored whether further refinements could be made based on the comments from IASB members at the October 2024 IASB meeting. The [February 2025 IASB Staff Paper 5B](#) provided further refinements considering the feedback from IASB members in its October 2024 meeting.
- (a) In the February paper, the IASB Staff also made a cost assessment (see detailed information in the table below).

February 2025 IASB discussions

- 13 In general, members agreed with the direction of the proposed refinements.
- 14 *General comment* – One member indicated that there were a lot of disclosures and preparers needed to be consulted to obtain a cost/benefit impact of applying the disclosures.

- 15 *Cross-referencing*¹ – The IASB Staff clarified that the underlying principle in IFRS 7 is that an entity may cross-reference if the information is available at the same time and on the same basis.
- 16 *Potential dilution of ordinary shares* – Many members questioned the usefulness of the qualitative disclosure about the main differences between diluted earnings per share (DEPS) and potential/maximum dilution of ordinary shares while one member considered it important and agreed with it being provided on a recurring basis and another wanted to understand the cost impact of the disclosures. Some reasons for those who questioned the usefulness of the disclosure include there was no connection/direct relationship between DEPS and maximum dilution, e.g., IAS 33 is based on weighted number of shares (which is not the case for the maximum dilution); may be boilerplate. Some members suggested to delete the qualitative disclosure about the main differences between diluted earnings per share (DEPS) and potential/maximum dilution of ordinary shares.
- 17 *Nature and priority of claims* –
- (a) Some members agreed to take away the focus from liquidity.
 - (b) In October, the IASB Staff had proposed reducing the scope of the proposed requirement based on the principles in IFRS 18 related to transactions that involve only the raising of finance. In October, an IASB member expressed the concern that determining the scope of the proposed disclosure requirement in such way would result in most liabilities under supplier finance arrangements being scoped out of the disclosure. In February, supplier finance arrangements are scoped in by including financial liabilities in the scope of IFRS 7 liquidity risk disclosures. In February, one IASB member asked to check for any unintended consequences on the scope and another member indicated that one should not over disclose supplier finance arrangements.
 - (c) On disclosure of the carrying amounts of each class of claims arising from financial instruments that are in scope (para 30B of IFRS 7 in the ED), one member suggested that it would be helpful to understand how the classes are being aggregated as it was not clear what class meant.

¹ The IASB Staff proposed to allow cross-referencing to other documents by including the references to the proposed disclosures.

Overview of the (refined) disclosure requirement proposals

- 18 The table below provides an overview of the ED proposals on the disclosure requirements per topic, a summary of EFRAG's comment letter, the IASB Staff's view of the nature of the costs to prepare the disclosures and the IASB Staff's preliminary views on refinements to the ED proposals suggested to date.
- 19 The four topics covered are:
- (a) General;
 - (b) Terms and conditions (including compound financial instruments);
 - (c) Nature and priority of claims on liquidations, arising from financial instruments; and
 - (d) Potential dilution of ordinary shares.

Financial Instruments with Characteristics of Equity (FICE) - Issues Paper

Topic	ED paragraphs	Disclosure proposals in the ED	EFRAG Comment Letter	IASB Staff's view of nature of the costs to prepare the disclosures	IASB Staff's preliminary views on refinements to the ED proposals suggested to date	IASB Staff's reasons for refinements
1 General	1.1 Scope (draft paragraph 3(f) of IFRS 7)	Maintain the scope exception for puttable instruments and obligations arising on liquidation classified as equity instruments applying paragraphs 16A–16D of IAS 32 and merely include them in the scope of IFRS 7 for the paragraphs proposed to be relocated from IAS 1 relating to disclosures about reclassification (draft paragraph 12E of IFRS 7) and puttable instruments (draft paragraph 30I of IFRS 7)	EFRAG agreed with moving paragraphs 80A and 136A from IAS 1 to IFRS 7, as these relate to equity instruments	One-off costs to determine if there are instruments classified as equity in accordance with paragraphs 16A–16D of IAS 32 on transition.	In addition to the proposals, include puttable instruments and obligations arising on liquidation classified as equity instruments applying paragraphs 16A–16D of IAS 32 in the scope of the disclosures for 'nature and priority of claims on liquidation, arising from financial instruments' and 'terms and conditions'	Puttable instruments and obligations arising on liquidation, similar to IFRIC 2 instruments, are part of the entity's capital structure.
	1.2 Cross-referencing	N/A	N/A	N/A	Allow cross-referencing to other documents by including the references to the proposed disclosures (draft paragraphs 30A–30H of IFRS 7) in paragraph B6 of IFRS 7	To alleviate the potential burden on preparers
2 Terms and conditions (including compound financial instruments)	2.1 Scope (draft paragraph 30C of IFRS 7)	Provide information about financial instruments with both financial liability and equity characteristics <ul style="list-style-type: none"> debt-like characteristics: result in fixed or determinable amounts, 	<ul style="list-style-type: none"> EFRAG agreed with the disclosures of 'debt-like' and 'equity-like' characteristics. EFRAG questioned whether quantitative disclosures for the 	One-off costs to determine whether the instruments are in the scope on transition and when new instruments are issued.	Provide information about financial instruments with both financial liability and equity characteristics but <ul style="list-style-type: none"> Scope out particular equity-like characteristics in financial liabilities (1) subordination 	<ul style="list-style-type: none"> Scope out – in order to reduce potential burden as this information is included in disclosures on 'nature and priority of claims on

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		<p>incentives to pay fixed or determinable amounts</p> <ul style="list-style-type: none"> equity-like characteristics: result in variable or indeterminable amounts, loss-absorption, subordination, avoid transferring cash for a specified period of time, settle by transferring own equity instruments (including issuer choice to settle in cash or shares under indirect obligations) For compound instruments, to disclose the amounts allocated on initial recognition to the liability and equity components. 	<p>derivative component in an instrument were needed for compound instruments (referring to paragraph B5G of the ED)</p> <ul style="list-style-type: none"> EFRAG suggested disclosures on legal requirements that could affect the timing and amount of future cash flows of issued financial instruments. 		<p>features and (2) settlement that will occur by delivering a variable number of own equity instruments.</p> <ul style="list-style-type: none"> Financial liabilities containing indirect obligations would remain in scope. Scope in compound financial instruments 	<p>liquidation' and/or 'potential dilution'.</p> <ul style="list-style-type: none"> Financial liabilities that contain indirect obligations - users need information on the contractual terms that give rise to such indirect obligation and lead to financial liability classification and the nature, timing, amount and uncertainty of future cash flows
	2.2 Disclosures for Financial instruments with both financial liability and equity characteristics	Disclose the terms and conditions of the instrument that determine its classification and cash flow characteristics that are not representative of the classification but that are relevant to an understanding		<ul style="list-style-type: none"> One-off costs to group instruments into classes and determine the level of disclosures unless there are changes to the contractual terms. Minimal recurring costs to update any carrying amounts. 	Same as the ED proposals	

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	(draft paragraph 30D of IFRS 7)	of the nature of those financial instruments				
	2.3 Disclosures for compound financial instruments (draft paragraph 17A of IFRS 7)	For compound financial instruments, disclose <ul style="list-style-type: none"> the terms and conditions of the instrument that determine its classification the amounts allocated on initial recognition to the liability and equity components in the reporting period in which the financial instrument is initially recognised 	EFRAG agreed with the proposed disclosure requirements for compound financial instruments at initial recognition.	One-off costs on transition and when new compound financial instruments are issued.	For compound financial instruments, <ul style="list-style-type: none"> delete disclosure on the amounts allocated on initial recognition to the liability and equity components (para 17A(b) of the ED) delete draft paragraph 17A of IFRS 7 and disclose as part of draft paragraph 30D of IFRS 7: the terms and conditions of the instrument that determine its classification 	On the suggested deletion of para 17A(b) of the ED, information difficult to find as users would have to search prior financial statements to get this information and the IASB Staff question the relevance of the disclosure as financial liabilities are subsequently measured at amortised cost or at fair value.
	2.4 Priority on liquidation (draft paragraph 30E of IFRS 7)	Disclose information for understanding priority on liquidation about financial instruments with both financial liability and equity characteristics: <ul style="list-style-type: none"> the terms and conditions of financial instruments that indicate their priority on liquidation, 	EFRAG considered that the disclosures are useful for users to understand how the claims affect the entity's solvency and liquidity. However, some stakeholders raised significant operational concerns to disclose	<ul style="list-style-type: none"> Significant one-off costs on transition and when new instruments are issued to determine the indication of priority taking into account all instruments issued by entities within the group and the relevant laws or regulations. 	For financial instruments with both financial liability and equity characteristics, disclose: <ul style="list-style-type: none"> the terms and conditions of financial instruments that could lead to a change in priority (change the 	Most of the ED disclosures not necessary as the focus is no longer on liquidation given the significant concerns from stakeholders regarding significant uncertainty about how laws or regulations could affect their priority on liquidation

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		<p>including those that could lead to a change in priority on liquidation (para 30E(a) of the ED)</p> <ul style="list-style-type: none"> information about multiple levels of contractual subordination in a class of financial instruments (para 30E(b) of the ED) information about any significant uncertainty about how laws or regulations could affect their priority on liquidation (para 30E(c) of the ED) a description of any intra-group arrangements (para 30E(d) of the ED) 	<p>about an entity's contractual nature and priority on liquidation due to the legal structure of groups and the granularity of the information.</p> <p>Also, some others considered that the disclosures on liquidation do not provide a full picture of what would happen on liquidation as the disclosures are limited to only instruments under the scope of IAS 32.</p> <p>EFRAG also asked for clarification on the term 'liquidation' and for example how it interacts with resolution and administration processes and also how it interacts with insolvency.</p>	<ul style="list-style-type: none"> One-off costs to identify intra-group arrangements on transition and when new arrangements are entered into. 	<p>focus away from liquidation)</p> <ul style="list-style-type: none"> a description of any intra-group arrangements, such as guarantees, that might affect the priority of financial instruments (change the focus away from liquidation) 	<p>and significant costs and effort to obtain the information.</p>
	2.5 Other	N/A		N/A	<p>Provide:</p> <ul style="list-style-type: none"> application guidance on how to determine 'classes' i.e. the shared characteristics that would cause instruments to be aggregated into classes an additional illustrative example of 	<ul style="list-style-type: none"> It is not the IASB's intention to require any proposed disclosures on an instrument-by-instrument basis Application guidance and illustrative example in order to cater for some stakeholder concerns

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					the terms and conditions of a financial liability with equity-like characteristics	on overall reporting burden
3 Nature and priority of claims on liquidations, arising from financial instruments	3.1 General	Nature and priority of claims on liquidations, arising from financial instruments	See comments above for 'Priority on liquidation'	N/A	Change the focus away from liquidation	<ul style="list-style-type: none"> IASB Staff acknowledged the stakeholders' concerns Changing the focus away of from liquidation would reflect the objective of the disclosure, i.e. to provide additional information about financial instruments at the reporting date based on their contractual terms and conditions.
	3.2 Scope (draft paragraph 30A of IFRS 7)	Scope in all financial liabilities and equity instruments within the scope of IAS 32		One-off costs to determine whether the instruments are in the scope on transition and when new instruments are issued.	Scope in: <ul style="list-style-type: none"> financial liabilities in the scope of IFRS 7 liquidity risk disclosures equity instruments issued to raise finance 	<ul style="list-style-type: none"> Financial liabilities – aligning the scope with IFRS 7 liquidity risk disclosures would complement and resolve concerns on the raking of individual instruments.

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						<ul style="list-style-type: none"> Equities - equity reserves and equity derivatives would be scoped out
	3.3 Disclosures (draft paragraph 30B of IFRS 7)	<p>Disclose the carrying amounts of each class of claims arising from financial instruments that are in scope by distinguishing:</p> <ul style="list-style-type: none"> in its separate and consolidated financial statements, secured and unsecured claims and contractually subordinated and unsubordinated claims in its consolidated financial statements, instruments issued by the parent and those issued by subsidiaries 		One-off costs to group claims into classes and to categorise claims on transition and when new instruments are issued. Minimal recurring costs to update the carrying amounts.	Same as the ED proposals	
4 Potential dilution of ordinary shares	4.1 Scope (draft paragraph 30G of IFRS 7)	Scope in all financial instruments issued at the reporting date that could result in the dilution of the entity's ordinary shares	EFRAG welcomed the proposals and indicated that information on dilution was important for both listed and non-listed entities. Also, it was important to have a better definition of dilution compared to IAS	One-off costs to determine whether the instruments are in the scope on transition and when new instruments are issued	In addition to the proposals, scope in off-balance sheet commitments that could result in the dilution of the entity's ordinary shares	Any contract an entity has entered into by the end of the reporting period which could result in the issue of ordinary shares, regardless of whether it is recognised or not, should be included in the disclosure of potential dilution of

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	4.2 Disclosures (draft paragraph 30G of IFRS 7)	<p>Disclose the maximum dilution of ordinary shares:</p> <ul style="list-style-type: none"> the maximum number of additional ordinary shares the entity might be required to deliver for each class of potential ordinary shares a description of contracts or other commitments to repurchase ordinary shares and the minimum number of each class of ordinary shares the entity is required to repurchase a description of the causes of any important changes from the prior reporting period a description of the terms and conditions of contracts that are relevant in understanding the likelihood of the maximum dilution of ordinary shares 	33, as in practice it is not always clear what dilution is.	One-off costs to group instruments into classes and to determine the level of disclosures unless there are changes in the contracts. Recurring costs to provide a description of the causes of any important changes to the maximum number from period to period. Minimal recurring cost to update the notes about anti-dilutive instruments.	<p>In addition to the proposals:</p> <ul style="list-style-type: none"> A - provide examples of the terms and conditions of instruments an entity can disclose to enable users of financial statements to understand the maximum dilution of ordinary shares (e.g. the par value of convertible instruments, conversion ratios, descriptions of any contingent events that could affect the conversion ratios) B - provide information to understand the likelihood of the potential/ maximum dilution (e.g. exercise prices and, antidilutive instruments) 	<p>ordinary shares.</p> <ul style="list-style-type: none"> A and B - IASB Staff considered feedback from stakeholders (para 93 of October IASB paper 5D) and suggested providing examples and information on the likelihood of maximum dilution. C - Disclosure on differences between diluted EPS and the potential/ maximum dilution number - useful on a recurring basis for users to better understand the basis on which the different calculations are based. (this disclosure is not necessary of entities not applying IAS 33) D - IASB Staff acknowledged that for 'share buy-backs' it could be impractical to provide the number

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					<ul style="list-style-type: none"> • C - require entities applying IAS 33 to disclose qualitative information about the main differences between diluted EPS and the potential/maximum dilution number • D - require disclosure if the number of shares in share buy-back arrangements is unknown 	of shares the entity is required to repurchase in some cases. So, entities may disclose 'unknown'.
	4.3 Other	Title: potential dilution of ordinary shares		N/A	Rename the title: maximum dilution of ordinary shares	Unintended confusion because 'potential' could imply the probability of the dilution should be considered. Maximum dilution looks at the worst-case scenario that could arise. Without considering probability or likelihood.

EFRAG Secretariat analysis

- 20 As per EFRAG's comment letter, while agreeing to the disclosure requirements, EFRAG had asked for there to be 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 the disclosures on the nature and priority of claims against the entity on liquidation and terms and conditions related to priority on liquidation). Therefore, the EFRAG Secretariat welcomes that the IASB Staff are considering the feedback and suggesting further refinements to the disclosures.
- 21 In general, the EFRAG Secretariat agrees with the refinements being proposed by the IASB Staff to balance the costs of preparers and benefits of users. On the disclosures related to the potential dilution of ordinary shares, the EFRAG Secretariat agrees with the IASB members to delete the qualitative disclosure about the main differences between diluted EPS and the potential/ maximum dilution number for entities applying IAS 33 for similar reasons raised by the members. Disclosures on maximum dilution are a good base for users to seek further information.
- 22 On the disclosures on liquidation, the EFRAG Secretariat considers that moving the focus away from liquidation would help to the significant operational concerns from stakeholders.
- 23 The EFRAG Secretariat notes that the disclosures on the terms and conditions that become, or stop being, effective with the passage of time (paragraph 30F of the ED) have not been included in the IASB Staff's papers and the EFRAG Secretariat considers that it would be considered when ED Question 6 on Reclassification of financial liabilities and equity instruments will be discussed.

Questions for EFRAG FIWG

- 24 Do you agree with the suggested refinements to the ED disclosure requirements? Please provide reasons why you agree or disagree.
- 25 Do you agree with the IASB Staff's view of nature of the costs to prepare the disclosures? Please provide reasons why you agree or disagree.