AUSTRIAN FINANCIAL REPORTING ADVISORY COMMITTEE
C/O KAMMER DER STEUERBERATER:INNEN UND WIRTSCHAFTSPRÜFER:INNEN
AM BELVEDERE 10 I TOP 4
A-1100 VIENNA
AUSTRIA

TEL	+43 (1) 81173 228
FAX	+43 (1) 81173 100
E-MAIL	office@afrac.at
WEB	http://www.afrac.at

March 29, 2024

IFRS Foundation
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom
commentletters@ifrs.org

<u>Comments on "Exposure Draft – Financial Instruments with Characteristics of Equity"</u>

Dear Madam, dear Sir,

On behalf of the Austrian Financial Reporting Advisory Committee (AFRAC), the privately organised standard-setting body for financial and other corporate reporting in Austria, we appreciate the opportunity to comment on the request for information "Exposure Draft – Financial Instruments with Characteristics of Equity" (November 2023). Principal authors of this comment letter were Gerhard Margetich, Iryna Bura, Michael Hammer, Stephan Kinsele, Philip Kudrna, Anna Ledermüller, Roland Nessmann, Ingrid Schwarzäugl, Timo Steinmetz and Martin Svitek. In order to ensure a balanced Austrian view on the request for information, the professional background of these authors is diverse and includes preparers, auditors and enforcers.

Best regards,

Romuald Bertl

Chairman

Comments on "Exposure Draft – Financial Instruments with Characteristics of Equity"

General comments

In general, we welcome the efforts made by the IASB in order to address the practical issues related to IAS 32 *Financial Instruments: Presentation* and the proposed clarifications. However, we think that the scope of this Exposure Draft partially goes beyond a clarification project. The exclusion of the effects of relevant laws or regulations may not only lead to significant practical issues but may also change the way how contracts are drafted and set up in order to avoid unintended impacts on classification. Therefore, we would appreciate, if the IASB was prepared to review its proposal concerning the effects of relevant laws or regulations.

Specific comments

Question 1—The effects of relevant laws or regulations (paragraphs 15A and AG24A–AG24B of IAS 32)

The IASB proposes to clarify that:

(a) only contractual rights and obligations that are enforceable by laws or regulations and are in addition to those created by relevant laws or regulations are considered in classifying a financial instrument or its component parts (paragraph 15A); and

(b) a contractual right or obligation that is not solely created by laws or regulations, but is in addition to a right or obligation created by relevant laws or regulations shall be considered in its entirety in classifying the financial instrument or its component parts (paragraph AG24B).

Paragraphs BC12–BC30 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

In general, we agree with the proposal to solve the issue, whether laws and regulations have to be included in the analysis to determine the classification of a financial instrument as either equity or liability. But we have divided views on whether the IASB's approach is helpful or not.

Even though some constituents were in favour of the IASB's proposal and some were not, we shared the view that as a result of the proposal, it will be important to disregard 'bail-in' provisions resulting from legislation when classifying financial instruments. We would like to point out that the current practice seems to be well-established and consistent interpretations seem to have been reached within each jurisdiction, taking into account local legal and regulatory frameworks. Although variations may exist between jurisdictions, these discrepancies seem to stem from the application of judgment to diverse circumstances and legal structures. From our perspective, regardless of the guidance provided for application, the differentiation between what is established by law and what is established by the contract will always involve judgments that we would expect to be disclosed in accordance with paragraph B5 of IFRS 7, if material. There is no universally applicable approach to this assessment, considering the diverse legal frameworks in existence. It should, therefore, be ensured that this clarification does not lead to any significant disruption in the settled practice without a significant benefit. Consequently, we propose to consider carefully, whether the clarification is needed, taking into account the current settled practice and necessity of judgments involved.

A particular fact pattern has caught our attention that involves Additional Tier 1 (AT1) capital instruments (BC13(a)). We found that the description of the 'bail-in' provisions in paragraph BC13(a) of the ED using AT1 instruments as an example is not correct. The loss-absorption feature referred to in this paragraph which, upon the occurrence of a trigger event, requires either write down or conversion into ordinary shares of the issuer should not be viewed as

resulting from legislation, but must be contractually agreed between the parties in order to meet the quality of an AT1 instrument.

In any event, we recommend that the IASB provides application guidance in this regard to ensure consistent application of this particular aspect of the standard.

Question 2—Settlement in an entity's own equity instruments (paragraphs 16, 22, 22B–22D, AG27A and AG29B of IAS 32)

The IASB proposes to clarify when the fixed-for-fixed condition in paragraph 16(b)(ii) of IAS 32 is met by specifying that the amount of consideration to be exchanged for each of an entity's own equity instruments is required to be denominated in the entity's functional currency, and either:

(a) fixed (will not vary under any circumstances); or

(b) variable solely because of:

  (i) preservation adjustments that require the entity to preserve the relative economic interests of future shareholders to an equal or lesser extent than those of current shareholders; and/or

  (ii) passage-of-time adjustments that are predetermined, vary with the passage of time only, and have the effect of fixing on initial recognition the present value of the amount of consideration exchanged for each of the entity's own equity instruments (paragraphs 22B–22C).

The IASB also proposes to clarify that if a derivative gives one party a choice of settlement between two or more classes of an entity's own equity instruments, the entity considers whether the fixed-for-fixed condition is met for each class of its own equity instruments that may be delivered on settlement. Such a derivative is an equity instrument only if all the settlement alternatives meet the fixed-for-fixed condition (paragraph AG27A(b)).

The IASB further proposes to clarify that a contract that will or may be settled by the exchange of a fixed number of one class of an entity's own non-derivative equity instruments for a fixed number of another class of its own non-derivative equity instruments is an equity instrument (paragraph 22D).

Paragraphs BC31–BC61 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

In general, we agree with the proposal relating to preservation adjustments as well as passage-of-time adjustments. In this context, we would like to emphasize the importance of providing additional guidelines to enable preparers to assess properly, whether an adjustment is a preservation adjustment or a passage-of-time adjustment that is not harmful to the classification as an equity instrument.

Regarding the passage-of-time adjustments, we believe that the proposed requirements in paragraph 22C(b) of the ED offer too much room for interpretation. We suggest that the IASB considers introducing a reasonableness test for the change in the amount of consideration for the passage of time as an additional requirement. This would prevent the use of unrealistic interest or discount rates in present value calculations.

The proposed changes to paragraph 22B of the ED (foundation principle) would require the issuer to know the exact exchange amount or conversion ratio for each date already at the time of conclusion of the contract, even if the number of shares to be delivered or the cash equivalent is unknown at that time. We would appreciate further guidance for a case in which a contract can be settled by exchanging a fixed number of non-derivative own equity instruments for a fixed number of another type of non-derivative own equity instruments.

According to paragraph 22C of the ED (adjustment principle), an adjustment must be specified at the inception of the contract to meet the fixed-for-fixed criterion. However, the passage-of-time element remains ambiguous. For instance, the question arises why the passage-of-time adjustment may not be based on variable interest (as specified in example 20 in IE 82-86). In this context, some constituents were unsure whether there was a conceptual difference between "passage-of-time" and "time value of money", what this difference was meant to be and how it was justified by the parties of the contract.

We recommend clarifying how paragraphs 22B (in the context of 16b(ii)) and AG27A are to be applied consistently. 22B requires a contract to be denominated in the functional currency, while AG27A allows the settlement of a derivative in any currency as long as it is granted pro rata to all existing owners of the same class of its own non derivative equity instruments. As the context of these provisions is explained only in the BCs (BC40-44), we recommend clarifying this directly in the standard text or to include additional application examples, respectively.
Moreover, the Exposure Draft suggests that in a consolidated group the evaluation should be performed in the functional currency of the entity whose equity instruments will be delivered on settlement. In this context, a problem may arise concerning gross settled derivatives, because they involve both receiving consideration and delivering the underlying equity instruments. Therefore, we consider that the functional currency of the instrument's issuer should be equally allowable in this context.

Furthermore, another issue could arise in the context of a consolidated group, if a subsidiary issues, for example, a convertible bond denominated in its own functional currency that is convertible into a fixed number of the parent's shares, while the parent has another functional currency. As a result of the proposal, the fixed-for-fixed condition will not be fulfilled in this case due to a difference in the functional currencies between the parent and subsidiary. This would deviate from current practice. Thus, we suggest to amend the proposal in AG29B and to state that the consideration to be exchanged shall be denominated in the functional currency of either the issuer of the instrument or of the issuer of the underlying shares.

Question 3—Obligations to purchase an entity's own equity instruments (paragraphs 23 and AG27B–AG27D of IAS 32)

The IASB proposes to clarify that:

(a) the requirements in IAS 32 for contracts containing an obligation for an entity to purchase its own equity instruments also apply to contracts that will be settled by delivering a variable number of another class of the entity's own equity instruments (paragraph 23).

(b) on initial recognition of the obligation to redeem an entity's own equity instruments, if the entity does not yet have access to the rights and returns associated with ownership of the equity instruments to which the obligation relates, those equity instruments would continue to be recognised. The initial amount of the financial liability would, therefore, be removed from a component of equity other than non-controlling interests or issued share capital (paragraph AG27B).

(c) an entity is required to use the same approach for initial and subsequent measurement of the financial liability—measure the liability at the present value of the redemption amount and ignore the probability and estimated timing of the counterparty exercising that redemption right (paragraph 23).

(d) any gains or losses on remeasurement of the financial liability are recognised in profit or loss (paragraph 23).

(e) if a contract containing an obligation for an entity to purchase its own equity instruments expires without delivery:

  (i) the carrying amount of the financial liability would be removed from financial liabilities and included in the same component of equity as that from which it was removed on initial recognition of the financial liability.

  (ii) any gains or losses previously recognised from remeasuring the financial liability would not be reversed in profit or loss. However, the entity may transfer the cumulative amount of those gains or losses from retained earnings to another component of equity (paragraph AG27C).

(f) written put options and forward purchase contracts on an entity's own equity instruments that are gross physically settled—consideration is exchanged for own equity instruments—are required to be presented on a gross basis (paragraph AG27D).

Paragraphs BC62–BC93 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

We welcome the proposal as it will help to reduce diversity in practice. However, it appears counterintuitive, that a repurchase amount is treated as a liability while the associated non-controlling interest (NCI) is still presented within equity (also known as the "double-entry-problem"). We think that there are situations when the net presentation approach to account the instrument as a stand-alone derivative would be the preferred solution. However, we recognize that the "gross presentation" - approach of the liability recognition has its accounting tradition and fundamental reconsiderations of this treatment would be beyond the current scope of the project.

Paragraph 23 inter alia addresses the situation that a contract containing an obligation for an entity to purchase its own equity instruments expires without delivery and exercise, respectively. To better understand the proposed mechanism, we would welcome illustrative examples, especially for the case of possible multiple exercise dates.

The IASB proposes the obligation to redeem an entity's own equity instruments in respect of non-controlling interests to be recognised as a reduction in equity attributable to owners. Some constituents consider that it should rather be recognised as part of non-controlling interests. We understand the argument, that consolidated financial statements are prepared on the basis of existing ownership interests (BC73 of the ED referring to paragraph B89 of IFRS 10). We also acknowledge that, while the obligation is outstanding, non-controlling shareholders retain their rights to the returns associated with an ownership interest (BC74 of the ED referring to paragraph B90 of IFRS 10). Furthermore, we understand that existing ownership interests of non-controlling interest holders have not yet been extinguished. However, we consider that the economic substance of the transaction is not captured by the approach of reducing equity attributable to owners instead of reducing NCI. The transaction does not affect interests of the owners of the parent in any way. Recognition of the financial liability anticipates the cash outflow which will eventually reduce the non-controlling interests. We note that the treatment, whereby equity is reduced while the related ownership interests still exist, would not be unique, since it is also applied to mandatorily redeemable shares. At minimum, we advise that the IASB should align the wording and meaning of 'access to returns' to what is currently understood by this term in IFRS 10, as some constituents find that the proposed concept in the ED is not consistent with IFRS 10.

We appreciate that the proposal clarifies how to deal with subsequent measurement of the financial liability. There are cases when no measurement category under IFRS 9 suits the substance of the transaction. For example, if the exercise price of an NCI put option on entity's own shares is related to the entity's performance (e.g. profit), measurement of the financial liability at fair value will not be applicable because the financial liability is not held for trading and it will hardly be possible to fulfill conditions for the fair value option[1]. Measurement at amortised cost under IFRS 9 will lead to continuous catch-up adjustments with no reasonable basis for recognition of the interest expense. As a result, we appreciate that entities can develop the appropriate accounting policy on how to recognise the value changes and decide whether an interest component will be recognised separately. However, some of our constituents prefer to have the option to apply the fair value option concerning such liabilities.

[1] Conditions for the fair value option are not fulfilled because: There is no elimination or significant reduction of an accounting mismatch (IFRS 9.4.2.2(a)), the financial liability is not part of a group of financial instruments managed and evaluated on a fair value basis (IFRS 9.4.2.2(a)) or the relation to the entity's performance cannot be viewed as embedded derivative since the non-financial variable is specific to a the contract party and thus the derivative definition is not met (IFRS 95.4.3.5).

Regarding remeasurement of the financial liability we - in general - agree with the requirement that it should be recognised through profit or loss. However, it seems to be in conflict with paragraph B96 of IFRS 10 that mandates the recognition of the difference between the carrying amount of the NCI and the consideration paid in equity. Hence, if the IASB proposal is finalized, it would be beneficial to explicitly specify how the re-measurement of the consideration payable is expected to be performed (as references to IFRS 9 have been eliminated). In summary, taking into account that NCI is measured through profit and loss during its lifetime, there should also be a profit or loss impact, if the option is not exercised at maturity for the sake of consistency and economic substance of the transaction. The current Exposure Draft just provides for a reclassification within equity if the option is not exercised at fair value. In order to address the "double counting" issue, we suggest incorporating supplementary presentation requirements in the primary financial statements in order to enhance transparency regarding the nature of the remeasurement amounts.

Even though we welcome the deletion of the reference to IFRS 9 in paragraph 23, we would appreciate an exemption for contracts of a bank's trading book portfolio. In our opinion these contracts should be (re)measured at Fair Value through Profit and Loss in any case.

Question 4—Contingent settlement provisions (paragraphs 11, 25, 25A, 31, 32A, AG28 and AG37 of IAS 32)

The IASB proposes to clarify that:

(a) some financial instruments with contingent settlement provisions are compound financial instruments with liability and equity components (paragraphs 25 and 32A);

(b) the initial and subsequent measurement of the financial liability (or liability component of a compound financial instrument) arising from a contingent settlement provision would not take into account the probability and estimated timing of occurrence or non-occurrence of the contingent event (paragraph 25A);

(c) payments at the issuer's discretion are recognised in equity even if the equity component of a compound financial instrument has an initial carrying amount of zero (paragraphs 32A and AG37);

(d) the term 'liquidation' refers to the process that begins after an entity has permanently ceased its operations (paragraph 11); and

(e) the assessment of whether a contractual term is 'not genuine' in accordance with paragraph 25(a) of IAS 32 requires judgement based on the specific facts and circumstances and is not based solely on the probability or likelihood of the contingent event occurring (paragraph AG28).

Paragraphs BC94–BC115 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

We agree with the proposed concept to recognize the liability component of a compound financial instrument with contingent settlement provisions as a liability at the present value of the settlement amount.

However, we like to suggest that further guidance and examples, respectively, on the terms "liquidation" and "non-genuine" would be very useful. For the term “liquidation” it is unclear how to determine at what point in time an entity ceases its operations especially in the context of insolvency procedures. In the context of convertible options, the distinction between "genuine" and "non-genuine" becomes particularly relevant. The provided illustration of a regulatory change clause in paragraph AG28 has the potential to raise application-related questions. Therefore, we would appreciate it, if this example was clarified, at least to indicate that the assessment of the genuineness of such a clause does not rely solely on the probability of the event occurring.

Some constituents raised concerns about potential unintended consequences with respect to the newly added paragraph IAS 32.25A. This paragraph sets rules for measuring the financial liability with contingent settlement provision as of paragraph IAS 32.25 (or financial liability component of a compound instrument), thus, it seems to state a general measurement principle for such financial liabilities. In that context, the missing link to IFRS 9 could create unintended consequences, given that such financial liabilities (or financial liabilities components of compound instruments) may be held for trading or held under fair value option. However, the current wording seems to preclude fair value measurement for all these kinds of financial liabilities. The IASB is therefore invited to give clarification on its intention and the interaction of IAS 32.25A and IFRS 9. To illustrate this concern please note the following example:

Company X issues a hybrid bond which settlement is conditional on the share price of X and stated as follows:

- If the share price is falling below a defined threshold, the bond is settled by delivering physical shares of X
- If the share price stays above the threshold, the bond is settled on maturity in cash (principal + interests)

Some constituents believe that such a bond can be held for trading purposes and measured at FVPL according to IFRS 9, while according to IAS 32.25A this seems questionable and a measurement according to the present value of the settlement amount is mandatory.

Some of our constituents raised concerns whether the liability shall be valued at the present value based on the earliest possible settlement date. This is likely to raise issues concerning financial instruments with multiple settlement dates, as this leads to multiple changes in the measurement based on whether the settlement was affected or not. Other constituents are concerned about how the proposals would interact with the requirements of bifurcation of embedded derivatives in IFRS 9, as this standard would presumably still be applicable. Further clarification might be needed here as well.

Question 5—Shareholder discretion (paragraphs AG28A–AG28C of IAS 32)

The IASB proposes:

(a) to clarify that whether an entity has an unconditional right to avoid delivering cash or another financial asset (or otherwise to settle a financial instrument in such a way that it would be a financial liability) depends on the facts and circumstances in which shareholder discretion arises. Judgement is required to assess whether shareholder decisions are treated as entity decisions (paragraph AG28A).

(b) to describe the factors an entity is required to consider in making that assessment, namely whether:

 (i) a shareholder decision would be routine in nature—made in the ordinary course of the entity's business activities;

 (ii) a shareholder decision relates to an action that would be proposed or a transaction that would be initiated by the entity's management;

 (iii) different classes of shareholders would benefit differently from a shareholder decision; and

 (iv) the exercise of a shareholder decision-making right would enable a shareholder to require the entity to redeem (or pay a return on) its shares in cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability) (paragraph AG28A(a)–(d)).

(c) to provide guidance on applying those factors (paragraph AG28B).

Paragraphs BC116–BC125 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

We tend to agree to the proposal. In our view, the IASB is proposing a pragmatic approach by considering an case-by-case analysis based on facts and circumstances. The decision to not impose stricter requirements is understandable in view of possible far-reaching consequences. However, it is questionable to what extent the considerations are suitable for resolving existing interpretation issues and for contributing to a more uniform application of the guidelines. Finally, the major part of the criteria cited is that already used in experts' literature, without taking into consideration any weighting. This means that the assessment according to the IASB's approach remains discretionary. It also remains questionable, whether the factors mentioned in paragraph BC121, which are not intended to be exhaustive, must be evaluated and weighted in any case (see the wording used in BC121 und 122 „include, but are not limited to", „different weightings would be applied because some factors might be more or less relevant to the assessment"). As a result, the wording and the need to weigh the individual criteria could potentially give rise to new questions.

We encourage the IASB to develop additional examples on how the new proposals should be applied in some common fact patterns (e.g. the case of an obligation that arises in the event of

a change in control, which needs to be approved in the general shareholders' meeting. In which capacity are the shareholders acting in this case?).

Additionally, further clarifications should be provided on the application of the disclosure requirements concerning shareholders.

Question 6—Reclassification of financial liabilities and equity instruments (paragraphs 32B–32D and AG35A of IAS 32)

The IASB proposes:

(a) to add a general requirement that prohibits the reclassification of a financial instrument after initial recognition, unless paragraph 16E of IAS 32 applies or the substance of the contractual arrangement changes because of a change in circumstances external to the contractual arrangement (paragraphs 32B–32C).

(b) to specify that if the substance of the contractual arrangement changes because of a change in circumstances external to the contractual arrangement, an entity would:

(i) reclassify the instrument prospectively from the date when that change in circumstances occurred.

(ii) measure a financial liability reclassified from equity at the fair value of that financial liability at the date of reclassification. Any difference between the carrying amount of the equity instrument and the fair value of the financial liability at the date of reclassification would be recognised in equity.

(iii) measure an equity instrument reclassified from a financial liability at the carrying amount of the financial liability at the date of reclassification. No gain or loss would be recognised on reclassification (paragraph 32D).

(c) provide examples of changes in circumstances external to the contractual arrangement requiring reclassification (paragraph AG35A).

Paragraphs BC126–BC164 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Would the proposal to reclassify the instrument prospectively from the date when a change in circumstances occurred give rise to any practical difficulties? If so, please describe those practical difficulties and the circumstances in which they would arise.

We generally agree with the proposal. The given (new) concept of reclassification in IAS 32 seems to be very consistent in itself and with other IFRS standards, e.g., IFRS 9.

However, we propose that in cases where contractual terms become effective or cease to be effective over time, these changes should result in reclassifications. The IASB acknowledges in paragraph BC144 of the ED that there would be merit in allowing this kind of reclassifications. However, paragraph BC145 states that this approach would increase costs and complexity for preparers because of the need to reassess whether an instrument should be reclassified at each reporting date. Our constituents (preparers) do not consider such tracking to be onerous, as the disclosure of similar terms and conditions is included in paragraph 30F of IFRS 7 in the ED. Also, our constituents find a reclassification in these cases a far more transparent way of communicating the change in the nature of the obligation contained in the instrument.

We appreciate the exception that changes in functional currency or a change in an entity's group structure will allow for a reclassification of instruments. Furthermore, we recommend including in the proposal also the reclassification from financial liabilities to equity, when the liability feature of an instrument or a component of an instrument has expired (for instance, when a conversion ratio, that initially did not meet the fixed-for-fixed condition, subsequently satisfies the condition as per the contract terms). In our view, this will increase the usefulness of information and comparability.

In our view additional examples would be useful for external events, that are not specific to a particular instrument, but would affect an entity's business activities and operations. Particularly, these examples should go beyond the scope of changes in an entity's functional currency or a change in an entity's group structure and might include the treatment of changes of relevant laws and regulations. In this context, further guidance might be necessary on how to deal with modifications of equity or compound instruments, as current guidance in IFRS 9 seems unclear or potentially even unapplicable to such cases.

Question 7—Disclosure (paragraphs 1, 3, 12E, 17A, 20, 30A–30J and B5A–B5L of IFRS 7)

The IASB proposes:

(a) to expand the objective of IFRS 7 to enable users of financial statements to understand how an entity is financed and what its ownership structure is, including potential dilution to the ownership structure from financial instruments issued at the reporting date (paragraph 1).

(b) to delete the reference to derivatives that meet the definition of an equity instrument in IAS 32 from paragraph 3(a) of IFRS 7.

(c) to move paragraphs 80A and 136A from IAS 1 to IFRS 7. These paragraphs set out requirements for disclosures relating to financial instruments classified as equity in accordance with paragraphs 16A–16B and/or paragraphs 16C–16D of IAS 32 (paragraphs 12E and 30I). The IASB also proposes to expand paragraph 80A to cover reclassifications if there are changes in the substance of the contractual arrangement from a change in circumstances external to the contractual arrangement.

(d) to amend paragraph 20(a)(i) of IFRS 7 to require an entity to disclose gains or losses on financial liabilities containing contractual obligations to pay amounts based on the entity's performance or changes in its net assets, separately from gains or losses on other financial liabilities in each reporting period.

(e) to include disclosure requirements for compound financial instruments in IFRS 7 (paragraph 17A).

The IASB proposes to require an entity to disclose information about:

(a) the nature and priority of claims against the entity on liquidation arising from financial liabilities and equity instruments (paragraphs 30A–30B);

(b) the terms and conditions of financial instruments with both financial liability and equity characteristics (paragraphs 30C–30E and B5B–B5H);

(c) terms and conditions that become, or stop being, effective with the passage of time (paragraph 30F);

(d) the potential dilution of ordinary shares (paragraphs 30G–30H and B5I–B5L); and

(e) instruments that include obligations to purchase the entity's own equity instruments (paragraph 30J).

Paragraphs BC170–BC245 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with the proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

In general, we agree with the proposals. Despite a significant increase in the extent of the disclosures we consider that the information can be prepared at a reasonable cost and effort.

We also agree to the importance to provide additional information about dilution for both listed and unlisted entities. Additionally, we would welcome a clearer definition of "dilution" as compared to IAS 33, as the scope of this term is not always clear in practice.

With respect to disclosures concerning priority on liquidation, we see the challenges that could arise in the application by an entity operating in multiple jurisdictions with different liquidation rules. Given these complexities, we question whether the proposed disclosure requirement can achieve its objective in a way that provides useful information for various practical scenarios.

Question 8—Presentation of amounts attributable to ordinary shareholders (paragraphs 54, 81B and 107–108 of IAS 1)

The IASB proposes to amend IAS 1 to require an entity to provide additional information about amounts attributable to ordinary shareholders. The proposed amendments are that:

(a) the statement of financial position shows issued share capital and reserves attributable to ordinary shareholders of the parent separately from issued share capital and reserves attributable to other owners of the parent (paragraph 54);

(b) the statement of comprehensive income shows an allocation of profit or loss and other comprehensive income attributable to owners of the parent between ordinary shareholders and other owners of the parent (paragraph 81B);

(c) the components of equity reconciled in the statement of changes in equity include each class of ordinary share capital and each class of other contributed equity (paragraph 108); and

(d) dividend amounts relating to ordinary shareholders are presented separately from amounts relating to other owners of the entity (paragraph 107).

Paragraphs BC246–BC256 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Would the proposed requirement to allocate issued share capital and reserves between ordinary shareholders and other owners of the parent give rise to any practical difficulties in determining the required amounts? If so, please describe the possible difficulties and specify areas in which further guidance would be helpful.

We generally agree with the proposals.

The limitations of any binary division of liabilities and equity are a fundamental issue in financial reporting. Such categorization cannot always fully capture the complexity of financial instruments and the economic realities they represent. This reflects the need to create a clearer distinction within the equity components, especially in the case of issued capital with multiple classes of shares and reserves. On this basis, we would welcome clearer criteria as well as additional guidance on the allocation of instruments to the appropriate equity sections.

From the requirements it is not clear, how the total comprehensive income (in respect to both profit or loss and OCI) attributable to other owners of the parent shall be calculated. There are some references in paragraphs BC248(b) or BC250 of the ED that this could be based on IAS 33 (= most commonly preference dividends). But the illustrative examples in paragraph IG6A of draft Amendments to Guidance on Implementing IAS 1 are confusing in this regard. The balance sheet line item 'Equity attributable to other owners of the parent' increases its carrying amount over years 20X6 and 20X7 due to profit or loss attributable to it (in 20X7 also due to dividends paid (-) and new issuance (+)). In our view, it would be very helpful to understand how the attribution of total comprehensive income was calculated. This is typically obvious for ordinary shareholders of the parent and non-controlling interests, as the attribution relates to the interests of common stockholders. Without clear application guidance we doubt that these proposals will be consistently applied in practice.

Furthermore, some constituents pointed out the perceived inconsistencies between terms used in IAS 1 (such as "issued capital", "paid-in capital") and the terms used in the exposure draft. We suggest that IAS 1 should be aligned with the terms in the ED.

Another comment raised by some constituents related to the fact that the scope of IAS 33 is limited to listed entities, while the disclosures suggested in the ED seem to be generally

applicable. It is unclear, why disclosures are required in such cases, where IAS 33 obviously does not require similar disclosures.

Question 9—Transition (paragraphs 97U–97Z of IAS 32)

The IASB proposes to require an entity to apply the proposed amendments retrospectively with the restatement of comparative information (a fully retrospective approach). However, to minimise costs, the IASB proposes not to require the restatement of information for more than one comparative period, even if the entity chooses or is required to present more than one comparative period in its financial statements.

For an entity already applying IFRS Accounting Standards, the IASB proposes:

(a) to require the entity to treat the fair value at the transition date as the amortised cost of the financial liability at that date if it is impracticable (as defined in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors) for the entity to apply the effective interest method in IFRS 9 Financial Instruments retrospectively (paragraph 97X);

(b) not to require the entity to separate the liability and equity components if the liability component of a compound financial instrument with a contingent settlement provision was no longer outstanding at the date of initial application (paragraph 97W);

(c) to require the entity to disclose, in the reporting period that includes the date of initial application of the amendments, the nature and amount of any changes in classification resulting from initial application of the amendments (paragraph 97Z);

(d) to provide transition relief from the quantitative disclosures in paragraph 28(f) of IAS 8 (paragraph 97Y); and

(e) no specific transition requirements in relation to IAS 34 Interim Financial Reporting for interim financial statements issued within the annual period in which the entity first applies the amendments.

For first-time adopters, the IASB proposes to provide no additional transition requirements.

Paragraphs BC262–BC270 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Would the proposal to apply the proposed amendments retrospectively give rise to any other cases in which hindsight would be necessary? If so, please describe those cases and the circumstances in which the need for hindsight would arise.

We agree with the proposals.

Additionally, we would appreciate a transition relief for entities required to reclassify financial liabilities under hedge accounting.

Question 10—Disclosure requirements for eligible subsidiaries (paragraphs 54, 61A–61E and 124 of [IFRS XX])

The IASB proposes amendments to the draft Accounting Standard [IFRS XX Subsidiaries without Public Accountability: Disclosures], which will be issued before the proposals in the Exposure Draft are finalised.

[IFRS XX] will permit eligible subsidiaries to apply the recognition, measurement and presentation requirements in IFRS Accounting Standards with reduced disclosures.

The IASB's proposals select appropriate disclosure requirements from those proposed for IFRS 7, based on the IASB's agreed principles for reducing disclosures.

Paragraphs BC257–BC261 explain the IASB's rationale for the selected disclosures.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why, taking into consideration the reduced disclosure principles described in BC258.

In the near future we do not expect any cases of application for these proposals in our jurisdiction and, therefore, do not comment on this issue.