OVERVIEW ON FICE

FINANCIAL INSTRUMENTS WITH CHARACTERISTICS OF EQUITY

OIC-EFRAG joint outreach event, 12 March 2024

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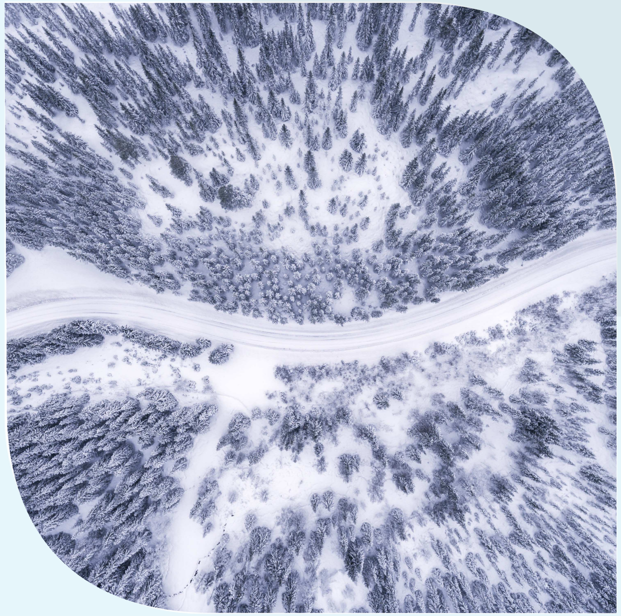

OVERVIEW

- EFRAG's draft comment letter
  - General comments
  - Classification
  - Disclosures
  - Presentation
  - Fieldwork and outreach events

EFRAG's draft comment letter

General comments

- EFRAG welcomes the IASB's efforts and approach to address practical issues with IAS 32
- The project is particularly relevant for financial institutions and non-financial corporates
- EFRAG is pleased that the IASB focuses on targeted improvements to requirements in IAS 32 and other related standards rather than a conceptual approach for distinguishing debt and equity (as per the 2018 Discussion Paper (DP) *Financial Instruments with Characteristics of Equity)*

EFRAG's DCL was published on 15 January with a comment period deadline of 20 March

CLASSIFICATION

EFRAG welcomes the IASB's approach to addressing practical issues on classification

However, the IASB should:

- Avoid changes in classification for financial instruments for which concerns have not been raised in practice
- Consider whether a liability should be recognised for a Mandatory Tender Offer
- Discuss more comprehensively measurement issues of financial liabilities under the scope of IAS 32 (e.g., arising from obligations to redeem own equity instruments and financial instruments with contingent settlement provisions)
- The IASB should allow reclassification if terms and conditions become, or stop being, effective with the passage of time

CLASSIFICATION (continued)

Reconsider initial accounting within equity for written put options on non-controlling interest (NCI). EFRAG disagrees with the IASB's proposal to continue recognising NCI on initial recognition and considers that the debit entry should be against NCI

In addition, for NCI written put options, many stakeholders disagree with presenting subsequent changes to the carrying amounts of the financial liability in P&L

Also, for NCI written put options, the IASB should explore the alternative model to treat contracts meeting the definition of a derivative as stand-alone derivatives at FVPL ('net presentation')

The above-mentioned issues concerning the 'net presentation' and disagreement to present subsequent changes to the carrying amounts of the financial liability in P&L apply, generally, to obligations to purchase an entity's own equity instruments

EFRAG is also unsure at this stage of the outcome of the four factors in assessing whether shareholder decisions are treated as entity decisions – field-testing will be conducted

DISCLOSURES

EFRAG welcomes the improvements to disclosures on issued instruments

Field-testing will be essential to ensure that these disclosures are: principles

- Clear
- Able to be implemented by entities
- Balanced between the benefits to users and the costs for preparers

EFRAG has the following concerns and suggestions:

1. Disclosures on contractual nature and priority on liquidation.
    - Entities may face challenges in determining whether priority on liquidation stems from contracts or law/regulation.
    - Suggest to provide information on subgroups located in different jurisdictions and on how the group structure affects priority on liquidation
2. On terms and conditions of financial instruments with both financial liability and equity characteristics disclosures.
    - Useful to provide disclosures on the effects of law on classification as financial liabilities or equity instruments.

PRESENTATION

EFRAG supports the IASB's proposals to separately present the amounts attributable to ordinary shareholders from other owners of the parent in the primary financial statements

FIELDWORK AND OUTREACH EVENTS

EFRAG highlights the importance of assessing, through fieldwork and outreach events, the likely effects of the changes proposed by the IASB.

In particular, the importance of applying the proposed changes to individual transactions or contracts as if the proposed Standard was already in effect, aiming to assess:

- Costs and benefits of the IASB proposals
- Potential classification changes on financial instruments under the scope of IAS 32
- Unintended consequences arising from the IASB's proposals

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