25 March 2024

International Accounting Standards Board
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United Kingdom
Email: commentletters@ifrs.org

Dear Sir/Madam

SAICA SUBMISSION ON ED/2023/5 – *FINANCIAL INSTRUMENTS WITH CHARACTERISTICS OF EQUITY* – PROPOSED AMENDMENTS TO IAS 32, IFRS 7 AND IAS 1

In response to your request for comments on ED/2023/5 – *Financial Instruments with Characteristics of Equity* – Proposed Amendments to IAS 32, IFRS 7 and IAS 1, attached is the comment letter prepared by the South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of SAICA's Accounting Practices Committee (APC), which comprises members from reporting organisations, regulators, auditors, IFRS specialists, investment analysts and academics.

We thank you for the opportunity to provide comments on this Exposure Draft.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Prof Ahmed Mohammadali-Haji
Chairperson: APC

Mulala Ratshitanga
Project Director: Financial Reporting

Cc: Bongeka Nodada
Executive: Corporate Reporting

GENERAL COMMENTS

We welcome and support the International Accounting Standards Board's (IASB or Board) Exposure Draft (ED) to amend IAS 32 – *Financial Instruments: Presentation* as the proposals clarify existing requirements to address current practical issues and diversity that has been experienced instead of introducing new requirements.

We are however concerned that the proposed amendments to IFRS 7 – *Financial Instruments*: *Disclosure* and IAS 1 – *Presentation of Financial Statements* introduces an onerous amount of disclosures which have been discussed in further detail below.

In addition to our responses to the specific questions raised on the ED, we would like to take this opportunity to raise our comments with regards to the treasury share exemption.

The treasury shares requirements of IAS 32 were amended to provide an exemption from the requirement to be deducted from equity. Despite the treasury share requirements of IAS 32, an entity may elect not to deduct from equity a treasury share that is included in such investment funds or is an underlying item when the entity reacquires its own equity instruments. Paragraph 33A states: "*Some entities operate, either internally or externally, an investment fund that provides investors with benefits determined by units in the fund and recognise financial liabilities for the amounts to be paid to those investors. Similarly, some entities issue groups of insurance contracts with direct participation features and those entities hold the underlying items. Some such funds or underlying items include the entity's treasury shares. Despite paragraph 33, an entity may elect not to deduct from equity a treasury share that is included in such a fund or is an underlying item when, and only when, an entity reacquires its own equity instrument for such purposes. Instead, the entity may elect to continue to account for that treasury share as equity and to account for the reacquired instrument as if the instrument were a financial asset and measure it at fair value through profit or loss in accordance with IFRS 9 – Financial Instruments. That election is irrevocable and made on an instrument-by-instrument basis. For the purposes of this election, insurance contracts include investment contracts with discretionary participation features*".

From industry discussions and discussions between preparers, reviewers, auditors and members of the IFRS Interpretations Committee, it was confirmed that the amendment only applies to investments funds where the underlying item relates to an insurance contract and not, for instance, where a preparer operates a securities business or related share schemes where its own equity instruments are traded and repurchased in the external market in order to economically hedge such exposure.

Preparers are of the view that the current IAS 32 accounting treatment to deduct these treasury shares from its equity does not result in fair presentation of the group entity's operating activities, as the reason these shares are reacquired are not for internal profit-making but to economically hedge such exposure within the securities business or related share schemes. Per IAS 32.AG36 'an entity's own equity instruments are not recognised as a financial asset regardless of the reason for which they are reacquired.' This paragraph has however been amended to include paragraph 33A that was applied by preparers who adopted IFRS 17 – *Insurance Contracts* from 1 January 2023.

The IASB is requested to take the above scenarios into account and to amend IAS 32 to consider the reason for an entity reacquiring its own equity instruments when determining the accounting treatment for treasury shares. Ultimately, it is participants' view that when an entity reacquires its own equity instruments in these limited instances, the amendment per paragraph 33A should be extended to those treasury shares and not be limited to investment funds where the underlying item relates to an insurance contract.

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.

We are generally supportive of the proposals.

However, participants request further clarity on the proposed amendment in paragraph AG24B as it is unclear what is meant by "which is not solely created by laws or regulations but is in addition to a right or obligation created by relevant laws or regulations". Some participants have raised a concern that the assessment is required based on "*its entirety*" and are of the view that where practicable separation should be permitted in line with the bifurcation principles in IAS 32. Participants also seek clarity on whether the intention is that where a contract is negotiated on less stringent terms than laws and regulations, whether the intended consequence is that it could give rise to a different accounting classification outcome.

Participants seek clarity on the application of paragraph 15A(b) that indicates that "*an entity shall not consider any rights or obligations created by relevant laws or regulations that would arise regardless of whether the right or obligation is included in the contractual arrangement*." It is unclear what this paragraph is intended to achieve as our understanding of the requirement is that an entity should consider contractual rights and obligations created by laws and regulations in its entirety i.e., it should not be separated in assessing the classification of the instrument. As such we seek clarity on whether it is the intention that laws and regulations that are not stipulated in a contract be disregarded. There is a concern that if rights and obligations created by laws and regulations are intended to be disregarded in applying IAS 32 classification regardless of whether or not they are explicitly included within a contract, this may have significant implications in highly regulated environments. Participants raised the concerns that this may not achieve comparability and could arise in similar/the same contracts having different accounting classifications across different jurisdictions where, for example, certain jurisdictions may have explicit requirements for certain capital like instruments in the banking industry and in other jurisdictions that may not have the same explicit requirements. Additionally, participants have raised the comment regarding the disparity between this proposal and other standards, in particular IFRS 17, where laws and regulations are taken into account.

Participants have also requested clarity on when there is a change in laws and/or regulations, how that would impact initial and/or subsequent classification as the ED is not clear on such situations.

Another challenge that has been noted, that is not clearly addressed in the ED, is where there is an obligation created by laws or regulations that does not give rise to a financial liability and whether consideration should be given to IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*. Participants have raised the question, whether this should only be considered in the context of debt vs equity or if in addition there should be broader thinking around a potential IAS 37 implication. It remains unclear whether one contract could potentially be in the scope of two different standards, especially as the cash flows of two elements may interrelate with each other. For instance, an instrument that may be settled in cash or equity, depending on a regulatory requirement being met.

Lastly, our view is that there has always been an interplay between IAS 32 and IFRS 9 in that both are contractual standards. Participants have raised the question, whether these proposals should be extended to IFRS 9 and whether the impact of laws and regulations should be considered as part of the assessment of the solely payments of principal and interest requirement. The definitions of financial assets and financial liabilities refer to contractual rights or obligations, this amendment could impact the extent to which these contractual rights/obligations are accounted for when they exist outside the relevant laws or regulations.

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.

We do not believe that the fixed-for-fixed condition should be limited to an entity's functional currency as an entity can have multiple classes of equity instruments that are denominated in a currency other than the entity's functional currency. Some participants have also raised the comment, that the proposed wording could pose a misalignment between IAS 32 and IFRS 2 – *Share-based Payment* . For example, if USD denominated incentives (equity settled scheme) are awarded on a ZAR functional currency balance sheet and then hedged with a reciprocal USD denominated derivative over the entities own shares, the derivative will not be regarded as an equity instrument in terms of the proposed framework as the risk mitigant is not denominated in the ZAR functional currency. This would give rise to a mismatch between IAS 32 and IFRS 2. Economically the equity risk would be hedged and managed, however in terms of the proposed accounting treatment the financial reporting would not reflect the economic reality as this would give rise to a financial liability that creates profit or loss volatility whereas the exposure is regarded as equity with no profit or loss volatility.

Participants have requested the IASB to relook at the wording in relation to preservation adjustments - *preserve the relative economic interests of future shareholders to an equal or lesser extent* - as the inclusion of the word "lesser" would allow for instances where a preservation adjustment has a significant negative impact to be viewed as fixed-for-fixed even though in principle it should not meet the requirements.

Participants have raised the following comments regarding the passage of time adjustment:

- It is unclear whether the amendment is applicable to both fixed interest rates and floating benchmark interest rates. In our view it should include both but seek clarity from the Board. Concern was raised regarding illustrative example 20 which appears to rule out the use of a benchmark interest rate as meeting the passage of time adjustment, raising a question as to how this will influence current practice as well as the ability to apply this practically.
- Paragraph 22C(b) states that the passage of time adjustment has "*the effect of fixing on initial recognition the present value of the amount of consideration exchanged*". It is unclear to the participants what this adjustment entails. As such this could create added complexity both from an interpretative perspective as well as an audit perspective, as we are unsure how this requirement would be demonstrated in practice. We believe that the current guidance works well and are concerned that current practice may result in the fixed-for-fixed condition failing in the context of the proposals. If the proposed requirement is retained in its current form, we recommend that the Board include additional application guidance or illustrative examples on how to apply the requirement.
- Change of control adjustments is noted as common practice, however this is only dealt with in illustrative example 19. Participants have requested the Board to possibly include application guidance around change of control.

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 are generally supportive of the proposals. Participants raised comments specifically regarding points b), c) and d).

In response to b) above, participants are supportive that the initial debit should be removed from equity however expressed mixed views in terms of whether the debit should exclude non-controlling interests. Some participants raised, that in certain instances non-controlling interests could be more appropriate as there are concerns that this might result in a double equity transaction if the carrying amount of non-controlling interest is not reduced. Some participants also raised whether there are unintended consequences for IFRS 3 – *Business Combinations* and if this guidance would be extended to assess whether there is non-controlling interest at initial recognition and if that is the intention. Additionally, some participants raised that the reference to share capital is more a legal term and not IFRS terminology from the standard itself.

Participants also requested additional guidance on the concept of rights and returns as this is different from the current risk and reward assessment that is performed. We recommended that the Board consider including application guidance of criteria to assess rights and returns.

In response to c) above, the measurement proposal is inconsistent with the general measurement proposal in IFRS 9 by ignoring expected timing, probability, etc. Participants seek clarity from the Board on disparity with IFRS 9. In addition, participants view IAS 32 as a presentation and classification standard and wonder whether measurement requirements should now also be included in IAS 32. We would suggest that the Board consider clarifying that the measurement principles in IAS 32 is out of scope of IFRS 9, to eliminate the disparity in measurement principles.

In addition, we have noted that the redemption amount is discounted assuming the earliest possible redemption date in the contract. Some audit participants are concerned that this could result in entities structuring around the redemption date that could impact measurement, for example, putting a lower redemption value at the earlier date rather than a later date. Participants also seek clarity on the accounting treatment that should be applied where, for example, a financial instrument has various exercise dates and a financial liability is accounted for at the earliest redemption date, but that redemption date passes, and the instrument is not yet redeemed.

In response to point d) above, participants expressed mixed views on the subsequent measurement of the liability. From a regulatory perspective, participants appreciate that the IASB has taken a stance on where this should be presented and are supportive to present the remeasurement gains and losses in profit or loss. Other participants have acknowledged the disconnect between IFRS 10 – *Consolidated Financial Statements* and IAS 32 and are aware of divergent local and global market practice in relation to the Board's proposal. Whilst participants are supportive of the Board's direction, they have raised, whether the Board's proposal is aligned to predominant practice.

In addition, participants seek clarity on whether the requirement to recognise the remeasurement gain or loss in profit or loss also exists when an entity has non-controlling interests (the interplay between IFRS 3 and IAS 32). The diversity in practice for an equity outcome generally arises when there is a non-controlling interest, thereby implying that there is a shareholder, and as a result the profit or loss outcome does not align with the initial recognition.

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 are generally supportive of the proposals. Participants raised comments specifically regarding points b), d) and e).

In response to point b) above, participants had the following comments:

- Some participants view the requirements in paragraph 25A as an extension of the principles that are applied to derivatives over own equity instruments and believe that it creates unintended consequences where, for example, there is a standalone written option, by ignoring expected timing and probability, and have suggested removing paragraph 25A. If, however, the paragraph is retained, clarity is requested on how to account for a scenario where, for example, there is no settlement date or in a situation where ratcheted payments are to be made depending on an independent variable such as revenue.
- The measurement proposal is inconsistent with the general measurement proposal in IFRS 9 by ignoring expected timing and probability. Whilst the current proposal does align with the full liability approach in IAS 32 paragraph BC12, participants seek clarity from the Board on disparity with IFRS 9. In addition, there could be a difference between the initial and subsequent measurement of the liability at the present value of the redemption value and the proceeds of the liability (i.e., the fair value of the liability). Participants seek clarity from the Board regarding whether the difference should be recognised in profit or loss or equity.
- There is also a concern around the scope of the proposed amendment on measurement as it appears to extend beyond contingent features of a compound instrument. This may have unintended consequences for other instruments with contingent settlement features. Participants seek clarity on how this is intended to interact with other instruments, for example, existing measurement requirements of contingent consideration arising in an IFRS 3 business combination.

In response to point d) above - we have noted that the IASB has proposed a definition of liquidation. However, it is unclear what is meant by "permanently ceased its operations". We are concerned that practice may not necessarily be aligned to the proposed definition – for example, in the banking industry where an entity may enter liquidation but is still in the process of collecting on it loans - and would therefore prefer for the IASB not to provide a definition but rather leave it open to interpretation. Furthermore, per the *Conceptual Framework for Financial Reporting* (Conceptual Framework), the going concern assumption is based on the premise that the entity has neither the intention nor the need to enter liquidation or to cease trading. As such there is a disconnect between the Conceptual Framework and the proposal which defines liquidation as the process after an entity has permanently ceased operation whereas the Conceptual Framework views liquidation and to cease trading as separate processes – i.e. to cease trading/operations is not an *or* to liquidation but rather included in its definition.

In response to point e) above - we have noted that paragraph AG28 indicates that a settlement provision could be genuine if the nature of the contingent event is neither extremely rare nor highly abnormal. Some participants are of the view that the current proposed wording does not accurately convey the concept of genuine. They have suggested that the guidance is amended to clarify that a clause is not non-genuine where the nature of an event has a substantive business purpose, as the current wording links the nature of the event to its probability and abnormality rather than the event having a substantive business purpose. Some participants have an opposing view and believe that solely considering substantive business purpose is inconsistent with the proposal which implies that both probability and substantive business purpose should be taken into account when assessing whether a contingent settlement provision is genuine. They have suggested that the current example in AG28 should be updated to demonstrate how probability should be considered, in addition to substantive business purpose.

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 are supportive of the proposals. Some participants have indicated that they would find it useful for the IASB to clarify whether the decision itself is purely a shareholder ratification or a substantive decision made by shareholders and how that would impact the classification. They have recommended that the IASB include an illustrative example to explain the principle.

We have also noted that per the proposal in AG28A, judgement is required to assess shareholder decisions and a non-exhaustive list of factors have been provided to consider in making the assessment. The current wording in the proposal i.e., "*factors an entity is required to consider…*" can be construed as prescriptive rather than judgmental. As the factors are intended to be illustrative guidance of what could be considered in making the assessment and is not a conclusive list of factors, we recommend that the Board consider softening the wording to come across as more judgmental.

Participants have also requested clarification on the difference between factors AG28A (a) and (d). Paragraph (d) refers to shareholder decision-making rights that enables a shareholder to require the entity to pay a return on its shares which implies a dividend. In our view, shareholder approval of dividend payments can also be construed as ordinary course of business per paragraph (a) and therefore clarification is requested on what the difference between the two paragraphs are.

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 are generally in support of the proposals. We suggest that the Board consider removing the wording "initial recognition" in paragraph 32C as it could be possible that an instrument is reclassified more than once if there are subsequent changes.

Some participants have also recommended that the Board consider including a policy choice for reclassifications that relate to passage of time adjustments. For example, on initial recognition an instrument with a conversion ratio that is determined in two years, is classified as a financial liability. At the two-year point, the conversion ratio is known, and the fixed-for-fixed condition is met, resulting in the instrument qualifying as equity. The current guidance would prohibit reclassifications of this nature. However, participants believe that it would be more beneficial to reflect the revised nature of instrument and are of the view that a policy choice should be permitted. Participants have also suggested that if the concern is diversity practice and showing similar instruments with different outcomes, this could be mitigated with additional disclosure requirements to explain these instruments, regardless of a policy choice, to enable users to get all information that is necessary.

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

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);

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.

While we welcome enhancement of the quality of disclosures, there was consensus from the participants that the volume of disclosure being proposed is quite onerous and we are concerned around the practical challenges of providing the proposed level of disclosure. There are also concerns around the relevance of the proposed disclosures and we are of the view that it is not beneficial to provide disclosure based on a list of requirements that does not address a risk factor. As preparers who are aware of the analysts' and investors' decisions, we do not believe that there is a need for these additional disclosures. The current disclosure that is being provided is already very well received by our investors and analysts and we have not been asked for any additional detail.

In addition to the above, the following specific comments were raised by participants:

- Participants are supportive of the objective to include equity instruments.
- Participants are not supportive of the inclusion of paragraph 17A as this is duplicated in paragraph 30C.
- Proposed liquidation disclosure (paragraph 30A and 30B) – In practice, the risks involved in some of these financial instruments would be apparent in advance of liquidation. For example, in the banking industry the regulator would intervene in advance of liquidation. As such we question the relevance and volume of the proposed disclosure in paragraph 30A and 30B as preparers would be required to provide theoretical information for a potential scenario that may not actually manifest. Additionally, there is concern regarding the practicality of preparing such disclosure and the challenges involved, for example, for multinational groups that operate in different jurisdictions and how the entity would rank the priority of instruments and which laws and regulations override/outrank. As such we question whether the Board should be looking at the event of liquidation in isolation or whether there should be a principle-based view to help users understand the risks sitting within the capital structure and allow the preparer discretion on how to present that information rather than prescribe a template of disclosure that may not be useful to users of the financial statements.
- Participants are not supportive of the inclusion of paragraph 30E and 30F as we are of the view that this does not provide useful information to users of the financial statements.
- Some participants are of the view that the proposed disclosure for potential dilution of ordinary shares (paragraph 30G and 30H) would be useful but believe that this disclosure should be included in IAS 33 – *Earnings per Share* instead of IFRS 7.

Question 8 — Disclosure (paragraphs 1, 3, 12E, 17A, 20, 30A–30J and B5A–B5L of IFRS 7)

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 are supportive of the proposed amendments. However, it is unclear from the ED when the proposed amendments will be made effective. Given that, IFRS 18 – *Primary Financial Statements* is expected to be published in 2024, participants seek clarity on whether IFRS 18 will also be amended to cater for the above-mentioned proposals.

Some members have recommended that the Board consider whether the split that is currently required in IAS 33 – *Earnings Per Share* for ordinary shares also be included in this proposal.

It is also suggested that the Board provide additional guidance on the allocation principle/basis as there isn't clear linkage in example IG6A on the profit and total comprehensive income to the other owners of the parent and equity attributable to the same owners and how these relate to each other.

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 are not supportive of the transition approach being limited to a fully retrospective transition and request the IASB to consider including an option for a hybrid/prospective transition approach similar to IFRS 9. Participants foresee challenges in applying a fully retrospective approach, which include the following:

- Hedge accounting - If, for example, an entity has a financial liability that is eligible for hedge accounting, which is then classified as equity in terms of amendments – the existing hedge relationship would have to be extinguished, creating volatility without any ability to retrospectively change any of those hedges.
- It is noted that paragraph 97W provides relief for a particular scenario where something is no longer outstanding at the date of initial application. Some participants raised whether the concept should be applied more generally to all instruments that are no longer outstanding at the date of initial application and not be limited to a specific instance. For example, retrospective application on a non-controlling interest put option, could impact the business combination accounting and possibly change the goodwill number, thereby impacting historical cash generating unit impairment assessments.

Therefore, we urge the IASB to consider the practicalities of a fully retrospective approach against the demand for the users of financial statements for comparability for one year, as a fully retrospective approach could become quite onerous in certain circumstances.

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.

Generally, we are supportive of the proposed amendments, however some participants do not support the inclusion of paragraph 61A, 61C and 61D (which is aligned to paragraphs 30A, 30B, 30E and 30F of IFRS 7) as explained above in response to question 7.