
IASB[®] meeting

Date	May 2023
Project	Financial Instruments with Characteristics of Equity (FICE)
Topic	Due process and permission to begin the balloting process
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS[®] Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB[®] *Update*.

Purpose and structure

1. The purpose of this paper is to:
 - (a) propose a comment period of 120 days for the forthcoming Exposure Draft of the proposed amendments to IAS 32 *Financial Instruments: Presentation*, IFRS 7 *Financial Instruments: Disclosures* and IAS 1 *Presentation of Financial Statements*;
 - (b) explain the steps in the IFRS Foundation [Due Process Handbook](#) (the Due Process Handbook) that the IASB has taken in developing the proposed amendments (see [Appendix A](#));
 - (c) seek the IASB's permission for the staff to begin the process for balloting the forthcoming Exposure Draft; and
 - (d) ask if any IASB member plans to dissent from the proposals in the forthcoming Exposure Draft.
2. This paper is structured as follows:
 - (a) [Project background](#);
 - (b) [Summary of due process steps for publication of an Exposure Draft](#);

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- (c) [Comment period](#)
 - (d) [Confirmation of due process steps, permission to begin the balloting process and intention to dissent](#);
 - (e) [Questions for the IASB](#);
 - (f) [Appendix A](#)—Due process steps taken in the development of the Exposure Draft; and
 - (g) [Appendix B](#)—Public meetings with consultative bodies

Project background

3. In June 2018, the IASB published the [Discussion Paper *Financial Instruments with Characteristics of Equity*](#) (2018 DP). The 2018 DP set out the IASB's preferred approach to classification of financial instruments, as financial liabilities or equity instruments, from an issuer's perspective. The IASB also explored enhanced presentation and disclosure requirements that would provide further information on the financial instruments' effects on an issuer's financial position and financial performance.
4. After considering feedback on the 2018 DP, the IASB tentatively decided to clarify the underlying classification principles in IAS 32 and to improve the presentation and disclosure requirements for issued financial instruments.
5. As discussed by the IASB in [October 2019](#), the objectives of the FICE project are to:
 - (a) address known practice issues that arise when applying IAS 32 to classify financial instruments as financial liabilities or equity; and
 - (b) improve the information provided in the financial statements about the financial instruments issued by the entity.
6. The IASB noted the following as the important considerations in meeting the project objectives in paragraph 5 of this paper:

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- (a) limit changes to classification outcomes to those in which sufficient evidence exists that such a change would provide more useful information to users of financial statements;
 - (b) clarify interactions between the requirements in IAS 32;
 - (c) finalise the amendments in a timely manner; and
 - (d) develop an efficient transition approach that will consider implementation costs.
 7. In [December 2020](#) the IASB decided to add this project to its standard-setting programme and work towards publishing an exposure draft.
 8. In developing the proposed amendments related to classification, presentation and disclosure of issued financial instruments, the IASB considered the likely costs and benefits for each topic in the FICE project plan. For example, the IASB considered how best to achieve a balance between the costs for preparers to meet the proposed presentation and disclosure requirements and the benefits to users of financial statements from the increased transparency.
 9. Broadly, the expected effects of the proposed amendments are:
 - (a) improved financial reporting by clarifying the underlying classification principles without fundamentally changing the requirements in IAS 32 and adding sufficient application guidance. The costs of obtaining the information related to the classification proposals are not expected to outweigh the benefits of improved financial reporting as we expect most of the information needed to be readily available to preparers based on their information technology systems today.
 - (b) provision of more useful information to users of financial statements via enhanced disclosures that will enable users of financial statement to better understand the nature of the financial instruments and the effect of their contractual terms on the amount, timing and uncertainty of the entity's future cash flows or its ownership structure.

- (c) reduced costs of analysis for users of financial statements and increased comparability of information by reducing diversity in accounting practice.
- (d) increased transparency about amounts attributable to ordinary shareholders and about an entity's issued equity instruments so that users of financial statements can understand how the entity is financed and what its current and potential ownership structures are.

Summary of due process steps for publication of an Exposure Draft

Due process requirements

10. Paragraphs 6.4 and 6.5 of the [Due Process Handbook](#) explains that:
 - (a) the development of an exposure draft takes place in public meetings;
 - (b) the technical staff prepares agenda papers containing research and recommendations on the matters to be addressed and considered by the IASB; and
 - (c) the IASB also considers the comments received on any discussion paper, suggestions made by consultative groups and accounting standard-setters, and suggestions arising from consultation with other stakeholders.

11. Paragraph 6.6 of the Due Process Handbook states that:

When the Board [IASB] has reached general agreement on the technical matters in the project and has considered the likely effects of the proposals (see paragraphs 3.76–3.81 [of the Due Process Handbook]), the technical staff presents a paper to the Board [IASB]:

 - (a) summarising the steps that the Board [IASB] has taken in developing the proposals, including a summary of when the Board discussed the project in public meetings, public hearings held, outreach activities and meetings of consultative groups;

(b) if applicable, reaffirming why the Board [IASB] has decided that it was not necessary to have a consultative group or to have conducted fieldwork; and

(c) recommending a comment period for the exposure draft.

12. Paragraph 13–19 of this paper discuss the due process steps undertaken during the project. [Appendix A](#) to this paper provides a more detailed account of the due process steps undertaken. Paragraphs 20–24 of this paper discuss the staff's recommendation for the comment period.

IASB Meetings

13. The IASB discussed the feedback on the 2018 DP in three public meetings between March and July 2019. The IASB discussed the classification, presentation and disclosures topics in the FICE project plan in eighteen public meetings between July 2019 and April 2023. The papers and recordings of these public meetings are available on the IFRS Foundation's [website](#).
14. The staff summarised the tentative decisions made by the IASB between April 2020 and February 2023 in [Agenda Paper 5A](#) for the April 2023 IASB meeting. In [April 2023](#), the IASB tentatively decided to:
- (a) amend the scope of IFRS 7 to reflect the fact that the proposed disclosure requirements would apply to a company's issued equity instruments and expand the objective of IFRS 7 to enable users of financial statements to understand how a company is financed and what its current and potential ownership structures are;
 - (b) make some refinements to the proposed disclosure requirements on terms and conditions; and
 - (c) add further disclosure requirements to complement the proposed clarifications to the classification and presentation requirements in IAS 32.

In the same meeting, the IASB considered transition requirements and tentatively decided to require a company to apply the proposed amendments retrospectively with the restatement of comparative information.

15. In May 2023, the IASB will discuss the proposed consequential amendments to the forthcoming IFRS Accounting Standard *Subsidiaries without Public Accountability* on disclosure requirements for eligible subsidiaries (see Agenda Paper 5A for this meeting).

Reporting to the Due Process Oversight Committee and IFRS Advisory Council

16. The IASB is required to update the IFRS Advisory Council on its technical programme and major projects as part of its due process (paragraph 3.54 of the [Due Process Handbook](#)).
17. The Due Process Oversight Committee and the IFRS Advisory Council have received regular updates on the status and progress of the project as part of the discussion of the IASB's activities. In [March 2021](#), the Trustees were informed about the IASB's decisions to move the FICE project to the standard-setting programme and not to establish a dedicated consultative group for the project.

Meeting with consultative bodies

18. The project was discussed at meetings of the IASB's consultative bodies. Feedback received at those meetings was reported to and considered by the IASB when discussing the proposals for each topic in the FICE project plan. [Appendix B](#) to this paper provides a list of these meetings and topics discussed.

Other outreach activities and consultations

19. In developing the proposals in the forthcoming Exposure Draft, IASB members and/or staff have undertaken outreach and consultation with:

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- (a) users of financial statements regarding the proposals in the 2018 DP.
 - (b) various stakeholders on potential refinements to the 2018 DP disclosure proposals. In particular, the IASB considered concerns from stakeholders about disclosure overload and practical difficulties in obtaining or preparing that information.
 - (c) equity investors who invest in ordinary shares of companies to understand whether financial liability classification of perpetual instruments containing obligations that only arise on liquidation of the entity would better serve their information needs.
 - (d) large accounting firms regarding various practice issues relating to the classification of issued financial instruments.

Comment period

- 20. Paragraph 6.7 of the [Due Process Handbook](#) states that the IASB normally allows a minimum period of 120 days for comment on an exposure draft. However, if the matter is narrow in scope and urgent, the IASB may consider a comment period of no less than 30 days. This is subject to obtaining approval from the Due Process Oversight Committee (DPOC).
- 21. The staff recommend the IASB publishes an Exposure Draft with the standard comment period of 120 days. In developing our recommendation for the length of the comment period, we have considered that the matters to be covered in the forthcoming Exposure Draft are not consistent with the circumstances that justify a comment period shorter or longer than 120 days.
- 22. In the staff's view, a comment period shorter than 120 days to analyse these proposals is not justified because:
 - (a) although the IASB's objective was to make targeted amendments that clarify the underlying classification principles in IAS 32, the proposals cover a range

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- of different topics affecting classification, in addition to significant presentation and disclosure proposals for issued financial instruments.
- (b) the diversity in accounting practice and issues addressed by the proposed amendments have been longstanding and therefore do not require an urgent response.
23. In the staff's view, a comment period longer than 120 days to analyse these proposals is also not justified because:
- (a) the proposals related to classification are not significantly different from the existing requirements in IAS 32, given the objective of the project is to make clarifying amendments to the underlying principles in IAS 32 rather than to fundamentally change the existing requirements. In addition, most of the information needed to apply the classification proposals is expected to be readily available to preparers based on their information technology systems today, so we would not expect there to be significant implementation issues that require a lengthy analysis.
- (b) there was already general support for the three new types of disclosures (terms and conditions, potential dilution and priority on liquidation) when they were proposed in the 2018 DP. However, stakeholders identified a number of challenges. The IASB considered the need to balance the requests from users of financial statements with the concerns of preparers. It specifically considered additional research and feedback from stakeholder outreach on potential refinements when it developed the disclosure proposals. In addition, these three proposed disclosure requirements represent a large part of the overall disclosure proposals of the project. We would therefore not expect significant additional analysis of these proposals.
- (c) the proposals relating to the presentation of financial instruments are a direct response to the needs of users of financial statements, particularly investors in ordinary shares who requested a clear distinction of the returns to ordinary shareholders. The distinction between ordinary shareholders and other holders

of equity instruments is a matter of fact and is not affected by the proposed amendments. We would therefore not expect there to be significant implementation issues that require significant analysis of these proposals.

24. Although there is a wide range of proposed amendments, for the reasons set out in paragraphs 22-23 of this paper, the staff believe the standard comment period is sufficient to allow stakeholders the opportunity to review and evaluate the proposals and to solicit and consolidate the views in their jurisdiction.

Confirmation of due process steps, permission to begin the balloting process and intention to dissent

25. This paper demonstrates that the IASB has completed all the steps necessary for the balloting of the Exposure Draft. Consequently, the staff are requesting permission to begin the balloting process.
26. In accordance with paragraph 6.9 of the [Due Process Handbook](#), the staff would like to ask if any IASB member intends to dissent from the proposals in the Exposure Draft.

Questions for the IASB

Questions for the IASB

1. Comment period—does the IASB agree with our recommendation to have a comment period of 120 days for the forthcoming Exposure Draft?
2. Dissent—do any IASB members intend to dissent from the proposals in the forthcoming Exposure Draft?
3. Permission to begin the process for balloting the Exposure Draft—is the IASB satisfied that it has complied with the applicable due process steps and that we can begin the process for balloting the forthcoming Exposure Draft?

Appendix A—Due process steps taken in the development of the Exposure Draft

Step	Actions
<p>IASB meetings held in public, with papers available for observers. All decisions are made in public sessions.</p>	<p>The IASB discussed in public the proposed amendments to IAS 32, IFRS 7 <i>Financial Instruments: Disclosures</i> and IAS 1 <i>Presentation of Financial Statements</i>.</p> <p>The project page on the IFRS Foundation website has been updated by the staff after every meeting.</p> <p>Agenda papers were posted on the website before every meeting on a timely basis and a summary of each meeting was included in <i>IASB Update</i>.</p>
<p>Consultation with the Trustees of the IFRS Foundation (Trustees) and the IFRS Advisory Council.</p>	<p>The Trustees and the IFRS Advisory Council have received regular updates on the progress of the project as part of the discussion of the IASB’s activities.</p>
<p>Analysis of the likely effects of the forthcoming Exposure Draft or major amendment, for example, initial costs or ongoing associated costs.</p>	<p>Paragraph 9 of this paper broadly summarises the likely effects of the proposed amendments. The agenda papers posted on the website for each topic in the project plan also contain analyses of the likely effects, where relevant.</p>
<p>Due process steps reviewed by the IASB.</p>	<p>This step will be met by this agenda paper.</p>

Step	Actions
<p>The forthcoming Exposure Draft has an appropriate comment period.</p>	<p>To be discussed by the IASB at this meeting. We recommend a standard comment period of 120 days.</p>
<p>Drafting</p>	
<p>Drafting quality assurance steps are adequate.</p>	<p>The IASB as well as the translations, taxonomy and editorial teams will review drafts during the balloting process.</p>
<p>Publication</p>	
<p>Exposure Draft published.</p>	<p>The Exposure Draft will be made available on our website when published.</p>
<p>Press release to announce publication of the Exposure Draft.</p>	<p>A press release will be published on our website with the Exposure Draft.</p>

Appendix B—Public meetings with consultative bodies

B1. The following table lists the meeting dates and topics discussed with each of the consultative bodies.

Accounting Standards Advisory Forum (ASAF)	
July 2022	The purpose of this session was to provide an update on the FICE project and to seek ASAF members' views on the IASB's tentative decisions on: <ul style="list-style-type: none"> (a) the classification of financial instruments with contingent settlement provisions; and (b) the effect of laws on the contractual terms
December 2020	The purpose of this session was to seek feedback from ASAF members on potential refinements to the disclosure requirements discussed in the 2018 DP.
October 2019	ASAF members discussed the range of project direction alternatives (together with their relative advantages and disadvantages) for the FICE project that were discussed by the IASB at its September 2019 meeting.
December 2018	The objective of this session was for the ASAF members to provide comments on the 2018 DP based on the outreach in their jurisdictions.

October 2018	The objective of this session was for the ASAF members to share initial views and feedback on the 2018 DP.
July 2018	The purpose of this session was to provide an education session for ASAF members on the 2018 DP.
Capital Markets Advisory Committee (CMAC)	
March 2020	CMAC members discussed potential refinements that could be made to the disclosure requirements which were proposed in the 2018 DP.
March 2019	<p>The purpose of this session was to provide CMAC members with an overview of feedback from investors (users of financial statements) on the 2018 DP and to seek their views on:</p> <ul style="list-style-type: none"> • staff summary of investors' feedback and whether they have any further feedback for the IASB; and • proposals in the discussion paper CMAC members would like the IASB to prioritise.
November 2018	The purpose of this session was to seek feedback from CMAC members on whether the presentation and disclosures proposed in the 2018 DP would be useful.

Global Preparers Forum (GPF)	
November 2018	The purpose of this session was to provide an overview of the key proposals of the 2018 DP. The staff also sought initial comments GPF members have or clarification they require on the 2018 DP proposals.
Islamic Finance Consultative Group	
May 2022	The purpose of this session was to provide an update on the FICE Project.
Emerging Economies Group	
October 2018	The purpose of this session was to provide an overview of the 2018 DP.