FINANCIAL INSTRUMENTS WITH CHARACTERISTICS OF EQUITY (FICE)

SUMMARY OF SURVEY RESULTS ON THE IASB'S EXPOSURE DRAFT ED/2023/5

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This report has been prepared for the convenience of European constituents by the EFRAG Secretariat.

Introduction

EFRAG had conducted an online survey to gather the views of European constituents on the IASB's Exposure Draft *Financial Instruments with Characteristics of Equity*.

The purpose of the survey was to provide information on the expected effects of the application of the IASB's proposals on the classification, presentation, disclosures and transition of an entity's existing financial instruments to identify potential implementation and application concerns, to determine whether there is a need for additional guidance, and to estimate the efforts required to implement and apply the IASB's proposals.

Participants were not required to respond to all questions of the survey and to only focus on the issues which they found to be the most relevant.

About the Exposure Draft

The IASB aims:

- to improve the information a company provides in its financial statements about its financial liabilities and equity instruments within the scope of IAS 32 *Financial Instruments: Presentation*; and
- to resolve application issues entities have when applying the classification requirements in IAS 32.

The IASB proposes amendments:

- to clarify the requirements and underlying principles in IAS 32 for classifying financial instruments;
- to amend IFRS 7 *Financial Instruments: Disclosures* to require disclosures about financial liabilities and equity instruments within the scope of IAS 32; and
- to amend IAS 1 *Presentation of Financial Statements* to require separate presentation of amounts attributable to ordinary shareholders.

Executive summary of the survey results

Overall comments on the classification proposals

The majority of the respondents indicated that they did not expect material classification impacts while many respondents expected classification changes specifically relating to the proposals on the effects of relevant laws and regulations and on financial instruments with contingent settlement provisions.

The effects of relevant laws and regulations

Most of the respondents that indicated the IASB's proposals are "partly or not understandable" referred to the proposals related to the effects of relevant laws and regulations. In addition, when referring to the risk of "unintended consequences", the effects of laws and regulations was the most referred topic of the IASB's proposals. In particular, respondents noted that based on the proposed amendments in the ED, there is a significant risk of having unintended consequences as the level of application and the principles are not sufficiently clear (e.g. concept of "in addition to" and the interaction with IFRS 9).

Respondents that replied to the question on whether the IASB should address Mandatory Tender Offers (MTOs) provided mixed views: some considered that the IASB should address this issue (as it is relevant in practice), while others considered that there was no need for the IASB to provide guidance. The latter respondents argued that it would introduce "rules-based" elements to IAS 32 and that the proposed accounting treatment for NCI puts could be applied by analogy.

Finally, two respondents noted that in certain jurisdictions, loan products (financial assets) are offered of which all key parameters are regulated by law or regulation. They considered that the IASB proposals on the effects of law and regulation are unclear and could lead to unintended consequences on the classification of these products[1]. The remaining respondents mentioned that further analysis had to be done on possible consequences (e.g. classification of certain fund shares as debt or equity instrument).

Fixed-for-fixed condition for derivatives

In general, respondents did not expect that the IASB´s proposals on passage-of-time adjustments would lead to classification changes for options that can be exercised at different predetermined dates.

Obligations to purchase an entity's own equity instruments

Current practice - The answers of the respondents reflected a significant diversity of the accounting treatments under the existing Standards, for example, debit entry going against equity relating to non-controlling interests or to parent equity.

The IASB's proposals in the ED – initial recognition - A significant majority of the respondents did not support the proposal of the IASB on the gross presentation whereby an entity initially recognises a financial liability for the redemption amount with the debit side going against the parent's equity, if the entity does not yet have access to the rights and returns associated with ownership of those equity instruments. Assuming the gross presentation, all of these respondents were of the view, that the debit entry should go to the NCI share of equity, instead of the parent's share of equity.

[1] It was not specifically mentioned by the respondents but stakeholders consider that there may be unintended consequences whereby these products would be classified as equity in the entity's financial statements (instead of a financial liability) or being excluded from the scope of IFRS 9 / IAS 32.

The reasons provided were the concerns about double recognition (i.e. NCI in equity and purchase obligation as financial liability), the transaction does not affect interests of the owners of the parent and punitive impact on banks prudential own funds.

The IASB's proposals in the ED – subsequent remeasurement - As for the subsequent remeasurement of the financial liability, a significant majority of respondents, equally, did not support the proposals of the IASB on presenting these changes in profit or loss, preferring to have them presented within equity. One of the reasons provided was that the financial liability should be considered as part of transactions with owners in their capacity as owners.

Gross vs net presentation - A majority of the respondents preferred gross presentation over net presentation. Even a majority of those who expressed a degree of sympathy for the net presentation noted, that it may represent a fundamental change to the current requirements, which is not intended by the IASB.

Contingent settlement provisions

Many respondents replied that they did not expect classification changes. However, some respondents mentioned that the IASB proposals would change the classification instruments with contingent settlement provisions. For example, respondents referred to the classification change arising on specific bail-instruments where the payment of interest would be presented in equity rather than profit or loss. In addition, respondents referred to changes on the measurement of the financial liability that must be based on the redemption amount (rather than under the fair value option in IFRS 9). Such clarification puts pressure on the definition and measurement at the "present value of the redemption".

Classification: Shareholder discretion

The majority of those who responded to this topic agreed with the factors being proposed in paragraph AG28A of the Exposure Draft in order to determine whether shareholder decision can be treated as a company decision, and thereby be classified as an equity instrument. However, many respondents who responded to this topic considered that, instead of the IASB's proposals, the IASB should mandate a particular accounting treatment.

Classification: Reclassification of financial liabilities and equity instruments

The majority of those who responded to this topic disagreed with the IASB's proposals which prohibits reclassification for contractual terms that become, or stop being, effective with the passage-of-time. They considered that it would be relevant to change the classification if facts and circumstances change and would faithfully represent the financial position of an entity. Also, respondents did not consider that it would be very costly to assess at each reporting date whether an instrument would be reclassified if there were passage of time changes.

However, many respondents agreed with the IASB's proposals indicating that the proposals are a simplification that would help to reduce costs in preparing the financial statements.

Disclosures

Understandability of the disclosures – Most of the respondents considered the proposed disclosures to be generally understandable. Some did not consider this to be the case due to the scope of the disclosure requirements being too broad potentially capturing nearly all financial liabilities.

Significant operational issues expected - The majority of respondents expected significant operational issues when providing the disclosure requirements mainly because they considered that there was an imbalance from a cost versus benefits and decision-usefulness versus disclosure overload perspective.

On the contrary, many respondents did not expect significant operational issues indicating that the information can be prepared at a reasonable cost and effort.

Other significant concerns – The majority of respondents did not raise any other significant concerns apart from operational issues mentioned above.

Disclosures – Terms and conditions of financial instruments - Most of the respondents agreed with the guidance provided on debt-like characteristics and equity-like characteristics in paragraphs B5B–B5G of IFRS 7 in the ED.

Presentation of amounts attributable to ordinary shareholders

Half of those who responded to this topic expected significant difficulties in making an allocation between 'ordinary shareholders of the parent' and 'other owners of the parent' in the statement of financial position, the statement of comprehensive income and statement of changes in equity, whilst the other half did not expect such difficulties. Respondents referred to difficulties in allocating profit or loss or other comprehensive income, or both, notably such elements of OCI as profits from hedging, revaluation result and FX adjustments. Some respondents raised an issue regarding the calculation of the attribution for AT1 instruments.

A significant majority did not expect significant issues due to the interaction of the IASB's proposals with regulatory requirements on presentation of equity.

Transition

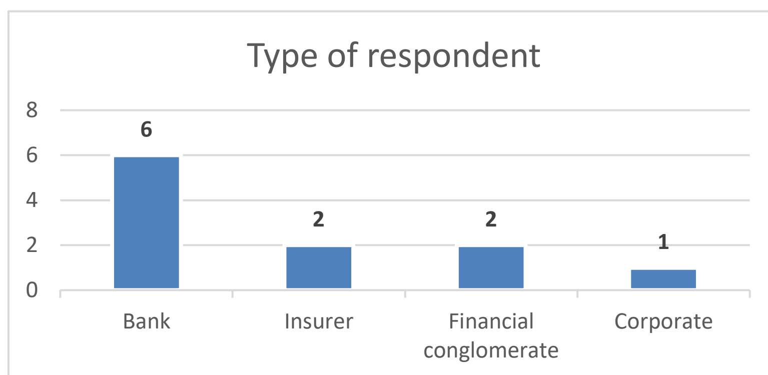
The majority of those who responded to this topic did not agree with the proposal of the IASB regarding the restatement of information for one comparative period. Their arguments included concerns regarding the cost for the preparers and the usefulness for users, concerns about application of hedge accounting and regarding NCIs, a significant difficulty to recalculate all historical acquisitions.

Disclosure requirements for eligible subsidiaries

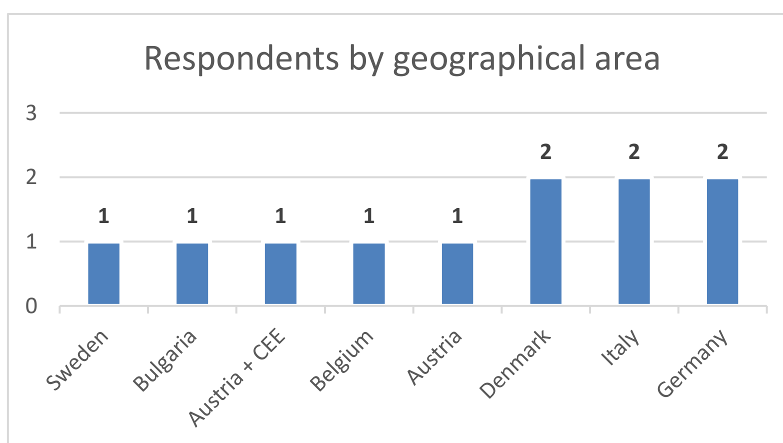
All those that responded indicated that the reduced disclosures were not applicable to them as they are financial institutions.

General information

The majority of respondents are banks with some respondents that are insurers, financial conglomerates and corporates.



In addition, below is a graph reflecting the geographical area of the entities:



Use of this summary

This summary has been prepared as a formal record of the responses received. It summarises the messages received from constituents and notes any key themes identified. The feedback received on the survey will be used by EFRAG in drafting its Final Comment letter to the IASB.

Definition of terms

This summary uses the following terms to describe the extent to which particular feedback was shared by respondents (both when referring to total respondents or a subset of respondents, e.g., respondents that answered a question).

The % in this document refers to the total number of respondents to the relevant question, unless indicated differently.

Term	**No. of respondents as a %**
Almost all	90% - 100%
Most	75% - 89%

Term	No. of respondents as a %
Majority, Significant majority	51% - 74%
Half	50%
Many	25% - 49%
Some, others	0% - 24%

Detailed feedback of the survey results

Overall comments on the classification proposals

Whether the IASB's proposals on classification are understandable

Most of the respondents indicated that the proposals are partly or not understandable due to the effects of relevant laws and regulations not being understandable or sufficiently clear. One respondent did not consider the principles on financial instruments with contingent settlement provisions to be sufficiently clear.

Refer to the relevant sections below for more details.

Classification changes

The majority of the respondents indicated that they did not expect material classification impacts while many respondents expected classification changes specifically relating to the proposals on the effects of relevant laws and regulations and on financial instruments with contingent settlement provisions.

ED Q1 – The effects of relevant laws and regulations

Understandability of the IASB proposals and unintended consequences

Most of the respondents that indicated the proposals are partly or not understandable referred to the proposals on the effects of relevant laws and regulations.

Value	Percent	Responses
Yes	27.3%	3
No	18.2%	2
Partly	54.5%	6
		Totals: 11

In addition, the effects of laws and regulations was the most referred topic when indicating expected unintended consequences of the IASB proposals.

When specifically referring to the IASB proposals on the effects of relevant laws and regulations, respondents:

- noted that based on the proposed amendments in the ED, there is a significant risk of having **unintended consequences** as the level of application and the principles are not sufficiently clear, in particular the concept of “in addition to” and the interaction with IFRS 9 (e.g. how the measurement principle formulated in paragraph 25A of the exposure draft interacts with the possible fair value measurement under IFRS 9).
- expressed concerns that the requirements on the effect of laws and regulations could be interpreted differently and **raise new uncertainties and diversity in practice**. It was also noted that different countries may have different laws, potentially resulting in different classification outcomes. This leads to more diversity in practice.
- expressed concerns that **economically similar instruments could be treated differently** depending on whether the relevant features are based on legal or contractual terms. For example, if minimum distributions are required by the contractual terms of one instrument they would be considered, while they would not be considered for another instrument where they would be required by applicable laws and regulations. This would mean that financial instruments with similar characteristics could be classified differently in different jurisdictions due to the effect of different laws and regulations.
- had mixed views on the **impact of the IASB proposals to bail-in instruments**. Respondents provided the following different comments:
    - considered that the common bail-in instruments always reflect in their contractual documents the legal requirements (e.g. MREL or CRR). Therefore, it is not clear what impact the provisions in paragraph 15A of the ED could have on the classification on these instruments.
    - considered that the IASB should clarify that some contractual terms may be required by law as a qualifying condition for specific types of instruments to exist. In such a case, these terms required by law should be considered as “contractual terms” for classification purposes (e.g. AT1 instruments for which the loss-absorption feature upon the occurrence of the trigger event requires either write down or conversion into ordinary shares in accordance with the law; the bank option of one of the two alternatives should be included in the contractual terms).
- noted that it was difficult to assess when the laws and regulations should be ignored or when they should not.
- considered that the IASB proposals in the ED did not seem to reflect the IASB´s explanations in the Basis for Conclusions.
- noted that it is not clear how the proposals in paragraph 15B of the ED would affect the classification, when the legal requirements change after signing the contract.

- called for the IASB to make clear in the main body of the proposed amendments to IAS 32 that the IASB proposals do not affect the classification of IFRIC 2 financial instruments.

Some respondents considered that more guidance would be useful to help entities assessing how the proposed requirements are to be interpreted and applied.

Mandatory Tender Offers

The respondents that replied to the question on whether the IASB should address Mandatory Tender Offers (MTOs) provided mixed views:

- two respondents considered that the IASB should address mandatory tender offers. One respondent detailed that regulation in his jurisdiction requires an entity acquiring control over 1/3rd of the equity in a public entity to submit a tender offer for the remaining 2/3rds; however the price of such a tender offer is prescribed by a specific regulation which does not follow the principles of fair value, and therefore the MTO obligation cannot be estimated using the same price as the fair value of shares, requiring additional disclosure.
- one respondent noted that without any specific discipline on MTOs, the treatment of non-controlling interests written put options had to be applied by analogy. Accordingly, there is no need for the IASB to address this point specifically;
- one respondent considered that there was no need to address this particular topic as it represents a specific type of transaction and thereby introduces a rules-based element to IAS 32;
- one respondent considered the effects of law and regulation in general should be comprehensively reviewed.

Accounting for loans or banking saving deposits in a jurisdiction where all key parameters are highly regulated by law or regulation

Two respondents noted that in certain jurisdictions, loan products (financial assets) are offered of which all key parameters are regulated by law or regulation. They considered that the IASB proposals on the effects of law and regulation are unclear and could lead to unintended consequences on the classification of these products.

One respondent also noted that client deposits that are not priced under "prevailing market practice deposit rates" represent special contracts not subject to client deposit protection and therefore their treatment in a resolution process (and client expectations to receive moneys bank in such process) differed materially. This shows that not only laws, but also interpretation of laws can result in subordination of certain liabilities.

Finally, one respondent is currently considering whether there could be unintended consequences for the classification of certain fund shares as debt or equity instrument, which could have an impact on current classification.

ED Q2 - Fixed-for-fixed condition for derivatives

Passage-of-time adjustments

In general, respondents did not expect that the IASB´s proposals on passage-of-time adjustments would lead to classification changes for options that can be exercised at different predetermined dates.

ED Q3 - Obligations to purchase an entity’s own equity instruments

Initial recognition of the obligation to redeem an entity’s own equity instruments

Current accounting treatment

Four of eleven respondents replied that such instruments are currently present in their financial statements. Two more respondents, who do not have such instruments in their financial statements, explained the accounting treatment they would hypothetically apply should they account for such instruments.

Among these two groups of the respondents, there are **mixed views about initial recognition**. Whilst half of the respondents noted that they post (or would post) the debit entry into the NCI share of equity, others use different practices (e.g., no unified practice in the group; posting the debit entry either to the parent share or to the NCI share of equity depending on the outcome of the assessment whether the instrument gives the group access to the present economic benefits of minority interests etc.).

IASB’s proposals in the ED – initial recognition

Seven of eleven respondents answered to one or all of the questions concerning the debit side entry at initial recognition. One other respondent noted that more guidance would be needed as to how the transaction should be presented in the parent's accounts and how to calculate the value of the financial liability.

A **significant majority** of these respondents **did not support the IASB’s proposal** on the gross presentation whereby an entity initially recognises a financial liability for the redemption amount with the **debit side going against the parent’s equity,** if the entity does not yet have access to the rights and returns associated with ownership of those equity instruments.

Value	Percent	Responses
Yes	28.6%	2
No	71.4%	5
		Totals: 7

Those respondents who did not support the IASB’s proposals in this respect, had the following concerns:

- Debit non-controlling interests ('NCI') share in equity – **a majority** of these respondents **preferred gross presentation over net presentation**. These respondents were of the view, that **the debit entry should go to the NCI share of equity**, instead of the parent's share of equity. Various arguments were given by the respondents, among others the problem of double recognition (i.e. NCI in equity and purchase obligation as financial liability), the economic nature of the transaction (according to that respondent, the transaction does not affect interests of the owners of the parent in any way) and avoiding punitive impact on banks prudential own funds (according to that respondent, the obligation to purchase NCI would have a more detrimental impact on prudential own funds than the actual purchase of such NCI). Also, one respondent considered preferable the proposal in paragraph AV5 of the ED's Basis for Conclusions to present the debit entry within (net) non-controlling interests as a separate component.
- **Many** of these respondents **expressed various degree of sympathy for the 'net presentation'**, ranging from acknowledging that it has some merits (while still preferring the gross presentation) to clearly declaring their preference for this approach. However**, a majority** of these respondents **mentioned their understanding that such a change would be too fundamental**, given the scope of the IASB's project.

Six of eleven respondents replied to the question regarding where should the **difference between the redemption amount and the NCI balance** be recognised at initial recognition, if the redemption amount exceeds the NCI balance. **All of these respondents noted that such a difference should be recognised in equity**. Two of these respondents further precised that this should be parent's equity. One respondent mentioned recognising this difference in parent's equity and leaving this difference as a negative NCI balance in equity (with appropriate explanations to be provided in the notes to the financial statements) as two possible alternatives.

Four of eleven respondents replied to the question concerning the features to be considered in determining if an entity has access to the rights and returns associated with ownership of the equity instruments. The following features have been listed by these respondents:

- Three respondents mentioned access to **earnings of/ dividends from** the entity;
- Two respondents mentioned access to **voting rights**;
- Two respondents mentioned **type of exercise price (fixed price vs. fair value**). One of these respondents noted that this is the main element for them. This respondent further detailed that, in their view, access to the economic benefits by the controlling party (and therefore holder of the commitment to purchase the minority share) is considered to have occurred when the exercise price of the put option is fixed (or equal to an initial fixed amount plus capitalised interest and minus dividends from the minority share), whilst when the exercise price is variable (e.g., the fair value at the exercise date or an amount based on formulas referred to variable inputs) or variable with a floor (e.g., the greater of fair value and predetermined floor), access to the economic benefits of the assets underlying the put option is considered to be retained by the minority shareholder.

IASB's proposals in the ED – subsequent measurement

Seven of eleven respondents expressed their views as to how changes to the carrying amount of the liability of written put options to non-controlling interest holders should be presented, assuming that the gross presentation is retained.

Value	Percent		Responses
a) in profit or loss (as proposed by the IASB).	28.6%		2
(b) within equity (on the basis that it is a transaction with owners in their capacity as owners), for example split between NCI and other equity.	71.4%		5
			Totals: 7

A **significant majority** of these respondents **do not support the IASB's proposal** on presenting these changes in profit or loss, preferring to have them presented within equity. No respondent supported other accounting treatment, notably those implying presentation of these changes in OCI, fully or partially.

The following arguments were given by the respondents who advocated presenting changes to the carrying amount of the financial liability within equity:

- Two respondents noted that remeasurement of the financial liability should be considered as part of transactions with owners in their capacity as owners.
- One respondent noted that, in their view, the financial liability should be subsequently measured against equity if it is debited against equity in the beginning.

On the contrary, one respondent who supported the proposal of the IASB, noted that since the remeasurement relates to the financial liability, it should be recognised through profit or loss, observing that there is no reference to IFRS 9 regarding the subsequent measurement of the financial liability and that 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 the entity's performance (e.g. profit) measurement of the financial liability at fair value would not be applicable because the financial liability is not held for trading and conditions for the fair value option could hardly be fulfilled. Measurement at amortised cost under IFRS 9 would lead to continuous catch-up adjustments and there would be no reasonable basis for recognition of the interest expense. As a result, this respondent appreciates that entities can develop the appropriate accounting policy on how to recognise the value changes and decide whether an interest component would be recognised separately. The respondent also noted that none of the conditions for the fair value option under IFRS 9 is fulfilled.

Eight of eleven respondents expressed their views as to how subsequent changes to the fair value of the stand-alone derivative should be presented, assuming that the **net presentation** is adopted.

A **majority** of these respondents **prefer to have these changes presented within equity**. Similarly to the gross presentation, their key argument was that the derivative stems from a transaction with owners in their capacity as owners.

However, many **other respondents supported their presentation in profit or loss** in line with other derivatives. One respondent noted that the net approach might be appropriate for derivatives over own equity held in the trading book by banks where such derivatives are used for market making or economic hedging purposes. In such a case revaluation through profit or loss would be fully appropriate because such transactions are not used to extinguish existing or issue new shares from long-term perspective.

ED Q4 - Contingent settlement provisions

Changes in classification and unintended consequences

As mentioned above, the majority of the respondents indicated that they did not expect material classification impacts. Nonetheless, some respondents expected classification changes relate to the proposals on financial instruments with contingent settlement provisions. For example, respondents referred to:

- an **AT1 instrument** with fixed interest coupon, an automatic conversion at market share price (variable) with a floor of approximately 85% of the price at issuance and issued in another currency than the reporting currency. One respondent noted that presently, such instrument is classified as a debt instrument with coupon payments recognised as an interest expense (market prices of the instrument are based on 100% probability that all coupons will be paid and the instrument will be called at first call date based on credit quality of the issuers and historical behaviour). In accordance with the IASB proposals, coupons will be recognised as dividend; this will distort net interest income and cause artificial volatility in net financial result line since the hedging derivative contracts will be measured at fair value in P& L while no remeasurement will be done for the coupon payments which will be recognised in equity when paid. When referring to unintended consequences, the respondent notes that as already happening today, some issuers do not hedge the interest and foreign currency due to the artificial volatility in profit or loss. That increases the risks in the financial system due to the possible negative impact on financial stability in adverse macro scenarios.
- **put option settled in variable number of own shares**. This respondent noted that accounting treatment for this type of instrument was currently unclear and it was considered possible to account the obligation as financial liability according to IFRS 9 (fair value option). According to the IASB ED, the financial liability must be based on the redemption amount. The respondent considered that such change would not improve the information provided to investors.

- **compound instruments with contingent settlement provisions valued at FV**. This respondent considered that the new Paragraph 25A seems to introduce a new measurement principle that overrules IFRS 9 principles. The respondent considered that such change would not improve the information provided to investors.

ED Q5 - Classification: Shareholder discretion

Whether there is agreement with the factors being proposed

Seven out of eleven respondents responded to the questions on shareholder discretion.

Value	Percent	Responses
Yes	57.1%	4
No – the IASB should mandate a particular accounting treatment, thereby not leaving room for judgment	28.6%	2
No – would prefer judgment based on different factors other than those proposed by the IASB	14.3%	1
		Totals: 7

The **majority** of the respondents **agreed with the factors** being proposed in paragraph AG28A of the Exposure Draft for the following reasons:

- Agreement to **leave judgement** and to avoid being too rules-based; and
- The assessment **is straightforward** for the equity instruments issued.

Many respondents considered that the IASB **should mandate** a particular accounting treatment because they indicated that interactions could be quite varied and therefore real cases should be further investigated in order to **develop a more complete guidance**.

Some respondents **did not agree** with the factors being proposed as they considered that the clarification would not be helpful in practice and there may be a **risk that the words would be interpreted in a way that was not intended by the IASB**. Therefore, it would be better not to make any changes until a more comprehensive revision is made of IAS 32.

Other factors to be considered

It should be clear that a supervisory authority order to cancel the payment of interest or another prohibition by law or an authority does not affect the shareholders' discretion.

ED Q6 - Classification: Reclassification of financial liabilities and equity instruments

IASB's proposal on reclassification

Six out of eleven respondents responded to the question.

The **majority** of the respondents **disagreed with the IASB's proposals** specifically disagreeing with prohibiting reclassification for contractual terms that become, or stop being, effective with the passage-of-time. They provided the following reasons:

- Depending on fact and circumstances during the life of the contract it may be more relevant to change the classification (e.g. a hybrid instrument issued, when having an investment grade rating, should be recognised as a debt instrument. If the credit quality worsens to a junk bond status i.e. below BBB- rating, the probability that the instrument will be converted to equity is high. Then it might be more relevant to classify the instrument as an equity instrument.
- Reassessment at each reporting period should not be onerous. Such terms and conditions must be disclosed based on proposed paragraph 30F of IFRS 7 in the ED anyway so this involves tracking.
- In order to faithfully represent the financial position of the company.

Those who disagreed with prohibiting reclassification for passage of time changes **did not consider that it would be very costly to assess at each reporting date** whether an instrument would be reclassified if there were passage of time changes.

On the other hand, **many respondents agreed with the IASB's proposals** indicating that the proposals are a simplification that would help to reduce costs in preparing the financial statements.

Reclassifications currently or in the past made for passage of time changes that would no longer be allowed when applying the IASB's proposals

Seven out of eleven respondents responded to the question relating to whether there were reclassifications that the entity made currently or in the past for passage of time changes that would no longer be allowed when applying the IASB's proposals.

The majority of respondents stated that there were no reclassifications that were previously made that would no longer be allowed when applying the IASB's proposals.

Many respondents indicated that there were no reclassifications that were made in the past or currently or they do not issue instruments with features leading to reclassification.

If the proposals on assessing a change in circumstances external to the contractual arrangement are clear

Seven respondents indicated that **it seemed to be clear whether and how to assess a change in circumstances external to the contractual arrangement** for compound instruments and instruments currently classified as equity while the remaining respondents did not respond to the question.

ED Q7 - Disclosures

Whether the proposed disclosures are understandable

Nine out of eleven respondents responded to whether the proposed disclosures are understandable.

Value	Percent	Responses
Yes	77.8%	7
No	22.2%	2
		Totals: 9

Most of the respondents considered the proposed disclosures to be **generally understandable** but the level of granularity of the disclosures was not fully clear and so judgement and discretion would be applied.

Some of the respondents **had a contrary view** indicating that the scope is too broad and catches all types of instruments and potentially also deposits. They were not clear if all the financial liabilities are in scope and how detailed the disclosures needed to be.

Whether any significant operational issues are expected when providing the disclosure requirements

Ten out of eleven respondents responded to the question.

Value	Percent	Responses
Yes	60.0%	6
No	40.0%	4
		Totals: 10

The **majority** of respondents **expected significant operational issues** when providing the disclosure requirements for the following reasons:

- Half of these respondents indicated that the proposals **do not strike the right balance between useful disclosures and disclosure overload** and consequently an **imbalance between user benefits and compliance costs**.
- Many of the respondents stated that **listing all terms and conditions** for all instruments in a bank would be **a very extensive exercise**.
- Many of the respondents also stated that **the scope is too broad** and catches all types of issued instruments and potentially also deposits (i.e. almost the entire liability side in a bank). The focus should be on the more complex instruments, and consequently the scope should be narrower.
- There is a certain level of **overlap between the Pillar 3 disclosures and the disclosures in the Exposure Draft**. This creates two sets of disclosures serving different purposes albeit having a common goal. The use of cross reference to other report for the disclosure could help but there could be problems due to different date of approval/publication of the different documents. The IASB is encouraged to consult with users of financial statements to understand their information needs in order to have more focused disclosure requirements. The IASB should **conduct further outreach and a comprehensive cost benefit analysis** before finalising the Exposure Draft.

- Regarding the **disclosures on liquidation**, it is very **challenging to differentiate between contractual claims and legal claims**, especially within a group with international subsidiaries. Beyond that, the IFRS Standards are based on a going concern principle and not liquidation or resolution. Furthermore, information about **liquidation always relates to a single consolidated entity and not to the reporting entity**.

Many respondents **had a contrary view** and they considered that the information can be prepared at a reasonable cost and effort.

Whether there are other significant concerns

Nine out of eleven respondents responded to the question.

Value	Percent	Responses
Yes	33.3%	3
No	66.7%	6
		Totals: 9

The **majority** of the respondents **did not consider that there are other significant concerns** on the disclosure requirements besides those mentioned above on operational concerns.

However, **many** respondents **had a contrary view** reiterating the operational issues with one of them providing the following reasons:

- Regarding disclosure on liquidation:
  - It is not relevant to aggregate the information since it is not the group but single entities that are liquidated. Giving the information for each subsidiary is not workable if there are many subsidiaries and it would not be possible to aggregate in a meaningful way.
  - Also, for systemically important institutions (globally and in separate jurisdictions), the information is misleading since liabilities will be bailed-in in a resolution preceding. Resolution is of interest, not liquidation. This information is already provided in supervisory reporting and is also made available for the public in the future (European single access point).

Suggested solutions for disclosure requirements

Those respondents who expected significant operational issues suggested some solutions as follows:

- Many of the respondents considered that the focus should only be for complex instruments (instead of all types of issued instruments).
- To refrain from any further disclosure requirements beyond those that are currently effective.

Disclosures – Terms and conditions of financial instruments with both financial liability and equity characteristics

Eight out of eleven respondents responded to this question.

Value	Percent	Responses
Yes	75.0%	6
Partly agree	12.5%	1
No	12.5%	1
		Totals: 8

Most of the respondents **agreed with the guidance provided on debt-like characteristics and equity-like characteristics i**n paragraphs B5B–B5G of IFRS 7 in the ED, including providing both quantitative and qualitative information. A reason provided is that it is inherent in the simple binary equity/liability classification model that additional information should be provided so that users can understand the characteristics of hybrid instruments.

One respondent partly agreed with the guidance but iterating concerns on the overlap with disclosures provided in Pillar 3 and in other part of Financial Statements, in particular on the terms and condition of financial instruments (Own Funds: Main features of regulatory own funds instruments published in Pillar3 according to EU CCA Reg. 2021/637).

Another respondent did not agree with the guidance from a cost-benefit and decision-usefulness perspective.

ED Q8 - Presentation of amounts attributable to ordinary shareholders

Ten out of eleven respondents responded to whether they expect significant difficulties in making an allocation between 'ordinary shareholders of the parent' and 'other owners of the parent' in the statement of financial position, the statement of comprehensive income and statement of changes in equity.

Value	Percent	Responses
Yes	50.0%	5
No	50.0%	5
		Totals: 10

Half of the respondents replied that they expected such difficulties, whilst the other half replied that they did not expect them.

Many of the respondents referred to difficulties in allocating **profit or loss or other comprehensive income, or both**.

One of these respondents noted that it is not clear how the total comprehensive income (both profit or loss and OCI) attributable to other owners of the parent would be calculated. Whilst there are some hints in paragraphs BC248(b) or BC250 of the ED that this could be based on IAS 33 (= most commonly preference dividends), the illustrative examples in paragraph IG6A of draft Amendments to Guidance on Implementing IAS 1 are confusing in this regard, therefore, it would be very helpful to understand how the attribution of total comprehensive income was calculated.

Some of the respondents including the entity mentioned above, referred, in particular, to the calculation of the attribution for **Additional Tier 1 (AT1) instruments** issued by banks classified entirely as equity (due to the write-down feature) as an example of potential difficulty. AT1 instruments do not participate in the issuer's performance other than through (discretionary) fixed coupon payments. Based on the logic for non-cumulative preference shares in paragraph 14(a) of IAS 33 the total comprehensive income would be attributed to these instruments to the extent of the coupon payment. Also, it would be deducted in the row 'Dividends' of the Statement of changes in equity. As a result, the end of year carrying amount of 'Equity attributable to other owners of the parent' would not be affected. In the view of the respondent, this would be the correct perspective, but this view would need to be confirmed to assess the impact in this area.

One respondent noted that the Basis for Conclusions (BC246-256) for this topic seems to clarify that, for non-derivatives, the attribution of profit or loss for the period and other comprehensive income should be based on the requirements in IAS 33 for the calculation of earnings per share. To avoid confusion on the approach that should be used, the respondent would suggest that this requirement is included in the amendments to the IAS 1 standard or that this is clarified in the IAS 1 implementation/application guidance.

Another respondent mentioned significant challenges in the allocation of OCI (e.g. profits from hedging, revaluation result, FX adjustments). Another example of difficulties, provided by the same respondent, is the case of instruments where the issuer has the right to defer payments until liquidation, and it is unclear when the allocation to the "other owners of the parent" should take place- only upon payment or already upon creation.

Another respondent, while agreeing with the proposal with reference to shareholders' capital and capital reserves, noted, however, that the revenue reserves contain the consolidation adjustments and the translation currencies differences which are not attributable among ordinary and other owners. The same applies for valuation reserves that are by their own nature affected by the minorities impact and therefore the relative subdivision becomes very difficult.

Seven out of eleven respondents replied whether they **anticipated any issues due to the interaction of the IASB's proposals with regulatory requirements** on presentation of equity. A **significant majority** of the respondents **did not expect significant issues** as of now. Two other respondents indicated that the structure of financial statements is decided by the Italian national regulator.

ED Q9 - Transition

Nine out of eleven respondents responded to whether they agreed with the retrospective application of the IASB's proposals with the restatement of information for one comparative period.

Value	Percent	Responses
Yes	44.4%	4
No	55.6%	5
		Totals: 9

Most of the respondents did not agree with the proposal of the IASB regarding the restatement of information for one comparative period. They gave the following argumentation:

- Three respondents had concerns about retroactive application in connection with various aspects of **hedge accounting**. Two of these respondents noted that the opening balance as if hedge accounting of interest risk on compound financial instruments with liability and equity components was never applied is complicated and with limit value for the users. The other respondent mentioned a concern for instruments with contingent settlement provisions that will be partly reclassified and for which hedge accounting practices will change.
- Two respondents noted that considering **the cost for the preparers and the usefulness for users**, applying a different approach would be preferable. One of these respondents suggested the IASB develops transition relief focused on practicability of collecting historical information.
- One respondent noted that, **for NCIs**, it will be extremely burdensome to recalculate all historical acquisitions and the respective amendments should be applied prospectively.
- Another respondent proposed to adopt the same approach as IFRS 9, except for the presentation proposal.

ED Q10 – Disclosure requirements for eligible subsidiaries

Four respondents answered the question indicating that the reduced disclosures were not applicable to them as they are financial institutions.