ESMA
European Securities and Markets Authority

The Chair
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Dr Andreas Barckow
Chairman
International Accounting Standards Board (IASB)
Columbus Building
7 Westferry Circus, Canary Wharf
London
E14 4HD
United Kingdom

Ref: IASB's Exposure Draft Financial Instruments with Characteristics of Equity

Dear Dr Barckow,

The European Securities and Markets Authority (ESMA) thanks you for the opportunity to respond to the IASB's due process with regards to Exposure Draft ED/2023/5 Exposure Draft Financial Instruments with Characteristics of Equity. We are pleased to provide you with the following comments with the aim of improving the consistent application and enforceability of IFRS.

ESMA welcomes the IASB's attempt to clarify the classification of financial instruments as financial liabilities or equity instruments in IAS 32 and to improve the presentation of these instruments and related disclosures. ESMA expects that many of these proposals would increase the comparability and understandability of financial statements and make it easier for users of financial statements to assess the effects on the entities' financial position and performance. Therefore, ESMA strongly believes that the IASB should progress with this project as expediently as possible in order to resolve the existing diversity in practice and to ensure the enforceability of IFRS requirements in this area.

ESMA considers that the IASB's proposals as to what extent relevant laws and regulation could create rights and obligations that affect the classification of financial instrument would, in many cases, help to reduce the existing diversity in the classification of financial instruments with similar characteristics. However, ESMA has significant concerns that, without further clarifications, the current proposed amendment will have unintended consequences on the classification of financial instruments, in particular, but not only, instruments that are highly regulated in some jurisdictions (such as bank loans and savings products), which will be classified differently from similar instruments in other jurisdictions. Moreover, ESMA proposes that the IASB provides specific guidance on the treatment of mandatory tender offers. In addition, ESMA considers that specific disclosure requirements should be required to ensure transparency in relation to the effects of laws and regulations.

ESMA agrees with the proposals in the ED to clarify the fixed-for-fixed condition and considers that these clarifications will reduce the existing diversity in practice. However, to further improve the degree of comparability, some additional clarifications would be useful. For example, explanations on the need for the present value calculation and assessment for

passage-of-time adjustments included in the Basis for Conclusion could be included in the text of the standard, to emphasise their mandatory character.

ESMA is of the opinion that the IASB's proposed clarifications of the accounting for obligations to purchase an entity's own equity instruments would help to ensure consistent accounting treatment. While ESMA acknowledges that there are also some strong arguments in favour of certain alternative approaches (in particular, ESMA has sympathy with the view that the offsetting debit on recognition of the obligation to purchase own equity instruments should be recognised against non-controlling interests (NCI) as otherwise there will be NCI double counting), it seems that those approaches could require amendments going beyond the scope of the FICE project. With respect to the proposals of the ED on contingent settlement provisions and reclassification of financial liabilities and equity instruments, ESMA generally supports the proposed clarifications.

In ESMA's view, it is very important to provide additional guidance to facilitate the assessment of when shareholders' decisions should be treated as entities' decisions when assessing whether an entity has an unconditional right to avoid delivering cash or another financial asset. Nevertheless, ESMA is concerned that without further guidance on the application of the proposed factor approach or the establishment of more specific principles there will be significant uncertainty as to how judgement should be applied, which will not significantly reduce the existing diversity in practice and will not improve comparability and enforceability.

Finally, ESMA strongly supports the disclosure requirements proposed by the IASB as well as amendments to IAS 1 to require an entity to provide additional information about amounts attributable to ordinary shareholders separately from amounts relating to other owners of the entity. ESMA agrees that these requirements will improve the understanding of how an entity is financed and what its ownership structure is.

Our detailed responses are included in the Appendix to this letter. In case you have any questions or comments please do not hesitate to contact me or Isabelle Grauer-Gaynor, Head of the Corporate Finance and Reporting Unit (Isabelle.Grauer-Gaynor@esma.europa.eu).

Yours sincerely,

[signed]

Verena Ross

ESMA
European Securities and Markets Authority

Appendix

1 The effects of relevant laws or regulations

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

The IASB proposes to clarify that:

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

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

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

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

1. ESMA welcomes the IASB's intention to provide additional guidance on how relevant laws or regulations (such as statutory or regulatory requirements) affect the classification of a financial instrument. ESMA considers that the amendments proposed by the IASB, while not fundamentally changing the existing IAS 32 requirements and consistent with the approach in IFRS 9, would in many cases reduce the existing diversity in the classification of financial instruments with similar characteristics. However, ESMA has significant concerns that the proposals will have unintended consequences for some instruments for which the rights and obligations are mainly defined in the applicable company law as well as many financial products in certain jurisdictions. More specifically, the current proposed amendments could actually result in different classification of similar instruments among jurisdictions and in a same group operating in different jurisdictions.

2. In particular, bank loans and savings products such as mortgage loans, consumer loans, demand deposits and saving accounts are often strongly regulated by law in some jurisdictions. The main terms of such financial instruments (e.g. repayment, duration) are pre-defined by law and may only be incorporated by reference into the contractual terms. Therefore, only few contractual aspects would be considered additional to a right or obligation created by laws (e.g., interest). While we understand that it is not the intention of the IASB to introduce major changes to existing classification practice, the proposed wording may result in some financial institutions reclassifying almost all of their financial instruments as equity. In addition, ESMA notes that the proposed clarifications deviate from the statement in paragraph 5 of IFRIC 2 that an entity must consider all the terms and conditions of a financial instrument, including relevant local laws and regulations, which is also the principle stipulated in the Conceptual Framework (paragraph 4.60) and applied in other standards (e.g. IFRS 15, IFRS 17).

3. ESMA therefore suggests that the IASB revises the current proposal or provides additional guidance on how it should be applied to instruments that are heavily regulated by law. Moreover, the IASB may consider including in the standard examples of the application of the proposed requirements to relevant practical cases.

4. Furthermore, ESMA strongly suggests that the IASB provides specific guidance on the treatment of mandatory offers that an entity acquiring control of another entity must make to purchase some or all outstanding shares of that entity from other shareholders. Applying the proposed requirements, it appears that no financial liability shall be recognised after legal requirements for a mandatory offer have been met because the obligation is created by law. This accounting treatment does not seem to be fully consistent with the accounting for written put options on non-controlling interests which are considered financial liabilities.

5. Lastly, ESMA is of the view that specific disclosure requirements should be included to ensure transparency in relation to the effects of laws and regulations, in particular the disclosure of laws and regulations that could affect the timing and amount of future cash flows of financial instruments issued by an entity, even if these legal requirements do not affect their classification. ESMA does not share the IASB's view that all knowledgeable investors can be expected to be aware of these specific legal requirements across different jurisdictions. Moreover, ESMA considers that the disclosure of legal requirements that prohibit the enforceability of contractual obligations would also be useful for users of financial statements, considering that there could be different interpretations of whether a contractual right or obligation is enforceable by laws or regulations.

2 Settlement in an entity's own equity instruments

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.

6. ESMA agrees with the IASB's proposals to clarify the fixed-for-fixed condition in paragraph 16(b)(ii) of IAS 32 and considers that these clarifications will reduce the existing diversity in practice.

7. In particular, ESMA supports the proposal to specify that one of the conditions for meeting the fixed-for-fixed criterion is that the amount of consideration to be exchanged for each of an entity's own equity instruments is denominated in the entity's functional currency. However, ESMA notes that the description of the fact pattern in Illustrative Example 15, which explains the application of this requirement, includes an explicit indication that the foreign exchange rate is variable (which results in the fixed-for-fixed condition not being met in this case). ESMA questions whether the fixed-for-fixed condition in this example would be met if there were a fixed exchange rate between the entity's functional currency and the foreign currency in which the amount of consideration to be exchanged for an entity's own equity instrument is denominated (or, alternatively, if the exchange rate fluctuated in a very narrow range so that any variability would be immaterial). ESMA proposes that the IASB clarifies this question.

8. In accordance with the IASB's proposal, a passage-of-time adjustment is an adjustment that compensates either the issuer or the holder of a derivative for changes in the timing of settlement of that derivative resulting from the passage of time (paragraph 22C(b)(iii) and BC51). ESMA notes that, following the explanations in the Basis for Conclusions (paragraphs BC54(c) and BC56), this approach requires the extent of the adjustment to be analysed by entity using a present value calculation to assess whether the difference between the amount of consideration to be paid or received on each settlement date represents only compensation proportional to the passage of time. While ESMA considers this requirement to be useful, it proposes that the important clarification regarding the need for the present value calculation and assessment be included in the text of the standard, as it could otherwise be viewed by some as non-binding. In addition, ESMA suggests that the IASB clarifies that fixed rate adjustments need to be a reasonable approximation of time value of money. Moreover, additional explanations, illustrative examples and/or educational materials could be helpful to clarify how this assessment should be performed.

9. ESMA notes that the Basis for Conclusions contains some rather simplistic examples of preservation adjustments. ESMA recommends that the IASB provides additional examples

of preservation adjustments that include more details on the assessment of the nature of the adjustments.

10. Finally, ESMA notes that under proposed paragraph AG27A(b), the fixed-for-fixed condition can be met when one party has a choice of settlement between two or more classes of an entity's own equity instruments. ESMA suggests that the IASB clarifies whether this requirement also applies in the context of consolidated financial statements when those equity instruments are issued by different (consolidated) legal entities (e.g. parent company and a subsidiary).

3 Obligations to purchase an entity's own equity instruments

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.

11. ESMA agrees with most of the IASB's proposals on the accounting for obligations to purchase an entity's own equity instruments and considers that these proposals will improve the consistent application of the standard.

12. However, ESMA is aware of the view expressed by many stakeholders that the offsetting debit on recognition of the obligation to purchase own equity instruments should be recognised against non-controlling interests (NCI) and not within the ownership interests of the equity holders of the parent as proposed by the IASB, as otherwise there will be NCI double counting. It is argued that recognition of both a liability and the full amount of non-controlling interest overstates claims on the entity's net assets held by parties other than the entity's controlling owners. There would also be double counting in profit or loss which would be affected by (i) changes in the carrying amount of the grossed up financial liability and (ii) a portion of the subsidiary's profit or loss for the period is attributable to the non-controlling interest. The double counting of minority interests may also distort the calculation of ratios such as return on equity, the solvency ratio or the equity per share ratio (if calculated on the basis of the parent's share in equity and earnings). ESMA is sympathetic to this view and considers the arguments in favour of debit entry in NCI to be generally valid. At the same time, ESMA also understands that if IAS 32 were to stipulate that the debit entry is made in NCI, this would require clarification of the interaction of this requirement with some other IFRS standards (e.g. IFRS 10, IAS 33, IFRS 3) and possibly amendments to these standards, which could go beyond the scope of the FICE project. In light of this, ESMA considers that the IASB's proposal to recognise the offsetting debit within the component of equity other than NCI is a pragmatic solution to ensure consistent accounting pending further investigations to resolve the double-counting issue. These investigations should however not delay the finalisation of the FICE project.

13. ESMA considers that further guidance or examples should be provided to clarify the calculation of the present value of the redemption amount in cases where the redemption amount is not fixed upfront. This concerns, for example, cases where the exercise price of the put is the value of the shares on the exercise date, subject to a cap, or when the contract is settled by the delivery of a variable number of another class of the entity's own equity instruments which is determined according to a specific predefined formula. Moreover, an example should be provided to explain how the present value of the redemption amount is determined when there are several possible redemption dates, in particular when a later exercise date offers a significantly higher redemption amount (compensating for more than the time value of money) and thus a higher probability of exercise (e.g. if the put option could be exercised at 100 CU when redeemed within one year and at 150 CU when redeemed after one year).

14. ESMA would also consider it useful to provide a comprehensive illustrative example on the IASB's proposal clarifying that 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 (in both consolidated and separate financial statements).

15. In addition, ESMA notes that the option in AG27C (b) allows transferring the cumulative amount of gains or losses previously recognised from remeasuring the financial liability 'from retained earnings to another component of equity' after the instrument expired without delivery. ESMA would find it useful if additional guidance were provided in relation to the potential components of equity (not) available for such transfer (i.e., non-controlling interests or issued share capital) and considers that disclosures should be required in order to ensure transparency regarding such transfers.

4 Contingent settlement provisions

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.

16. ESMA generally supports the IASB's proposals aimed at providing more clarity regarding the effects of contingent settlement provisions on the classification and measurement of financial instruments.

17. ESMA agrees with the IASB that considering the timing and probability of occurrence makes the measurement complex and therefore supports the proposed measurement approach. However, ESMA considers it important to provide additional explanations and/or examples of the treatment of contingent events, which may differ both in terms of

timing (particularly if there are multiple dates or multiple periods when the contract can be settled) and in terms of the impact on the settlement amount.

18. Moreover, ESMA considers that additional guidance and/or examples should be provided with regard to the term "liquidation" as the determination of when an entity has permanently ceased its operations may require significant judgement (e.g. how the permanent ceasing of operations is related to insolvency).

5 Shareholder discretion

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.

19. ESMA welcomes the IASB's attempt to provide additional guidance to facilitate the assessment of when shareholders' decisions should be treated as entities' decisions when assessing whether an entity has an unconditional right to avoid delivering cash or another financial asset. ESMA notes that IAS 32 currently contains no such guidance, which causes significant differences in the classification of similar instruments in practice. In this respect, ESMA refers to its agenda item request regarding the classification of SPAC

shares submitted to the IFRS Interpretation Committee in 2021 which provides an example of such diversity in practice[1].

20. However, ESMA doubts that the proposed factor approach would be useful without further, more specific guidance. While ESMA does not support the "all or nothing" approach and finds that the factors identified by the IASB appear to be reasonable, ESMA notes that paragraph AG28B of the Exposure Draft states that the factors identified are not exhaustive (other factors might be relevant in assessing whether a shareholder decision is treated as an entity decision) and the weightings applied to each factor in making the assessment depend on the specific facts and circumstances. At the same time, neither examples of other factors which may be relevant to the assessment nor further guidance on how to determine the weighting of the factors are proposed.

21. ESMA is aware of the concern that a more detailed guidance might lead to a fundamental change to the existing classification requirements and thus in the common practice of the classification of certain instruments. However, ESMA considers that without further guidance on the application of the factor approach or the establishment of more specific principles there will be significant uncertainty as to how judgement should be applied, which will not significantly reduce the existing diversity in practice and will not improve comparability.

6 Reclassification of financial liabilities and equity instruments

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).

[1] esma32-67-791_letter_ifrs_ic_classification_of_spac_shares.pdf (europa.eu)

> **(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**

22. ESMA generally supports the IASB's proposals to clarify when reclassifications of financial instruments are required and how to account for those clarifications.

23. However, in addition to the two cases mentioned in paragraph AG35A (change of the entity's functional currency and gaining control of the non-group entity such that it becomes a subsidiary), ESMA encourages the IASB to provide more examples of circumstances external to the contractual arrangement that could result in changes of the substance of the contractual arrangements. In particular, it is important to clarify whether and when changes in the laws and regulations (especially those that result in some contractual terms no longer being enforceable) should be viewed as external circumstances that result in changes of the substance of the contractual arrangements that require reclassification after initial recognition.

7 Disclosure

> **Question 7 – Disclosure (paragraphs 1, 3, 12E, 17A, 20, 30A–30J and B5A–B5L of IFRS 7)**
>
> **The IASB proposes:**
>
> **a) to expand the objective of IFRS 7 to enable users of financial statements to understand how an entity is financed and what its ownership structure is, including potential dilution to the ownership structure from financial instruments issued at the reporting date (paragraph 1).**
>
> **b) to delete the reference to derivatives that meet the definition of an equity instrument in IAS 32 from paragraph 3(a) of IFRS 7.**
>
> **c) to move paragraphs 80A and 136A from IAS 1 to IFRS 7. These paragraphs set out requirements for disclosures relating to financial instruments classified as equity in accordance with paragraphs 16A–16B and/or paragraphs 16C–16D of IAS 32 (paragraphs 12E and 30I). The IASB also proposes to expand paragraph 80A to cover reclassifications if there are changes in the substance of the contractual arrangement from a change in circumstances external to the contractual arrangement.**
>
> **d) to amend paragraph 20(a)(i) of IFRS 7 to require an entity to disclose gains or losses on financial liabilities containing contractual obligations to pay amounts based on the entity's performance or changes in its net assets, separately from gains or losses on other financial liabilities in each reporting period.**

> **e) to include disclosure requirements for compound financial instruments in IFRS 7 (paragraph 17A).**
>
> **The IASB proposes to require an entity to disclose information about:**
>
> **f) the nature and priority of claims against the entity on liquidation arising from financial liabilities and equity instruments (paragraphs 30A–30B);**
>
> **g) the terms and conditions of financial instruments with both financial liability and equity characteristics (paragraphs 30C–30E and B5B–B5H);**
>
> **h) terms and conditions that become, or stop being, effective with the passage of time (paragraph 30F);**
>
> **i) the potential dilution of ordinary shares (paragraphs 30G–30H and B5I–B5L); and**
>
> **j) 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.**

24. ESMA strongly supports the disclosure requirements proposed by the IASB because they allow a better understanding of 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. ESMA refers, however, to its comments in the answers to Question 1 (on the need for specific disclosures to ensure transparency in relation to the effects of laws and regulations) and to Question 3 (regarding the transfer of the cumulative amount of gains or losses resulting from the remeasurement of a financial liability due to obligations to purchase an entity's own equity instruments from retained earnings to another component of equity after the instrument has expired without delivery).

8 Presentation of amounts attributable to ordinary shareholders

> **Question 8 – Presentation of amounts attributable to ordinary shareholders (paragraphs 54, 81B and 107–108 of IAS 1)**
>
> **The IASB proposes to amend IAS 1 to require an entity to provide additional information about amounts attributable to ordinary shareholders. The proposed amendments are that:**
>
> **a) the statement of financial position shows issued share capital and reserves attributable to ordinary shareholders of the parent separately from issued share capital and reserves attributable to other owners of the parent (paragraph 54);**
>
> **b) the statement of comprehensive income shows an allocation of profit or loss and other comprehensive income attributable to owners of the parent between ordinary shareholders and other owners of the parent (paragraph 81B);**
>
> **c) the components of equity reconciled in the statement of changes in equity include each class of ordinary share capital and each class of other contributed equity (paragraph 108); and**
>
> **d) dividend amounts relating to ordinary shareholders are presented separately from amounts relating to other owners of the entity (paragraph 107).**

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

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

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

25. ESMA welcomes proposed amendment to IAS 1 to require an entity to provide additional information about amounts attributable to ordinary shareholders separately from amounts relating to other owners of the entity. However, ESMA considers that it would be more appropriate to use the term 'other equity providers' or 'other equity holders' instead of 'other owners of the parent'.

9 Transition

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.

26. ESMA supports the retrospective application of the proposed amendments. However, ESMA considers that it is important to ensure that, as result of the retrospective application, the hedging relationships are not discontinued retrospectively, so that the affected hedges remain in place until the date of the first application of the amendments.

10 Disclosure requirements for eligible subsidiaries

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.

27. ESMA does not have any comments on this question.