CRÉDIT AGRICOLE S.A.

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

Paris, 15 March 2024

Exposure Draft—Financial Instruments with Characteristics of Equity—Proposed amendments to IAS 32, IFRS 7 and IAS 1

Dear Dr Barckow,

Crédit Agricole Group welcomes the opportunity to provide comments on the proposed amendments to IAS 32, IFRS 7 and IAS 1 regarding Financial Instruments with Characteristics of Equity.

Crédit Agricole Group is one of the leaders in universal retail banking in France and one of the leading banking players in Europe. As one of the largest financers of the French economy and a major European player, the Crédit Agricole Group supports the projects of its customers in France and around the world in all the retail banking and specialized trades associated with it: insurance, asset management, leasing and factoring, consumer finance, corporate and investment banking.

Crédit Agricole Group welcomes the IASB's efforts and approach to addressing issues that arise in practice related to IAS 32 "Financial Instruments: Presentation" by clarifying some of the underlying principles in IAS 32 and adding application guidance to facilitate the consistent application of the principles and improve the comparison between financial institutions.

Appendix A of this letter summarizes the most salient points that we identified regarding the proposed amendments.

We would like to insist on the elements presented in paragraphs 1 to 29 of this letter, concerning the effects of relevant laws or regulations considered in classifying a financial instrument or its component parts.

We do have concerns about the outcome of those proposals for instruments which have all or a large part of the terms whose origins are legal or regulatory in French jurisdiction. We have doubts to determine the correct conclusion when applying the ED's proposals to those instruments.

In paragraphs 24 to 28 of this letter, we explain the possible conclusions within the framework of the ED and consider that these proposals may always lead to inconsistent classifications for the instruments that we take as an example.

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We therefore think that the only acceptable view is one where all relevant laws and regulations creating rights and obligations are taken into account in the analysis, in addition to contractual rights and obligations. This leads us to support the "all-inclusive" view presented in paragraph BC14.

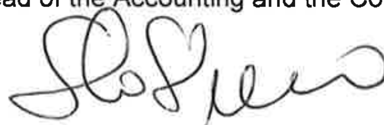
We hope you find our comments useful and would be pleased to provide any further information you might require.

Yours sincerely,

Simona Lo Sinno

Director

Head of the Accounting and the Consolidation



Appendix A

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. We are unsure of the outcome of those proposals and believe that they could have significant and harmful side effects, particularly in French jurisdiction.

2. French banks issue instruments which have all or a large part of the terms whose origins are legal or regulatory, and for which the contracts only repeat the legal or regulatory provisions. We understand from the ED's proposals that these provisions should not be taken into account in the classification analysis of these instruments, as indicated in paragraph BC22: "*Applying the approach described in paragraph BC20 to these examples, the Board concluded that it would be appropriate for the rights and obligations established by the relevant laws or regulations not to be considered when classifying those instruments because the laws or regulations would exist regardless of whether they are included in the contract* [...]". This provision is fully reflected in proposed paragraph 15A.b): "*In classifying a financial instrument (or its component parts) as a financial liability, a financial asset or an equity instrument, an entity:* [...] *(b) shall not consider any right or obligation created by relevant laws or regulations that would arise regardless of whether the right or obligation is included in the contractual arrangement.*"

3. We fail to determine the correct conclusion when these proposals are applied to an instrument governed entirely by law or regulation, and consider three possible antagonistic conclusions:

    a. In the absence of any element to analyse, i.e., because all the contractual clauses only repeat the law/regulation, the instrument does not contain a clause requiring the transfer of cash or another financial asset to another entity. This position suggests that in the silence of the contract, everything is considered to be discretionary. The instrument would therefore be qualified as an equity instrument[1].

    b. In the absence of any element to analyse, all the contractual clauses only repeating the law/regulation and IAS 32 analysing equity instruments only by default as not being debts, it is not possible to demonstrate that the instrument falls within the "exception"[2] for equity instruments. The instrument would then be qualified as a liability.

    c. In the absence of any element to analyse, the instrument does not contain a <u>contractual</u> clause requiring the transfer of cash or another financial asset to another entity, therefore

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[1] We would like to point out that this proposal seems to be the one retained as a general principle by our auditors in view of the ED's proposals.

[2] Since to be classified as equity, it may be considered necessary to "actively" demonstrate that there is in particular no contractual obligation to deliver cash or another financial asset to another entity (since IAS 32.16 contains an "if an only if" condition: "[...] *the instrument is an equity instrument if, and only if, both conditions (a) and (b) below are met.*[...]"), which corresponds to demonstrating that the instrument is not a debt.

there is no contractual obligation in the sense of IAS 32.16. However, since the law/regulation may require a said transfer, in this case, this contractual obligation would not be enforceable by law and would fail the criteria of paragraph 15A.a of the ED. The classification would therefore depend on all relevant laws or regulations which could cancel the enforceability of contractual rights and obligations. In this view, it would be necessary to check every relevant law/regulation, since it is the nature of the law to legislate in the absence of a contractual clause, which would contradict the position of the IASB expressed in paragraph BC15 of the ED. We therefore do not consider this proposal in our developments below.

4. A similar problem arises when all contractual clauses repeat the law/regulation, with the exception of instrument remuneration which would be contractually discretionary:

    a. In the absence of any other element to analyse, the instrument does not contain a clause requiring the transfer of cash or another financial asset to another entity since remuneration is discretionary, and therefore the instrument would be qualified as an equity instrument as a whole.

    b. Applying similar reasoning to paragraph 32A of the ED, the instrument contains an equity component (the discretionary remuneration), but in the absence of any element to analyse for the rest of the contract, it is not possible to demonstrate that the instrument falls within the "exception" for equity instruments, therefore the instrument also contains a liability component (compound instrument).

5. According to our understanding, both those proposals are based on an overly black-and-white vision of the debt-equity distinction, drawing conclusions in cases of silence of the contractual clauses, whereas we consider that it is not possible to draw conclusions from the contract in these cases and it is therefore necessary to refer to the laws and regulations.

6. We identified two categories of instruments that might be prone to these issues: regulated saving accounts and cooperative shares.

Regulated saving accounts

7. According to the annual report on regulated savings from the Banque de France, regulated saving accounts represent 874 billion euros at the end of 2022, or 15% of household financial savings. Those savings are carried out through numerous types of accounts ("livrets A", "livrets de développement durable et solidaire", "livrets d'épargne populaire", "comptes d'épargne logement" ...) which notably share the following common characteristics: opening and operation conditions defined by law, remuneration set by ministerial order.

8. As an example, we can consider the case of the "Livret A". The terms of opening, operation and closing of a "Livret A" are specified by order in the Council of State (Order No. 2008-1263 of December 4, 2008 relating to in Livret A). This principle is also included directly in the law through the Monetary and Financial Code, which itself refers to the general regulations applicable to regulated saving accounts. The remuneration of the "Livret A" is currently set by the Order of July 28, 2023 relating to the interest rates of regulated savings products.

9. Those laws and regulations do not give any room for a negotiation[3] between the bank and the household. In particular, the credit institution receiving a request to close a Livret A account is required to do so and pay the amounts due within fifteen working days following receipt of the request[4], without the possibility of refusing this request.

10. Under these terms, Livret A accounts (and in general regulated saving accounts) are currently considered as liabilities.

11. Considering the ED proposals, the "Livret A" (and in general regulated saving accounts) could fall

[3] Within the meaning of paragraphs BC20 and BC28 of the ED
[4] Article R221-125 of the Monetary and Financial Code

into the view presented in paragraph 3.a of this letter, which means that it would qualify as an equity instrument, since all the modalities allowing it to currently be qualified as liability have their origin in the law. However, from an economical point of view, we are convinced that those regulated saving accounts should be classified as liabilities, without any possible interpretation, since they include and are built around a cash remittance obligation, and do not represent a residual interest in the assets of an entity.

Cooperative shares

12. Cooperative shares are the instruments to create and manage a cooperative. They have specific features, which are consistent with the specific objective of cooperatives that is to meet the common economic or social needs of its members. This objective is achieved by the application of particular principles including notably:

    a. Specific rules on membership, resignation and expulsion, particularly the "one man, one vote" rule and,

    b. The fact that members cannot exercise any rights over the assets of the cooperative.

13. They grant the right to dividends, to attend and vote in the general assembly and to use the service of the cooperative.

14. From a general perspective, most cooperatives are variable capital companies. In this type of companies, when a member enters, cooperative shares are issued for the paid amount. When a member leaves, this amount is redeemed subject to strict conditions such as, for example, the authorization of the board of directors for our organization, and, as regards banks, the one of European Central Bank or national supervisor pursuant to EU Capital Requirement Regulation and secondary regulations.

15. At the time of liquidation, member shares are the most subordinated claim and are paid back after all other claims. They absorb losses proportionately and pari passu with all the other shares. Consequently, the amount paid back to the member after the liquidation can be lower than the amount initially paid.

16. On going concern basis, cooperative shares can also absorb losses. The amount redeemed to the member when he leaves the cooperative can therefore be lower than the amount initially paid.

17. In France, the shares of cooperative banks are equity pursuant to Article L512-1 of the French Monetary and Financial Code. The last paragraph of the article states explicitly that shares of cooperative banks represent a part of their capital: "*The membership shares of the mutual and cooperative banks are capital shares*". In addition, they comply with the strict criteria of the EU Capital Requirement Regulation n°572/2013 and amending EU Regulation n°648/2012 for eligibility for the highest quality of capital and also the EBA Regulatory Technical Standards (Commission Delegated Regulation EU n°241/2014).

18. From an accounting point of view, these cooperative shares are currently analysed under IFRIC 2 "Members' Shares in Co-operative Entities and Similar Instruments". The principle of paragraph 15A of the ED seems to us to be contradictory to the principles of classification of shares as specified by IFRIC 2.5: "[...] *the entity must consider <u>all of the terms and conditions of the financial instrument</u> in determining its classification as a financial liability or equity. <u>Those terms and conditions include relevant local laws, regulations</u> and the entity's governing charter in effect at the date of classification, but not expected future amendments to those laws, regulations or charter*" (emphasis added). IFRIC 2 does not limit the analysis of rights and obligations to contractual rights and obligations that are in addition to those created by laws relevant or regulations but seem to include all relevant laws, as explained in IFRIC 2.BC10: "[...] *it is local laws, regulations and the governing charter in effect at the classification date, together with the terms contained in the instrument's documentation that constitute the terms and conditions of the instrument at that date* [...]".

19. Therefore, we do not understand the underlying position of the IASB expressed in paragraph BC30:

"In the Board's view, such a clarification would be consistent with the principle in paragraph 8 of IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments that if redemption of an instrument is unconditionally prohibited by local law, regulation or an entity's governing charter, the instrument is classified as equity".

20. Applying IFRIC 2.7[5] with the ED proposals, this statement can find meaning in a jurisdiction where the member's right to reimbursement is contractual and the law give the entity an unconditional right to refuse redemption if a right to reimbursement is granted contractually. In those cases, the right to reimbursement would not be enforceable within the meaning of paragraph BC27 of the ED and IAS 32.13.

21. However, this is not the situation encountered by Crédit Agricole Group in the French legislation. In France, concerning the cooperative shares of the Crédit Agricole Group:

    a. Articles L512-23 and L512-26 of the Monetary and Financial Code and Article 18 of the law of 1947 establishing the status of cooperation introduce a right to reimbursement for the member: "*The member who withdraws, who is struck off or who is expelled, in the event that he is entitled to reimbursement of his shares, is entitled to reimbursement of their nominal value*" and "*Members of the Crédit Agricole Mutuel branches can, in principle, only be released from their commitments to them after liquidation of the operations in progress at the time they withdraw*".

    b. Article L512-23 of the Monetary and Financial Code limits the member's right to reimbursement by requiring the approval of the Board of Directors of the entity: "*The capital of the Crédit Agricole Mutuel cannot be formed by share subscriptions. It must be subscribed by the members in the form of membership units. Said membership units are registered. They are transferable, but the Board of Directors must approve their sale*"[6].

22. Under these terms, Crédit Agricole cooperative shares are currently considered as equity. However, the member's right to reimbursement and the unconditional right to refuse redemption of the entity both have their origins in the law. Applying the ED proposals, both those rights would not be considered for the analysis, as they are applicable regardless of whether they are included in the contractual arrangement (i.e. the entity's governing charter), and therefore it would be impossible to refer to paragraph 7 of IFRIC 2 to classify cooperative shares as equity. Since the dividends of cooperative shares are discretionary, we could fall into the view presented in paragraph 4.b of this letter, with a risk to classify cooperative shares as compound instruments.

23. We are convinced that cooperative shares have to be classified as equity, without any possible interpretation. We think that especially the fact that cooperative shares are the most subordinated instrument in case of liquidation is determinant for their classification in equity. More generally, we believe that this "ranking" criterion should be taken into account in the classification between debt and equity.

Possible solutions

24. These two categories of instruments demonstrate in our opinion that, if the IASB wishes to continue with its proposals as indicated by paragraph BC20, it is necessary to question the classification of instruments for which the contractual clauses are entirely or almost entirely governed by law or regulation.

25. A first possibility is to continue with the view expressed in paragraph BC20 and consider that in the absence of an explicit contractual right to avoid handing over cash or another financial asset, the entity would be considered to have, by default, a contractual obligation to hand over cash or another financial asset (IAS 32.16). In our opinion, this view would lead to classifying Crédit Agricole

[5] IFRIC 2.7: "Members' shares are equity if the entity has an unconditional right to refuse redemption of the members' shares"

[6] It is considered and indicated in the contracts that the reimbursement is a sale to the Crédit Agricole regional branch (share buyback), the reimbursement is therefore subject to this legal clause.

cooperative shares in France as liability, and therefore is not acceptable to us.

26. A second possibility is to continue with the view expressed in paragraph BC20 and consider that in the absence of an explicit contractual obligation to hand over cash or another financial asset, the entity would be considered to have, by default, right to avoid handing over cash or another financial asset (IAS 32.16). In our opinion, this view would lead to classifying regulated saving accounts in France as equity, and therefore does not seem acceptable to us.

27. These possibilities both lead to IFRIC 2 being rendered meaningless in the application that the Crédit Agricole Group could make of it: the first leads to a result contradictory to the current interpretation, the second implies that at no time it is necessary to call the dedicated interpretation to classify the Crédit Agricole cooperative shares.

28. A third possibility is that as an exception to the principle of paragraph BC20, instruments strongly or entirely governed by law or regulation must be analyzed taking into account the rights and obligations introduced by these laws or regulations. It seems difficult to us to establish a boundary between an instrument "little" governed by law and an instrument "strongly" governed by law (such as cooperative shares or regulated saving accounts). Such an exception could lead to instruments that are very similar economically and in their terms being treated differently because one would be subject to more restrictive regulations than the other. This view therefore does not seem acceptable to us either.

29. Therefore, the only acceptable view in our opinion is one where all relevant laws and regulations creating rights and obligations are taken into account in the analysis, in addition to contractual rights and obligations. This leads us to support the "all-inclusive" view presented in paragraph BC14, resolving the problems linked to the categories of instruments explained above.

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.

30. We welcome the ED's proposals regarding the application of the 'fixed-for-fixed' condition.

31. We also support the other clarifications made by the IASB, in particular regarding the terms 'preservation adjustment' and 'passage-of-time adjustment'.

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.

32. We highlight that due to lack of guidance in IAS 32, in practice there are different views on how to subsequent measure the redemption amount recognized as liability. In particular, a view currently defended by certain stakeholders refers to the requirements to account in equity for transactions with owners in their capacity as owners.

33. We acknowledge that the IASB's approach complies with current IAS 32, IFRS 10 and the Conceptual Framework. Although these proposals call into question our current practice, we do not oppose the IASB's proposals which have the merit of addressing current diversity in practice and improving comparability. We would also like to emphasize in particular that the IASB's proposal on the initial recognition of the financial liability removed from the group's share capital will have a certain economic effect. Currently, the initial amount of the financial liability is removed from non-controlling interests' equity. Prudentially, minority interests are only included for a portion, while group share capital is included in full. Recognizing the liability by removing group equity will therefore lead to a

reduction in Common Equity Tier 1 capital for banks in the European framework[7].

34. We would nevertheless like the IASB to clarify the accounting of dividends paid to minority shareholders, in particular in cases where the granted options are considered to transfer rights to the returns associated with an ownership interest. In these cases, minority shareholders can no longer be considered as such, and the percentage of interest modified accordingly. Following this logic, the dividends paid to these shareholders could be considered as remuneration of a financial liability and would no longer be presented as such as dividends.

35. As the Primary Financial Statement project is now close to its finalization, we consider important that the IASB questions the classification in the P&L in light of this project. In the case of variations in fair value by P&L of the financial liability, it seems relevant to us that these variations be included in the future "financing" category of the PFS project, even for entities that provides financing to customers as a main business activity, in accordance with paragraph B37 relating to interest income and expenses on liabilities not arising from financing activities in the financing category of the ED published in 2019.

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.

36. We welcome the ED's proposals which confirm our current practice regarding the application of paragraphs 25 and 28 of IAS 32.

37. We also support the other clarifications made by the IASB, in particular regarding the terms 'liquidation' and 'non-genuine'.

[7] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 Text with EEA relevance

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.

38. We welcome the clarifications by the IASB on the factors to be considered when analyzing shareholder decisions, without making them strict indicators, set out in paragraphs AG28A–AG28C of the ED.

Question 6—Reclassification of financial liabilities and equity instruments (paragraphs 32B–32D and AG35A of IAS 32)

The IASB proposes:
(a) to add a general requirement that prohibits the reclassification of a financial instrument after initial recognition, unless paragraph 16E of IAS 32 applies or the substance of the contractual arrangement changes because of a change in circumstances external to the contractual arrangement (paragraphs 32B–32C).
(b) to specify that if the substance of the contractual arrangement changes because of a change in circumstances external to the contractual arrangement, an entity would:
(i) reclassify the instrument prospectively from the date when that change in circumstances occurred.
(ii) measure a financial liability reclassified from equity at the fair value of that financial liability at the date of reclassification. Any difference between the carrying amount of the equity instrument and the fair value of the financial liability at the date of reclassification would be recognised in equity.
(iii) measure an equity instrument reclassified from a financial liability at the carrying amount of the financial liability at the date of reclassification. No gain or loss would be recognised on reclassification (paragraph 32D).
(c) provide examples of changes in circumstances external to the contractual arrangement requiring reclassification (paragraph AG35A).

Paragraphs BC126–BC164 of the Basis for Conclusions explain the IASB's rationale for these proposals.

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

Would the proposal to reclassify the instrument prospectively from the date when a change in circumstances occurred give rise to any practical difficulties? If so, please describe those practical difficulties and the circumstances in which they would arise.

39. We welcome the IASB's efforts to address the issue of lack of guidance on reclassification in IAS 32. We would appreciate the notion of circumstances external to the contract being clarified, while appreciating the examples provided in paragraph AG35A. In particular, it does not seem clear to us whether with the ED's proposals the laws and regulations are part of these external circumstances.

40. Along the same lines, the IASB could usefully add illustrative examples of articulation of these proposed reclassification cases with the current guidance of IFRS 9.3.3.2 concerning substantial modifications of financial liabilities.

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:
(a) the nature and priority of claims against the entity on liquidation arising from financial liabilities and equity instruments (paragraphs 30A–30B);
(b) the terms and conditions of financial instruments with both financial liability and equity characteristics (paragraphs 30C–30E and B5B–B5H);
(c) terms and conditions that become, or stop being, effective with the passage of time (paragraph 30F);
(d) the potential dilution of ordinary shares (paragraphs 30G–30H and B5I–B5L); and
(e) instruments that include obligations to purchase the entity's own equity instruments (paragraph 30J).

Paragraphs BC170–BC245 of the Basis for Conclusions explain the IASB's rationale for these proposals.

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

41. We do not support the scope of the proposed disclosures in paragraph 30B, which is unnecessarily too wide and thus, may result in information whose benefits are unlikely to justify the costs incurred to provide it. We suggest reducing the scope of paragraphs 30A-30B only to financial securities issued.

42. Regarding the potential dilution of ordinary shares, the quantitative disclosures required by paragraph 30G seem to us very difficult to provide. Moreover, the description of the terms and conditions of contracts that are relevant in understanding the likelihood of the maximum dilution of ordinary shares, required by paragraph 30G.d, supposes an extreme effort to justify this likelihood, whereas it appears to us to be based on subjective bases. Those additional disclosures go beyond the scope of IAS 33 and we do not see a clear benefit to them. We would prefer having a better definition of dilution compared to IAS 33, as in practice it is not always clear what dilution is.

43. We welcome the other proposals of the ED and appreciate that the IASB has formulated all these requests for disclosures in the form of objectives to be achieved for the good understanding of users

of financial statements, and not as a mandatory checklist.

Question 8—Disclosure 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.

44. We support the IASB's proposals which are consistent with the other proposals of the ED.

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.

45. We globally support the proposed transition requirements as set out in paragraphs 97U–97Z of the ED, except for considerations regarding initial classification and reclassifications.

46. We would welcome an exception to the full retrospective approach proposed by the ED on these matters. Indeed, IAS 32 is an "old" standard, which means that such an approach requires finding a substantial history, in particular on the reclassification aspect if the laws and regulations are considered as a change in circumstances external to the contractual agreement, significantly increasing costs relative to benefits.

47. We suggest that these two aspects be assessed retrospectively, going back only to the last reclassification applicable and occurring before the comparative period to each instrument, which makes it possible to present the instrument in the balance sheet according to the correct classification without having to take into account an excessive historical depth of data.