
IASB® meeting

Date	July 2024
Project	Financial Instruments with Characteristics of Equity (FICE)
Topic	Project plan
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Introduction

1. The purpose of this paper is to set out the next steps for the Financial Instruments with Characteristics of Equity (FICE) project in the light of the feedback on the Exposure Draft published in November 2023. The feedback was summarised in [Agenda Paper 5](#) and discussed at the May 2024 IASB meeting.
2. This paper is structured as follows:
 - (a) background:
 - (i) [scope of the FICE project](#);
 - (ii) [objectives of the clarifying amendments](#); and
 - (iii) [summary of feedback on the Exposure Draft](#);
 - (b) project plan:
 - (i) [detailed feedback analyses and redeliberations](#);
 - (ii) [further research and consultations](#); and
 - (iii) [timing of discussions and next steps](#); and
 - (c) [question for the IASB](#).

Background

Scope of the FICE project

3. In [September 2019](#), the IASB discussed the direction of the project and agreed on an approach that addresses known practice issues by clarifying the underlying principles in IAS 32 *Financial Instruments: Presentation* (‘clarifying amendments to IAS 32’). The IASB considered that this could be achieved by adding to the current requirements and application guidance in IAS 32 or by providing illustrative examples, rather than fundamentally changing the classification requirements. The IASB considered that the benefits of such an approach would include:
 - (a) clarifying the interactions between different requirements in IAS 32;
 - (b) providing a principle-based solution that would have greater potential for addressing future as well as existing challenges; and
 - (c) having a clear starting point for any potential amendments—the known application issues and accounting challenges raised by stakeholders over time and the current requirements in IAS 32.
4. However, the IASB acknowledged that, any project that does not involve a complete rewrite of IAS 32 cannot address all challenges entities are facing because the IASB would largely be working within the confines of IAS 32 instead of developing a fundamentally new approach.

Objectives of the clarifying amendments

5. As discussed in the [October 2019](#) IASB meeting, the overall objectives of the clarifying amendments to IAS 32 are to:
 - (a) address known practice issues that arise when applying IAS 32 either by clarifying underlying principles or developing a new principle and accompanying rationale where needed.

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- (b) improve the information provided in the financial statements about the financial instruments issued by the entity.
 - (c) limit changes to classification outcomes to those in which sufficient evidence exists that such a change would provide more useful information to users of financial statements. Such changes to classification outcomes may result from:
 - (i) reducing accounting diversity by clarifying the relevant classification requirements, which would necessarily mean that some entities would need to change their accounting classification of a specific type of instrument.
 - (ii) reconsidering the current classification outcomes of applying IAS 32. In some cases, the current classification requirements in IAS 32 may be clear but questions exist about whether the resulting classification provides useful information. Evaluating the benefits of more useful information against the costs of implementation would be particularly important because such a decision would affect all entities that issue those relevant financial instruments.
 - (d) clarify interactions between the requirements in IAS 32 and ensure the clarifying amendments do not create any internal inconsistencies in IAS 32. For example, the interactions can be clarified so that it is clear in what order the requirements should be applied and which requirement should apply to a particular financial instrument.
 - (e) finalise the amendments in a timely manner—the staff continue to think that timely finalisation should be an important consideration in identifying which matters to address as part of this project and in considering how to address them. For many of the identified practice issues, accounting diversity has persisted for a long period of time. As the project progresses, the IASB could reassess whether a solution can be developed within a timeframe that would not significantly delay the finalisation of the other matters within the scope of the project. As a result of this reassessment, the IASB may ultimately decide that a particular issue should not be addressed as part of this project.

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- (f) develop an efficient transition approach that will consider implementation costs.

Summary of feedback on the Exposure Draft

- 6. The IASB discussed the summary of feedback on the proposals in the FICE Exposure Draft in [May 2024](#).
- 7. Generally, there was acknowledgement that it is currently very challenging to determine whether a financial instrument is classified as a financial liability or equity and clarity on the requirements or additional application guidance is needed. Therefore, there was general support for the efforts made by the IASB, including the approach taken and the objective of the proposed amendments to reduce diversity in practice and to improve understandability and comparability for investors.
- 8. Overall, stakeholders agreed with a number of proposals but there was disagreement on some aspects. Broadly speaking, stakeholders' disagreement can be categorised as:
 - (a) requests for even more clarity, for example better articulation, further clarification or additional explanations, arising from concerns about new interpretation issues or misunderstanding of the proposals to develop;
 - (b) disagreements with particular aspects of the proposals, especially if the proposals lead to changes in current classification outcomes or highlight differences in interpretations of the current requirements in IAS 32; or
 - (c) disagreements with fundamental aspects or issues which are outside the scope of the project.

Project Plan

- 9. In the staff's view, mixed feedback on the proposals in the Exposure Draft was to be expected and disagreement with aspects of the proposals are consistent with the long-standing diversity in practice with regards to some matters. Any attempt to reduce

such long-standing diversity would necessarily require some entities to change their current practice and this could result in changes to the classification of financial instruments as financial liabilities or equity.

10. Although we acknowledge the costs and efforts required to implement such changes to accounting practices, we are of the view that disruption in current practice, in itself, is not a reason for the IASB to not proceed with any of the proposals. Equally, we do not believe that it would be appropriate to fundamentally change the principles and requirements in IAS 32 to simply ‘codify’ existing accounting practices. FICE has been a long-standing project which has seen many iterations, included two Discussion Papers and can be traced as far back as 2006 when it was a modified joint project between the IASB and the FASB. The aim is to finalise the project and the proposed amendments to IAS 32, IFRS 7 *Financial Instruments: Disclosures* and IAS 1 *Presentation of Financial Statements* (to be replaced by IFRS 18 *Presentation and Disclosure in Financial Statements*) efficiently and effectively.
11. The staff therefore recommend the focus of the redeliberations to be on whether the proposals achieve the objectives of the project as discussed in paragraph 5 of this paper (which include eliminating or reducing diversity in practice) or whether they create new diversity. Key to the discussions will be to consider how best to reconcile the diverse stakeholder views so that the benefits of improved financial reporting outweigh the costs of providing that information.

Detailed feedback analyses and redeliberations

12. The staff will bring the detailed feedback analysis on each topic covered in the Exposure Draft together with the staff analysis and recommendations to the IASB meetings so that IASB members can redeliberate the proposals taking into account this feedback.
13. In addition to the views expressed, there were some general matters raised by stakeholders which will also need to be considered by the IASB. These include:

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- (a) the location of proposals affecting measurement and whether they should be in IAS 32 which deals mostly with presentation and classification issues;
 - (b) whether there is merit in scoping some proposals out of the FICE project into a separate project; and
 - (c) whether to add more illustrative examples or disclosures.
 14. Only once the IASB has properly redeliberated the proposals will it be in a position to decide on the project direction, ie whether to proceed with, refine, change or not finalise some of the individual proposals. Based on the staff's initial feedback analysis (feedback summary), it is clear that some topics are more contentious than others and may warrant discussion at more than one IASB meeting.
 15. However, the staff note that the IASB has received a lot of feedback on the Exposure Draft through the 137 comment letters received and through the various stakeholder outreach meetings. We believe the level of feedback from various types of stakeholders and geographic regions is sufficient for the IASB to make decisions going forward. The IASB already decided on the scope of this project after analysing the feedback on the Discussion Paper issued in 2018 and would not be in a position to address issues that are beyond the scope of the project as that would significantly delay its completion and require re-exposure of proposals. Furthermore, the staff note that the IASB has not committed to a fundamental review of IAS 32 at a later stage. Any further issues related to IAS 32 or ideas for new projects would need to be considered as part of the IASB's next Agenda Consultation.

Further research and consultations

16. Some stakeholders suggested field tests and further outreach should be conducted on the proposals related to:
 - (a) the effects of laws or regulations to assess the impact and clarity of the proposals and whether the classification outcome reflects the substance considering different legal systems across jurisdictions;

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- (b) contingent settlement provisions to assess the proposed measurement approach;
 - (c) shareholder discretion to assess the classification outcome;
 - (d) reclassification to assess the operational challenges; and
 - (e) disclosures to assess the cost-benefit analysis.
17. The staff has already conducted 35 outreach meetings on the proposals in the Exposure Draft with stakeholders (including 15 with investors) prior to the end of the consultation period. In addition, we note that various examples of financial instruments affected by the proposals together with concerns about application issues and unintended consequences were mentioned in the comment letters and during the outreach meetings. Due to the number of instruments affected by the proposals, it is also not feasible to test the proposals on every instrument. The IASB's intention is to develop principles that are robust and able to be applied to new instruments that might arise in the future.
18. The staff therefore do not believe it is necessary to conduct further field tests and outreach. However, the staff plan to conduct limited additional research and targeted consultation where it is necessary to understand the effects of the proposals on specific instruments or on specific stakeholders, or to develop the proposals further in the light of the feedback.

Timing of discussions and next steps

19. At the [July 2024](#) Accounting Standards Advisory Forum (ASAF) meeting, ASAF members discussed their preferences for topics the IASB should prioritise in its redeliberations. The most common topics raised were the effects of laws or regulations and reclassification, followed by the fixed-for-fixed condition and contingent settlement provisions. In addition, ASAF members also mentioned some concerns about obligations to purchase own equity instruments (particularly written

put options on non-controlling interests) and discussed the importance of finding the right balance when requiring new disclosures.

20. The staff plan to bring the topics to the IASB largely in the order in which they appeared in the ‘Invitation to comment’ section of the Exposure Draft (which is largely consistent with the order the proposals are set out in the Exposure Draft). Discussing classification topics prior to presentation and disclosure topics will also ensure any interactions between the classification and presentation or disclosure topics are taken into consideration in a timely manner.

Topics for discussion	Preliminary timing to commence redeliberations
Effects of laws or regulations	Q4 2024
Fixed-for-fixed condition	Q4 2024
Shareholder discretion	Q1 2025
Reclassification	Q1 2025
Obligations to purchase own equity instruments	Q2 2025
Contingent settlement provisions	Q2 2025
Disclosures	Q4 2025
Presentation	Q4 2025
Transition	Q2 2026

Topics for discussion	Preliminary timing to commence redeliberations
Disclosures for subsidiaries without public accountability	Q2 2026

Question for the IASB

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Do IASB members have any comments or questions on the project plan and indicative project timeline set out in this paper?