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(submitted via the IASB website)

28 March 2024

Dear Andreas,

AASB submission on IASB Exposure Draft/2023/5 Financial Instruments with Characteristics of Equity: *Proposed amendments to IAS 32, IFRS 7 and IAS 1*

The Australian Accounting Standards Board (AASB) welcomes the opportunity to provide comments on the International Accounting Standards Board (IASB) Exposure Draft/2023/5 Financial Instruments with Characteristics of Equity: *Proposed amendments to IAS 32, IFRS 7 and IAS 1*, with accompanying Basis for Conclusions, Illustrative Examples, and Implementation Guidance, issued in December 2023.

In formulating these comments, the views of Australian stakeholders were sought and considered. This consultation included the following outreach activities to gather views from stakeholders:

(a) AASB Financial Instruments Project Advisory Panel meeting,

(b) written submissions to AASB from Australian stakeholders,

(c) AASB User Advisory Committee meeting, and

(d) other targeted consultations with financial statement preparers, auditors and professional bodies.

The AASB acknowledges the IASB's efforts in clarifying some requirements in IAS 32 *Financial Instruments: Presentation* to reduce diversity in practice and address practice issues and welcomes the proposed improvements to the presentation and disclosure of information about financial liabilities and equity instruments.

Overall, our stakeholders agree with the proposed clarifications; in particular, there is broad support for the presentation and disclosure initiatives. However, we recommend:

(a) further attention should be given to the proposed requirement that a contractual right or obligation must be 'in addition to' a relevant law or regulation to form part of the substance of the contract (Question 1);

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(b) the IASB to consider allowing an accounting policy choice for the classification of discretionary distributions on compound financial instruments for which the equity component has an initial carrying amount of zero (Question 4) and

(c) referencing IFRS 9 *Financial Instruments: Recognition and Measurement* for the initial and subsequent measurement of financial instruments rather than introducing additional recognition and measurement requirements into IAS 32 (Questions 3 and 4).

The detailed recommendations and responses to the specific questions for respondents can be found in the Appendix to this letter. If you have any questions regarding this letter, please do not hesitate to contact me or Helena Simkova, Director (hsimkova@aasb.gov.au).

Yours sincerely,

Dr. Keith Kendall

Chair – AASB

APPENDIX

AASB responses to questions raised in the IASB Exposure Draft/2023/5 Financial Instruments with Characteristics of Equity: Proposed amendments to IAS 32, IFRS 7 and IAS 1

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.

The AASB agrees with the principles underlying the IASB's proposals to clarify when laws and regulations form part of the substance of a contract.

However, most stakeholders said they were unsure how to apply the requirement for a contractual right or obligation to be 'in addition to' those created by relevant laws or regulations (para.15A(a)). Paragraphs AG24A and BC20 refer to rights and obligations solely created by laws or regulations that 'cannot be' negotiated or modified by the parties to the contract. We suggest that this form of words is potentially misleading because, for a contractual right or obligation to be in addition to or more specific than those established by relevant laws or regulations, the legal requirement must have been negotiated or modified somehow. We suggest that paragraph AG24 should be amended accordingly. Additional guidance on when the contractual rights and obligations are 'in addition to' laws and regulations would be helpful.

Stakeholders also requested detailed examples to show how the proposals would apply to the bank bail-in laws. We noted that, if updated, the discussion in paragraph 23 of Agenda Paper 5F from the September 2021 IASB meeting could be used as a basis for illustrative examples. For example, it could be helpful to explain whether the contractual rights are in addition to regulations if a contract specifies a loss absorption feature (such as a capital trigger required by the regulator to be specified in the contract) without any modification to the regulatory requirement, but the surrounding terms and conditions (such as the specific conversion price and whether it is subject to any adjustments such as anti-dilution adjustments) are specific to the contract.

We also suggest that the proposed guidance paragraph AG24B should be moved into the main part of the Standard (as para.15A(c)) because it is an additional requirement rather than guidance on applying a Standard.

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 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.

In general, the AASB supports the principles underlying the IASB's proposed approach to clarify when the fixed-for-fixed condition in paragraph 16(b)(ii) of IAS 32 is met.

However, using fixed exchange ratios to define the fixed-for-fixed conditions in paragraphs 22B (the amount of consideration to be exchanged **for each of an entity's own equity instruments**) appears to be a change to the wording used in paragraph 16(b)(ii), which refers to the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of the issuer's equity instruments. This may be difficult to understand as the principles of the fixed-for-fixed condition are not well explained.

Accordingly, we suggest amending some of the illustrative examples to provide a more precise discussion of the underlying principles and determinative factors and providing the paragraph and sub-paragraph references from IAS 32 to support the conclusions.

Specific comments and suggestions are as follows:

(a) It would be useful to explain the underlying principles for satisfying the fixed-for-fixed condition. We think that understanding the principles will improve the consistency of the Standard's application.[1] These principles are described in several IASB Agenda Papers.[2]

(b) In Example 13A (paras. IE53 and 54), the references to paragraph 22B should be to paragraph 22B(a).

(c) In Example 14 (para. IE61), the reference to paragraph 22B should be to paragraph 22B(a). The scenario should also clarify the type of interest rate (ie. fixed interest rate) assumed as it could be misinterpreted by the readers.

(d) There is currently no example of a preservation adjustment in the Illustrative Examples. Paragraphs 12-14 in Agenda Paper 5B (from the April 2020 IASB meeting) provide discussion and an example of a preservation adjustment that could be included in the Illustrative Examples.

(e) Illustrative Example 20 (para.IE85) does not explain why an interest rate benchmark is not a passage of time adjustment. Please include in the example the discussion in BC57 about the components of an interest rate benchmark that do not reflect the passage of time.

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:

1 For example, for fixed-for-fixed to apply, residual risk (or share price risk) must be with the holder of the conversion option. That is, the entity that would issue the shares cannot be disadvantaged if the share price changes and cannot be required to deliver more shares if the share price falls. Conversely, the holder is not indifferent to whether they receive shares or cash. This is, therefore, not the same as the entity using their shares as currency to settle the obligation instead of cash. Other principles include that the fair value of the derivative should not (notionally) vary at the settlement date other than in response to a change in the price of the underlying equity instruments.

2 The agenda papers referred to are the IASB Agenda Paper 5 from the December 2019 Board meeting and Agenda Paper 5A and 5B from the April 2020 Board meeting, available on the FICE project page.

> (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.
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> (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).
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> (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).
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> 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.

The AASB supports the proposed accounting requirements for contracts containing an obligation for an entity to purchase its own equity instruments. However, we recommend not to introduce the recognition and measurement of financial liabilities into IAS 32. Specific comments and feedback are below.

Accounting treatment

Stakeholders supported the accounting proposals, although there was a question about the treatment of consideration received when the consideration exceed the redemption amount. For example, suppose an entity creates a special reserve to meet the requirements of paragraphs 23 and AG27B (i.e., not to debit share capital or non-controlling interests) and credits the special reserve for the amount of consideration received (para. 22). In that case, the excess of the consideration will remain in the special reserve. We recommend to clarify in the standard or in the guidance that any residual amount cannot be recycled through profit and loss.

Measurement

The AASB suggest not to extend the scope of IAS 32 beyond classification and presentation by including guidance on measurement of financial liabilities. Staff think IFRS 9 *Financial Instruments: Recognition and Measurement* (and IFRS 13 *Fair Value*) should apply to the recognition and measurement of financial liabilities arising from an obligation for an entity to deliver its own equity. We agree with feedback from stakeholders that introducing measurement guidance in IAS 32 will create conflicts around precedents (i.e. which standards to apply first). We also think that IFRS 9 is designed to recognise and measure complex financial arrangements, while IAS 32 is not. Therefore, IFRS 9 could address situations when the consideration does not equal the redemption amount.

We suggest that rather than extending the scope of IAS 32 and limiting the scope of IFRS 9, the IASB might instead consider that ignoring probability and timing could be consistent with recognising the instrument at fair value under IFRS 9. For example, as explained in Agenda Paper 5 (para. 44) of the September 2022 IASB meeting, the fair value of a financial liability with a demand feature should be measured at not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid (paragraph 47 of IFRS 13). This logic could be discussed in IAS 32, leaving recognition and measurement under IFRS 9.

However, if the IASB makes no changes following consultations, we suggest a scope limitation be included in IFRS 9.

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.

The AASB supports the IASB's objective to clarify the classification of financial instruments with contingent settlement features. However, similarly to our previous comment, we suggest not to include the recognition and measurement of financial liabilities with contingent settlement features in IAS 32 (Question 4(b)). Further, we recommend that the IASB reconsider the recognition of discretionary distributions of a compound financial instrument that has an initial carrying amount of zero (Question 4(c)). Specific comments and feedback are below.

Question 4(b)

Feedback from stakeholders generally supports the IASB view that the probability and timing of settlement should not be reflected in the initial carrying amount of a contingent liability or liability component. However, similar to our comments on Question 3, we suggest not to extend the scope of IAS 32 beyond classification and presentation by including the guidance on measuring financial liabilities.

The AASB thinks that IFRS 9 and IFRS 13 should be used to recognise and measure financial liabilities. As we suggest in Question 3, rather than extending the scope of IAS 32 and limiting the scope of IFRS 9, the IASB could instead address their proposed measurement approach with the existing requirements in IFRS 9 and IFRS 13. However, if the IASB makes no changes following consultations, we suggest a scope exception should be included in IFRS 9.

In addition, we have the following comments:

(a) The measurement approach proposed in paragraph 25A for a contingent liability (present value of the settlement amount) is inconsistent with the measurement of a liability component in paragraph 32 (fair value). We suggest clarifying in paragraph 25A that the proposed measurement approach estimates the fair value and updating paragraph 32 to explain that the fair value of liabilities with contingent settlement features is in paragraph 25A.

(b) According to the Basis for Conclusions (paras. BC98-102), the proposed amendments respond to stakeholder questions about the initial measurement of the liability component of a compound financial instrument with a contingent settlement provision in paragraph 32. However, paragraph 25A will apply to all financial instruments with contingent settlement provisions. We suggest that the IASB amends the wording and discussion in paragraphs BC98-BC102 to clarify that the proposals apply to all financial instruments with contingent settlement features and explain the decision to apply new measurement requirements to such instruments.

(c) Stakeholders asked how to account for the difference if the amount of the contingent obligation is higher (or lower) than the cash proceeds on the issue. IASB staff discuss this question in Agenda Paper 5A (paras. 36-37) of the December 2021 IASB meeting; however, they do not address how to account for the difference when the financial instrument and the contingent settlement provision are both liabilities. For example, if an entity receives CU70 today and agrees to pay CU100 if they find gold at a mining tenement (which could be tomorrow or in three years) or will repay CU70 if they find nothing, the cash proceeds are CU70, and the liability amount is CU100. It is currently unclear how to account for the CU30 difference if IFRS 9 does not apply.

(d) We also suggest it would be useful to clarify that paragraphs 25 and 25A do not apply to contingent events that affect the timing but not the settlement amount of the financial instrument, as explained in Agenda Paper 5A (paras. 38-40) of the December 2021 IASB meeting. For example, bond covenants can contain ratios involving liabilities, assets, and equity (e.g., if the equity-to-assets ratio falls below a specified level, then the bond becomes payable immediately). The contingency in these bonds may be similar to that in contingent convertible bonds with non-viability clauses and could have a similar likelihood of occurrence. However, they are different in that they do not affect *whether* liability settlement will occur but rather the timing of settlement of an existing financial liability.

Question 4(c)

The AASB recommends that the IASB reconsider the recognition of the discretionary distributions on banks' capital notes.

In Australia, our banks issue perpetual convertible notes subject to bail-in regulations. The regulations require the immediate conversion of the notes into a variable number of own shares if certain trigger events occur. This contingent conversion feature results in the proceeds of the capital notes being recognised as a liability with zero allocated to equity. Currently, discretionary distributions on the notes are expensed as interest.

Consistent with feedback from stakeholders, including our User Advisory Committee members, we think the proposals will create an accounting mismatch and may result in other consequences. For example, reclassifying the distributions from profit to equity for some banks will result in a material increase in statutory net profit that does not seem justified. Also the classification is inconsistent with how the instruments are managed internally (as term debt). We also agree with stakeholders that the distributions are economically different from dividends on ordinary shares, and banks are exposed to

interest rate risk. Further, the reclassification will likely be reversed as a non-IFRS adjustment in investor presentations. Reclassifying the distributions to equity could also affect banks' hedging arrangements.

The AASB suggests that entities should be permitted to make an accounting policy choice about the recognition of distributions when the full amount of a compound financial instrument is allocated to debt.

Question 4(e)

The AASB supports the IASB proposal to amend paragraph AG28 to clarify that judgement should be applied when assessing whether a contractual term is genuine. However, we think that the guidance could clarify that certain contractual terms are included in the contract for a commercial reason and they are likely to be genuine even if the nature of the contingent event is expected to be extremely rare or highly abnormal (e.g., non-viability clauses are usually genuine, even though they may never be used).

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.

The AASB thinks that the IASB has struck the right balance of providing non-prescriptive guidance while observing that outcomes could differ across jurisdictions.

However, paragraph BC125 explains that because the proposed approach could differ from other Standards, it cannot be applied by analogy to other IFRS Accounting Standards. We are uncertain of this decision and suggest that the IASB reconsiders the possible implications of conflicting definitions or guidance. However, if this is not changed, the limitation should not be solely in the Basis for Conclusions, where it may not be noticed.

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.

The AASB agrees with the proposed clarification that reclassifications should generally be prohibited except in rare cases when the substance of the contractual arrangement changes because of a change in circumstances external to the contractual arrangement.

Several stakeholders asked whether a change in general laws and regulations that would not be considered in the initial contract classification could result in a reclassification event under the proposals. For example, assume an entity is legally required to pay a minimum dividend of (say) 15 percent and puts this in the contract. The law then changes so that the minimum dividend is now 5 percent. The 15 percent was initially disregarded for classification purposes. Stakeholders have asked whether this would be an example of a 'change in circumstances external to the contractual arrangement' that would give rise to a reclassification. The AASB suggests to clarify paragraph 32C.

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.

The AASB supports the IASB's proposals to extend the scope and objective of IFRS 7 to include equity and provide additional disclosure requirements. Stakeholders agreed with the proposed changes, and our User Advisory Committee members strongly supported them. Some specific comments are as follows:

(a) Proposed paragraph 30B(a) requires entities to disclose the carrying amounts of each class of claims arising from financial instruments based on their contractual nature and priority on liquidation and distinguish between (i) secured and unsecured claims and (ii) subordinated and unsubordinated claims. Members of our User Advisory Committee support the ranking of financial instruments on liquidation but would prefer that by order of priority rather than class.

(b) Implementation Guidance (para. IG14H) shows in tabular format the requirements of proposed paragraph 30H to present the maximum potential dilution to the entity's ownership structure resulting from financial instruments issued at the reporting date. Members of our User Advisory Committee support providing this information but think the disclosure would be more useful if entities disclosed the maximum number of shares *if conversion occurred at the reporting date*. For example, for convertible notes that convert into a variable number of shares at settlement, disclosing the maximum dilution as 'unknown' (as in the example) is not useful. Entities should also disclose the share price used in the calculation to facilitate user analysis and decision-making.

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.

The AASB supports the IASB's proposed amendments to IAS 1, requiring an entity to present amounts attributable to ordinary shareholders separately from those attributable to other holders of the entity's equity instruments. Specifically our User Advisory Committee members supported presenting the information in the primary financial statements.

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.

The AASB agrees with the proposed transition requirements and suggests a reasonable transition period be granted to assist preparers who could have reclassifications.

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.
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> 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.

Stakeholders had no comment on this proposal.