UKEB
UK Endorsement Board

Invitation to Comment

Call for comments on the Exposure Draft *Financial Instruments with Characteristics of Equity: Proposed amendments to IAS 32, IFRS 7 and IAS 1*

Deadline for completion of this Invitation to Comment:

Midday, Friday 8 March 2024

Please submit to:

UKEndorsementBoard@endorsement-board.uk

Introduction

The objective of this Invitation to Comment is to obtain input from stakeholders on the Exposure Draft (ED) *Financial Instruments with Characteristics of Equity: Proposed amendments to IAS 32, IFRS 7 and IAS 1* (the Amendments), published by the International Accounting Standards Board (IASB) on 28 November 2023. The IASB's comment period ends on 29 March 2024.

UK endorsement and adoption process

The UK Endorsement Board (UKEB) is responsible for endorsement and adoption of IFRS for use in the UK and therefore is the UK's National Standard Setter for IFRS. The UKEB also leads the UK's engagement with the IFRS Foundation (Foundation) on the development of new standards, amendments and interpretations. This letter is intended to contribute to the IASB's due process. The views expressed by the UKEB in this letter are separate from, and will not necessarily affect the conclusions in, any endorsement and adoption assessment on new or amended International Accounting Standards undertaken by the UKEB.

Who should respond to this Invitation to Comment?

Stakeholders with an interest in the quality of accounts prepared in accordance with international accounting standards.

How to respond to this Invitation to Comment

Please download this document, answer any questions on which you would like to provide views, and return it together with the 'Your Details' form to UKEndorsementBoard@endorsement-board.uk by midday on Friday 8 March 2024.

Brief responses providing views on individual questions are welcome, as well as comprehensive responses to all questions.

Privacy and other policies

The data collected through responses to this document will be stored and processed by the UKEB. By submitting this document, you consent to the UKEB processing your data for the purposes of influencing the development of and adopting IFRS for use in the UK. For further information, please see our Privacy Statements and Notices and other Policies (e.g. Consultation Responses Policy and Data Protection Policy)[1].

The UKEB's policy is to publish on its website all responses to formal consultations issued by the UKEB unless the respondent explicitly requests otherwise. A standard confidentiality statement in an e-mail message will not be regarded as a request for non-disclosure. If you do not wish your signature to be published, please provide the UKEB with an unsigned version of your submission. The UKEB prefers to publish responses that do not include a personal signature. Other than the name of the organisation/individual responding, information contained in the "Your Details" document will not be published. The UKEB does not edit personal information (such as telephone numbers, postal or e-mail addresses) from any other response document submitted; therefore, only information that you wish to be published should be submitted in such responses.

1 These policies can be accessed from the footer in the UKEB website here: https://www.endorsement-board.uk

Questions

Reclassification

1. How common is reclassification in your experience?

In our opinion, reclassification of financial instruments is not expected to occur frequently.

2. The UKEB's draft comment letter recommends the IASB considers requiring reclassification for contractual terms that become, or stop being, effective with the passage of time. Do you agree with this recommendation? Please explain why or why not.

Yes	☒	No	☐
The draft requirements prohibit reclassification when the contractual terms are no longer relevant. We are supportive of the UKEB's recommendation because we believe the change would result in a more faithful representation.			

3. The UKEB's draft comment letter recommends that the requirements set out in the Basis for Conclusions in relation to this topic should be moved to the Application Guidance and that ED paragraphs BC128, BC129 and BC143 should be redrafted. Do you agree with this recommendation? Please explain why or why not.

Yes	☒	No	☐
We agree that it would be useful for the guidance on reclassification and derecognition of a financial instrument (BC128 and BC 129) to be moved from the Basis for Conclusions to the application guidance for greater prominence.			

Obligations to purchase an entity's own equity instruments

4. The UKEB's draft comment letter welcomes the proposals listed at questions 3(a), 3(b), 3(d), 3(e) and 3(f). Do you agree with this support? Please explain why or why not.

Yes	☒	No	☐
We are supportive of the IASB providing clarification of the accounting treatment where companies have an obligation to purchase its own equity instruments, as this will improve comparability. See also our response for question 5 for concerns about the proposed approach.			

5. The UKEB's draft comment letter recommends that the IASB reconsiders its approach because the introduction of a new measurement basis for financial instruments within IAS 32 is outside the remit of the project and may give rise to unexpected outcomes. We propose discounting liabilities arising from obligations to redeem own equity from the expected settlement date as an alternative worthy of consideration. Do you agree with this recommendation? Please explain why or why not.

Yes	☒	No	☐
We are supportive of the approach proposed by the UKEB (compared with the original proposal of using the earliest possible date of redemption), because consideration of the probability and estimated timing of the cash flows is factored into the measurement of financial instruments under IFRS 9.			

6. The UKEB's draft comment letter recommends that paragraph AG27D should require gross presentation unless the issuer has the discretion to settle the instrument net, in which case derivative accounting would apply. Do you agree with this recommendation? Please explain why or why not.

Yes	☒	No	☐
We are supportive of the UKEB's comments.			

Contingent settlement provisions

7. The UKEB's draft comment letter supports the proposals listed at questions 4(a), 4(c), 4(d) and 4(e). Do you agree with the support for these proposals? Please explain why or why not.

Yes	☐	No	☒
Under the IASB's proposals, the initial and subsequent measurement of the financial liability arising from a contingent settlement provision would not allow for the probability and estimated timing of occurrence or non-occurrence of the contingent event. This is inconsistent with the approach for liabilities under other IFRS standards such as provisions and insurance liabilities, which take into account of these factors.			

8. The UKEB's draft comment letter recommends restricting the scope of these proposals to the debt components of compound financial instruments only. Do you agree with this recommendation? Please explain why or why not.

Yes	☒	No	☐

We are supportive of this change to avoid widening the scope of this amendment.

9. The UKEB's draft comment letter recommends that the IASB reconsiders its approach because the introduction of a new measurement basis is outside the remit of the project and may give rise to unexpected outcomes. We propose discounting liabilities arising from contingent settlement provisions from the expected settlement date as an alternative worthy of consideration. Do you agree with this recommendation? Please explain why or why not.

Yes	☒	**No**	☐
See response for question 7.			

Fixed-for-fixed condition

10. The UKEB draft comment letter welcomes the proposals in this area. Do you agree with this view? Please explain why or why not.

Yes	☒	**No**	☐
Overall, we are supportive of the IASB providing clarification for the 'fixed-for-fixed' condition.			

11. The UKEB draft comment letter recommends rewording the requirement at paragraph 22C(a)(ii). Do you agree with this recommendation? Please explain why or why not.

Yes	☐	**No**	☐
We have no comments on this topic.			

12. The UKEB draft comment letter recommends that additional explanation of the meaning of 'proportional' be provided along with additional illustrative examples. Do you agree with this recommendation? Please explain why or why not.

Yes	☐	**No**	☐
We have no comments on this topic.			

13. The UKEB draft comment letter recommends that the IASB includes specific acknowledgement in the Standard that financial instruments that are linked to determinable benchmark rates, such as interest or inflation meet the fixed-for-fixed condition. Do you agree with this recommendation? Please explain why or why not.

Yes	☐	No	☐
We have no comments on this topic.			

Disclosures

14. The UKEB's draft comment letter broadly supports the IASB's proposals on disclosure. Do you agree with that support? Please explain why or why not.

Yes	☒	No	☐
We are supportive of the proposals, with exceptions noted under question 16 and 17.			

15. The UKEB's draft comment letter recommends that in the light of the results of the EFRAG field testing, the IASB may wish to consider undertaking further field testing before finalising the disclosures. Do you agree with that recommendation? Please explain why or why not.

Yes	☒	No	☐
We are supportive of this recommendation.			

16. The UKEB's draft comment letter recommends the IASB considers removing the requirement at ED paragraph 30A and 30B because it is impracticable. Do you agree with that recommendation? Please explain why or why not.

Yes	☒	No	☐
We are supportive of the UKEB's recommendation to remove the disclosure of the nature and priority of claims against the entity on liquidation. We agree with the UKEB's view that the consolidation position could be misleading because claims are made against individual legal entities, which could be in different jurisdictions, and hence the group itself cannot be liquidated.			

17. The UKEB's draft comment letter recommends removing ED paragraph 30E(c). Do you agree with that recommendation? Please explain why or why not.

Yes	☒	No	☐
We are supportive of the UKEB's recommendation to remove the requirement to disclose information about any significant uncertainty about how laws/regulations could affect the priority on liquidation.			

Transition

18. The UKEB's draft comment letter recommends that consideration should be given to providing transitional relief from full retrospective application where this would involve undue cost or effort, similar to that provided by IFRS 9 paragraph 7.2.18 in relation to impairment. Do you agree with this recommendation? Please explain why or why not.

Yes	☒	**No**	☐
We have no further comments.			

19. The UKEB's draft comment letter recommends that if financial instruments had been extinguished in the prior year period, they should not be required to be restated. Do you agree with this recommendation? Please explain why or why not.

Yes	☒	**No**	☐
We are supportive of this recommendation because restated comparatives relating to extinguished financial instruments has limited value and its removal is expected to reduce the cost of implementation.			

20. The UKEB's draft comment letter recommends that the IASB consider transition relief to assess classification at the date of initial application, on the basis of the facts and circumstances at that date, including an assessment only of features that have not expired at that date. Do you agree with this recommendation? Please explain why or why not.

Yes	☒	**No**	☐
We are supportive of the transitional relief proposed by the UKEB, which is consistent with the approach for the adoption of IFRS 9 Financial Instruments.			

Effects of relevant laws or regulations

21. The UKEB's draft comment letter welcomes the proposals as a pragmatic solution. Do you agree with this view? Please explain why or why not.

Yes	☒		**No**	☐

Whilst we support the IASB's approach to provide further clarification on this topic, we have concerns it could have unintended consequences in certain jurisdictions because of differences in legal frameworks.

22. The UKEB's draft comment letter recommends the introduction of a further illustrative example on this topic. Do you agree with this recommendation? Please explain why or why not.

Yes	☒	**No**	☐
We believe a further example would be useful.			

23. The UKEB draft comment letter recommends that the guidance in paragraph BC13 should be moved to the Application Guidance to IAS 32 *Financial Instruments: Presentation.* Furthermore, it recommends that paragraph BC13(a) refers to 'loss absorption provisions' rather than 'bail in provisions' and that the language is modified to reflect regulatory requirements. Do you agree with these recommendations? Please explain why or why not.

Yes	☒	**No**	☐
We agree moving the text to the standard would provide improved clarity.			

Other topics

24. The UKEB's draft comment letter supports the proposals on shareholder discretion and presentation. It also notes that the identification of consequential amendments to the forthcoming standard *Subsidiaries without Public Accountability: Disclosures* is an efficient approach, supports the application of the principles of reducing disclosures proposed in this ED for eligible subsidiaries, but expresses concern that the cost-benefit considerations are not clearly laid out in the ED. Do you agree with these views? Please explain why or why not.

Yes	☒	**No**	☐
Under the IASB's proposals, subsidiaries without public accountability will still be required to provide the proposed disclosures on the nature and priority of claims on liquidation. We agree with the UKEB that the cost vs benefit of the increased disclosures for these subsidiaries should be considered.			

Costs and benefits

We encourage you to participate in the EFRAG field testing by contacting fice@efrag.org.

25. What benefits would these proposals provide you with?

We believe the proposals will improve comparability between entities.

26. What costs would be associated with these proposals? Please share any qualitative or quantitative information on the cost of implementing the proposals you may be aware of.

Implementation costs are not expected to be significant and will be incurred primarily in the first year of adoption.

27. What estimated lead time (transition period) would you require to implement these proposals?

We expect to implement these proposals by the effective date.

Thank you for completing this Invitation to Comment

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