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Mr Andreas Barckow
Chairman
International Accounting Standards Board
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By e-mail only - commentletters@ifrs.org

20 March 2024

Dear Mr Barckow,

Re: Comment – Exposure Draft Financial Instruments with Characteristics of Equity – Proposed amendments to IAS 32, IFRS 7 and IAS 1

On behalf of RSM International Limited, a worldwide network of independent audit, tax, and consulting firms, we are pleased to comment on the IASB's Exposure Draft Financial Instruments with Characteristics of Equity – Proposed amendments to IAS 32, IFRS 7 and IAS 1 ("ED"). Our comments and detailed responses to the questions set out in the Invitation to Comment section of the ED are set out in the appendix to this letter.

We welcome the clarifications the proposed amendments bring to IAS 32, IFRS 7 and IAS 1 with regards to Financial Instruments with Characteristics of Equity. However, we believe that the following points should be re-considered by the board:

1) The effects of relevant laws or regulations

We believe that the implementation of these amendments, which require an entity to disregard certain legal rights or obligations in classifying the instrument (or their component parts) may result in financial instruments being incorrectly classified. The classification of financial instruments applying the amendments would not be based on the totality of the terms and conditions.

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Furthermore, entities would be required to apply judgement to determine whether each right or obligation arises from requirements established by laws and regulations or the contractual terms of the financial instrument. We believe that this may result in entities needing to obtain legal advice to determine whether a right or obligation is already established in law rather than established solely by features within the instrument that are enforceable in law. This may be costly for companies to implement and may give rise to diversity in practice.

2) Settlement in an entity's own equity instruments

Whilst we welcome the proposed amendments to clarify whether the fixed-for-fixed condition in paragraph 16(b)(ii) is met, we believe that a further clarification should be made in paragraph 22B.

We believe that the application of the proposed amendments in paragraph 22B could result in entities with shares denominated in multiple currencies classifying a contract as a liability, rather than equity if the instrument exchanges a fixed number of shares for a fixed consideration and the denomination of the shares and consideration are in the same currency, which differs from the entity's functional currency.

3) Contingent settlement provisions

We welcome the clarifications and believe that the proposed changes to paragraph 11 and 25, together with the addition of paragraph 32A will reduce diversity in practice.

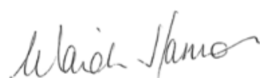
However, we encourage the Board to reconsider the addition of paragraph 25A. This amendment requires entities to ignore the probability and estimating timing of occurrence of or non-occurrence of uncertain future events or circumstances when determining the initial and subsequent measurement of the financial liability arising from the contingent settlement provision. We believe that this would result in diversity in practice and overstatement of liabilities associated with contingent settlement provisions.

4) Reclassification of liabilities and equity instruments

We broadly support the proposed amendments to the reclassification of financial liabilities and equity. However, we believe that the Board should consider a clarification of AG35A(a). We do not believe that a change in functional currency would necessarily result in a change to the substance of the contractual arrangement, thus potential re-classification, providing the currency denomination of the shares and the cash consideration remained the same.

We would be pleased to respond to any questions the Board or its staff may have about any of our response. If you have any questions or comments, please do not hesitate to contact Monique Cole (+1 6172411461) or me (+44 (0)207 601 1842).

Yours faithfully,



Marion Hannon
Global Leader, Quality & Risk
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APPENDIX

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.

Whilst the intention of the amendments is to provide clarity on the effects of relevant laws and regulations, we believe that they will cause diversity in practice. We believe that the amendments are inconsistent with the principle established in both IFRS 15 Revenue from contracts with customers and IFRS 16 Leases, which require consideration of all contractual terms when determining the accounting treatment for an arrangement. The amendments require an entity to ignore a right or obligation in classifying the instrument (or its component parts) if it is created by relevant laws and regulations that would arise regardless of whether it is included in the contractual arrangement. The implementation of this amendment will require entities to determine whether each right and obligation of the financial instrument is already created by the laws and regulations within the relevant jurisdiction. We believe that this may result in financial instruments being incorrectly classified, as classification would not be based on the totality of the terms and conditions.

Where the rights and obligations of a financial instrument are similar to the rights and obligations established by laws and regulations, judgement may need to be applied in determining whether the right or obligation will impact classification of the financial instrument. In addition, entities may need to obtain additional legal advice to determine whether a right or obligation is already established in law rather than established solely by features within the instrument that are enforceable by law.

In some jurisdictions, shareholder approval is required by law for most convertible instruments, with shareholder approval a key factor in determining whether the instrument should be classified as debt or equity. The amendments proposed by the IASB would potentially result in shareholder approval being ignored in determining the classification of the financial instrument.

Furthermore, we believe that the proposed amendment may have a fundamental impact in "Coded Law" jurisdictions, such as Continental Europe where the legal system is primarily based on written laws whereas the impact in a "Common Law" jurisdiction, (i.e. based on Case Law), may be less significant. We believe that the amendment could result in identical financial instruments being classified differently due to legal regulation existing in one jurisdiction and not another.

Furthermore, using the example application of the amendment to paragraph 15A in AG24B, if a minimum statutory dividend was the only feature causing classification of the instrument as a financial liability rather than equity, two similar instruments, one with the minimum dividend required by law and the other with a higher minimum dividend being classified differently, if the entity disregarded the obligation to pay the minimum legal dividend, as it was already established by the laws and regulations of the jurisdiction. In both cases, the entity has an unavoidable obligation to pay a minimum dividend. We believe that potential diversity in classification of similar instruments would reduce comparability and usefulness of financial statements.

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We believe that the Board should reconsider an approach based on the inclusions of ’static terms,’ as set out in BC17, when considering rights and obligations to determine classification of a financial instrument.

We believe that if a minimum dividend feature required by law was deemed a ‘static term,’ as per BC17, with the associated rights and obligation considered in classifying the financial instrument, there would be reduced diversity in practice and enhanced comparability between issuers of financial statements.

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.

We welcome the proposed amendments to clarify when the fixed-for-fixed condition in paragraph 16(b)(ii) of IAS 32 is met. We believe the amendments largely align to the current interpretation and application of existing standards.

However, we believe that the Board should consider a clarification of paragraph 22B. The application of paragraph 22B, could result in entities with shares denominated in multiple currencies classifying a contract as a liability, rather than equity if the instrument exchanges a fixed number of shares for a fixed consideration and the denomination of the shares and consideration are in the same currency which differs from the entity’s functional currency.

We suggest that, in order to avoid this unintended consequence, paragraph 22B is amended to in the ‘same currency as the equity instruments’ rather than in the ‘entity’s functional currency’.

Furthermore, we believe that it would be beneficial for the Board to provide clarity on the treatment of a convertible instrument which gives the holder the right to acquire a fixed percentage of the entity’s equity. For example, on the issue of new equity instruments to a new investor would result in dilution of rights for all existing equity holders, with the holder of the convertible instrument entitled to acquire a fixed percentage of equity, thus benefitting the convertible instrument holder over the existing equity holders.

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.

We welcome the proposed amendments to paragraphs 23 and AG27B–AG27D of IAS 32. Historically, we believe that there has been significant diversity in practice with respect to the initial recognition of an obligation to purchase an entity's own equity instruments and the recognition of gains or losses on the associated financial liability.

We welcome the Board's clarification that written put options and forward purchase contracts on an entity's own equity instruments that are gross physically settled – consideration is to be exchanged for own equity instruments - must be presented on a gross basis.

However, we would encourage the IASB to provide further clarification and examples on the application of AG27D in individual parent entity or subsidiary financial statements to avoid diversity in practice. Furthermore, we believe that the Board should clarify the accounting requirements for a put option over subsidiary shares in the parent entity individual accounts.

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.

We welcome clarifications in contingent settlement provisions. Our view is that the proposed changes to paragraph 11 and 25, together with the addition of paragraph 32A will reduce diversity in practice. However, we would encourage the IASB to reconsider the addition of paragraph 25A, which requires the probability and estimating timing of occurrence of or non-occurrence of uncertain future events or circumstances to be ignored when determining the initial and subsequent measurement of the financial liability arising from the contingent settlement provision. Contingent settlement provisions are often included in compound financial instruments, with a number of possible outcomes dependent on the nature of the future event or condition that triggers the contingent settlement. Therefore, we believe that ignoring the probability of the occurrence or non-occurrence of uncertain future events outside an entity's control relating to contingent settlement provisions would result in diversity in practice and potential overstatement of liabilities associated with contingent settlement provisions.

Furthermore, we would encourage the Board to include examples on the application of paragraph 25A, particularly where there are multiple events and possibilities which could result in a liability with the occurrence of a single event resulting in settlement. We believe it would be beneficial for the Board to clarify whether:

- for uncertain future events or circumstances in the entity's control, the liability should be measured as the maximum potential settlement; or
- for uncertain future events or circumstances outside the control of the entity, which would all result in a liability, the liability should be measured using a probability weighted approach.

We also believe it would be helpful to provide additional examples and guidance on the application of 'not genuine' clauses.

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.

We welcome the inclusion of guidance on the assessment of shareholder decisions in relation to classification of some financial instruments. In many jurisdictions, there is an explicit requirement for management to act in a fiduciary capacity in the interest of an entity, where shareholders are also acting as management significant judgement is required in determining whether a decision is made in a fiduciary capacity or shareholder investment capacity.

However, the current proposed amendments do not make the distinction between non-board shareholders and board shareholders. This distinction in the nature of shareholders is critical to determine whether shareholder decisions are independent of the board of directors, and hence the entity, in determining the classification of a financial instrument as debt or equity, particularly in private equity sector.

Furthermore, we believe that it would be beneficial to include examples of 'routine' and 'non-routine' shareholder decisions, as set out in BC119, within AG28A(a) to provide further guidance to entities of the application of this principal.

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.

We agree with proposed amendments to the reclassification of financial liabilities and equity.

Whilst we support the inclusion of examples in the application of 32C, we believe that the Board should consider a clarification of AG35A(a). As noted in our response to Question 2, a change in functional currency may not necessarily result in a change to the substance of the contractual arrangement, providing the currency denomination of the shares and the cash consideration remained the same.

We suggest that AG35A(a) is updated to:

- An entity issuing an instrument that will be settled by delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash denominated in the same currency as the equity instrument and classifying the instrument on initial recognition as an equity instrument (see paragraph 22B). If, after initial recognition, the currency of the equity instruments or cash consideration changes, the substance of the contractual arrangement would change because the instrument will no longer be settled by delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash denominated in the same currency. This change in the substance of the contractual arrangement would lead to the equity instrument being reclassified as a financial liability.

Furthermore, we believe that the amendments to IAS 32 paragraphs 15A and AG24A–AG24B, may cause a change in laws and regulations not being considered when assessing reclassification of financial liabilities or equity.

We are not aware of any practical difficulties that may arise when applying the proposal to reclassify an instrument prospectively from the date when a change in circumstances occurred.

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.**

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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.

We welcome the proposed amendments to IFRS 7 and believe that the additional disclosures will provide useful and relevant information for users of financial statements.

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.

We believe the proposed changes to IFRS 7 are comprehensive and will provide useful information in relation to the nature, complexities, and potential impact on distribution of profit of such financial instruments as would be impacted by the proposed amendments to paragraphs 54, 81B and 107–108 of IAS 1.

However, we believe that the additional requirement to allocate and present issued share capital and reserves between ordinary shareholders and other owners of the parent does not provide additional useful information above and beyond the additional disclosures in the proposed amendments to IFRS 7.

Furthermore, we believe that practically the proposed amendments to IAS 1 would be challenging for entities to implement due to the complex nature of contractual arrangements with non-controlling interests and other owners of the parent. The application of the proposed requirement to allocate issued share capital and reserves between ordinary shareholders and other owners of the parent is likely to be complex resulting in a disproportionate cost to entities compared to the benefit obtained from the proposed disclosure.

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.

We agree with the IASB's proposal that the amendments to IAS 32 be applied retrospectively. The nature of the financial instruments that may be impacted by the proposed amendments to IAS 32 is such that comparability of the classification and measurement of these instruments is key for users of financial statements to enable them to interpret and understand changes that occur between reporting periods.

We believe the transition requirements in the proposed paragraphs 97U-Z to be reasonable. However, we would suggest that the provision made in the proposed paragraph 97Y which allow an entity not to provide the quantitative information required by paragraph 28(f) of IAS 8 should also include the quantitative information required by paragraph 28(g) of IAS 8.

We believe there is potentially significant judgment involved in the classification of a financial instrument as debt or equity, when considering the wide range of features seen in such complex financial instruments.

Therefore, when applying the proposed changes related to compound instruments with contingent settlement provisions or the guidance in relation to shareholders decisions, there may be instances in which hindsight would be necessary. We believe it is not possible to determine all such instances and the transition arrangements proposed in paragraphs 97X and 97W provide a practical solution for impacted entities.

Question 10— Disclosure requirements for eligible subsidiaries (paragraphs 54, 61A–61E and 124 of [IFRS XX])

The IASB proposes amendments to the draft Accounting Standard [IFRS XX Subsidiaries without Public Accountability: Disclosures], which will be issued before the proposals in the Exposure Draft are finalised.

[IFRS XX] will permit eligible subsidiaries to apply the recognition, measurement and presentation requirements in IFRS Accounting Standards with reduced disclosures.

The IASB's proposals select appropriate disclosure requirements from those proposed for IFRS 7, based on the IASB's agreed principles for reducing disclosures.

Paragraphs BC257–BC261 explain the IASB's rationale for the selected disclosures.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why, taking into consideration the reduced disclosure principles described in BC258.

We believe the proposed changes to paragraphs 54 to 61B and 61D to 124 of IFRS XX Subsidiaries without Public Accountability: Disclosures are reasonable and aligned with the reduced disclosure principles described in BC258.

However, we suggest the Board gives further consideration to the usefulness of the proposed disclosure in paragraph 61C in the context of and principles of reduced disclosure set out in BC258(b).

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