



FEDERATION OF ACCOUNTING PROFESSIONS

UNDER THE ROYAL PATRONAGE OF HIS MAJESTY THE KING

March 27, 2024

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

Dear Dr. Andreas Barckow

Response on IFRS Standards Exposure Draft ED/2023 – Financial Instruments with Characteristics of Equity (Proposed amendments to IAS 32, IFRS 7 and IAS 1)

The Federation of Accounting Professions would like to show our appreciation on the opportunity to respond on **IFRS Standards Exposure Draft ED/2023 – Financial Instruments with Characteristics of Equity (Proposed amendments to IAS 32, IFRS 7 and IAS 1)** Overall, we agree with the proposed amendments to the accounting treatments of financial instruments with characteristics of equity. However, it will be clearer to add an examples on these amendments to decrease a judgment issue.

Please find our responses to the specific survey raised in **IFRS Standards Exposure Draft ED/2023 – Financial Instruments with Characteristics of Equity (Proposed amendments to IAS 32, IFRS 7 and IAS 1)** in an attachment. We believe that these responses will help the practitioners in the future and that our response will contribute positively to the IASB's due process. Should you need more information, please kindly contact the Federation of Accounting Professions.

The Federation of Accounting Professions avails itself of this opportunity to the International Accounting Standards Board the assurances of its highest consideration.

Yours sincerely,

Associate Professor Dr. Vorasak Toommanon
Chairman of Thai Accounting Standards Board
Thailand Federation of Accounting Professions
Bangkok, Thailand



IFRS Standards Exposure Draft ED/2023 – 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.

TFAC:

We agree with the proposals in overall. This proposal helps clarifying that only those contractual rights and obligations that are enforceable by law and are in addition to those created by relevant laws or regulations are considered in the classification of a financial instruments (or its component parts) as a financial liability, financial asset or equity instrument.



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.



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TFAC:

We agree with the proposals in overall. However, refer to paragraphs 22B–22C that mentioned about variable solely because of passage-of-time adjustments, we recommend the IASB to provide examples for the common types of derivatives such as option to make it more clear about the calculation for the passage-of-time especially on how to adjust the present value that initially recognized on the financial statements.



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).



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Question 3—Obligations to purchase an entity’s own equity instruments (paragraphs 23 and AG27B–AG27D of IAS 32)

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.

TFAC:

We agree with these proposals.



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.

TFAC:

We agree with these proposals.



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.



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TFAC:

We generally support the proposals and the addition of factors an entity is required to consider in making that assessment. However, refer to AG28B mentioned that “...The weightings applied to each factor in making that assessment depend on the specific facts and circumstances...”, it means that the judgement shall be exercised because different factors might provide more persuasive evidence in different circumstances including the interdependencies of all the factors. These could lead to diversity of judgement exercise in practice. We recommend the IASB to provide more examples of those common factors from common fact patterns using these relevant paragraphs to reduce the diversity in practice.



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.



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TFAC:

We generally support the proposals; however, we disagree with prohibiting reclassification when an existing contractual term stop being effective with the passage of time. We acknowledge the disclosure proposals in this area but we believe reclassification in these circumstances would provide more useful information to users of financial statements especially on the nature of obligation at the reporting period.



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.



Question 7—Disclosure (paragraphs 1, 3, 12E, 17A, 20, 30A–30J and B5A–B5L of IFRS 7)

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.

TFAC:

We agree with the proposals because they provide useful information that helps users of financial statements understand entity’s financing, capital resources and ownership structure better. However, we would like the IASB:

- (1) to provide additional illustrative examples of disclosures to cover all complicated cases or types of financial instruments as specified in the proposals, especially examples of disclosures about passage of time and puttable financial instruments classified as equity instruments
- (2) (refer to IG14C) to clarify for the nature of “Subordinated liabilities” that is under “Unsecured and unsubordinated”
- (3) (refer to IG14H) to add disclosure of related paragraphs in other IAS and/or IFRS, especially IAS 33.



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.



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TFAC:

We agree with these proposals, to separately present the amounts attributable to ordinary shareholders from other owners of the parent. This will provide the useful information for the Entity's ordinary shareholders on how the profits will be distributed to them.

However, the term "other owners of the parent" is not quite clear because some equity instruments may not be in the meaning of "owner". The amendments may provide the examples or add definition for "other owners of the parent" or may replace the term "other owners of the parent" by "other equity holders".

In addition, in practice, it may not be easy to split the attributable to ordinary shareholders of the parent and those attributable to other owners of the parent. There could be several classes of shares and reserves. Therefore, IASB may consider adding the additional illustrative examples to help practitioners for the implementation, for example, how to allocate profit or loss to other owners of the parent.



Questions for respondents—Transition

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.



Question 9—Transition (paragraphs 97U–97Z of IAS 32)

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.

TFAC:

We generally agree with the transition proposals; however, we would recommend additional relief to not apply retrospective approach, especially on classification due to effects of relevant laws or regulations. This could have a widespread impact business, such as maintaining debt-to-equity ratio or investment fund breach their investment policy due to change in accounting interpretation.



Questions for respondents—Disclosure requirements for eligible subsidiaries

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.

TFAC:

We agree with these proposals, to amend [IFRS XX] to be in accordance with the disclosure requirements from those proposed for IFRS 7.