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Simple Agreements for Future Equity (SAFE) in financial reporting and taxation: UAE and international outlook

This article develops a framework for analyzing Simple Agreements for Future Equity (SAFEs) under International Financial Reporting Standards (IFRS) and, by reference, under the UAE Corporate Tax regime that starts from IFRS profit. It proceeds from market economics, tracing the pricing mechanics and the contractual contingencies that redirect settlement from equity to cash at liquidity or dissolution. On that foundation, the analysis maps classification and measurement under IAS 32 and IFRS 9, fair-value techniques under IFRS 13, and the conversion juncture including the scope questions raised by IFRIC 19 and the IASB's reclassification discussions. Those accounting results then are connected to UAE Corporate Tax timing and character: book–tax conformity, realisation-basis elections, the hybrid-instrument guidance, and the General Interest Deduction Limitation. The paper also engages with GAAP-based commentary recast into IFRS terms. Ultimately, the survey presents alternative tax attribution approaches at and after trigger events and assessing their relative defensibility in UAE practice.

Contents

1. Simple Agreements for Future Equity (SAFEs) are a contractual form of early-stage financing that emerged in Silicon Valley in 2013 as a streamlined alternative to convertible notes, originally introduced on the Y Combinator website. Since their introduction, SAFEs have become a dominant instrument for seed and early growth rounds, particularly in venture-backed startups seeking to avoid the complexity, cost, and regulatory frictions associated with traditional preferred equity or debt financings. The most widely used market templates are the standardized Y Combinator SAFE forms,[1] which provide pre-money and post-money variants and are designed to be used with minimal negotiation or bespoke drafting. These YC forms are typically accessed online and frequently executed with little or no tailored legal or tax input.

2. From a business perspective, a SAFE is intended to provide funding to an early-stage company in exchange for a contractual right to receive equity if specified future events occur. Commentators describe SAFEs as a "seed" or bridge instrument that commonly precedes a priced preferred equity round and may also be used to admit investors into a round on a rolling basis, without having to re-open full equity documentation.[2] The investor transfers cash up front and receives a promise that the issuing corporation will, upon the occurrence of a qualifying equity financing, liquidity event, or other trigger, issue preferred (or sometimes common) shares according to a pre-agreed formula that typically references either the valuation in the next priced round or a contractual valuation cap.

Economic substance, market forms, and pricing mechanics

3. A SAFE is neither equity nor conventional debt at inception. It is a contract under which an investor advances cash in exchange for a

[1] https://www.ycombinator.com/documents

[2] BDO USA, P.C., *Simple Agreements for Future Equity (SAFEs): Overview of Key Tax Considerations* (2024); available via link.

contingent right to receive equity at a later date, typically on the occurrence of a priced equity financing, with alternative settlement in cash contemplated in certain exceptional circumstances such as liquidity or dissolution. The defining features are:

1) the absence of a periodic yield,
2) the lack of a stated maturity in the classical form, and
3) the presence of conversion mechanics that driven by a valuation cap, a discount to a future issue price, or both.

4. In current market usage, SAFEs are employed in seed and pre-seed rounds but are also deployed opportunistically as a bridge into later financings. Their popularity derives in part from transactional economy (minimal documentation and swift execution) but this simplicity masks considerable economic richness once one examines how conversion price is determined and how the instrument behaves outside the archetypal financing path.

5. Two levers dominate the conversion economics.

First, the discount, ordinarily quoted as a percentage reduction from the next financing round's price,[3] is used to compensate early risk. In practice this discount is not nominal: ranges from five percent into the low thirties are observed, with twenty percent frequently cited as the modal point in US practice. The discount's effect is purely mechanical: it adjusts the conversion ratio but does not increase with the passage of time, and consequently the SAFE does not behave as debt with an accruing yield.

Second, the valuation cap stipulates the maximum issuer valuation at which the SAFE will convert. It thereby protects the early investor from dilution if the next round is priced at levels inconsistent with early-stage risk. For example, if the cap is set at USD 5 million and the next equity round values the company at USD 10 million, the SAFE converts as though the valuation were USD 5 million, effectively halving the price per share for the SAFE investor relative to the new investors. If the next round were priced below the cap (say at USD 4 million), the SAFE would convert at the actual round price, because the cap would be non-binding.

In sophisticated forms, both levers are present and the conversion price is the better of the discount price and the cap-implied price, which imports a path-dependence on market conditions at the conversion date. The valuation cap is consequently the most intensely negotiated term, because too low a cap is punitive to founders, while too high a cap can

[3] For example, if the next round's price per share is USD 10 and the SAFE carries a 20 % discount, the SAFE investor will convert as though the price were USD 8 per share.

render the instrument not attractive for the investor. Aligning this parameter is the crux of incentive compatibility in SAFE financing.

6. These points are well canvassed in recent practice notes, which also emphasize that the value of a SAFE after purchase is unknowable ex ante because it depends simultaneously on the timing and type of exit and on the realised valuation at the priced round.[4]

7. The range of potential outcomes expands further once provisions for liquidity and dissolution events are introduced. Many commercial forms now provide that, if a change-of-control or other liquidity event occurs before conversion, the investor receives a monetary settlement equal to the greater of:

   - the original purchase amount and
   - an amount linked to the conversion formula.

   In some versions, the SAFE includes a redemption multiple of one to two times the invested amount, ensuring a minimum cash recovery for the investor if equity conversion never occurs.

   The presence of these features means that the SAFE, although equity-linked in its principal intention, carries an embedded payoff profile that is sensitive to exit sequencing and control events and is not reducible to a "mini-equity" label. A related implication is capital structure risk: in the absence of a conversion or exit event, SAFE holders may recover less than their initial investment once ordinary creditor priorities are respected. This subordination risk is integral to the instrument's risk–return proposition.[5]

8. Market participants commonly distinguish "pre-money" from "post-money" designs. The distinction is not merely semantic.

   In pre-money forms, the denominator used to compute the investor's eventual ownership omits contemporaneous SAFEs and option-pool expansions, thereby introducing dilution uncertainty ex ante.

   Assume a company has a pre-money valuation cap of USD 8 million and issues a SAFE for USD 1 million. The investor therefore expects to own $\frac{1}{8+1} = 11.1\%$ of the company upon conversion. However, before the priced round occurs, the company issues another USD 1 million SAFE on the same terms and also decides to expand its option pool by USD 1 million. When all these instruments are included in the capitalization base at conversion, the total notional valuation becomes $8m(pre - money) + 1m(SAFE1) + 1m(SAFE2) + 1m(optionpool) = 11m.$ The first investor's USD

[4] https://www.bdo.com/insights/industries/asset-management/simple-agreements-for-future-equity-safes

[5] Ibid.

1 million contribution therefore represents $\frac{1}{11} = 9.1\%$ of the post-financing ownership - a visible reduction from the originally modelled 11.1%.

Post-money forms, by contrast, include all existing SAFEs in the capitalization base used for the cap, which allows investors to see a more determinate post-round ownership trajectory but can shift dilution onto common holders and late-arriving instruments. Using the same figures, a USD 1 million post-money SAFE on an USD 8 million cap entitles the investor to a fixed 11.1% ownership, calculated as $1/(8+1)$. If the company later issues an additional USD 1 million SAFE, the new investor also receives 11.1%, and the founders' collective stake shrinks accordingly. The first SAFE investor's percentage, however, remains fixed because the earlier SAFE was priced on a post-money basis that already incorporated the company's total capitalisation immediately after that issuance.

Contemporary accounts in the venture ecosystem underscore the importance of this distinction for cap-table modelling and for the negotiation of the cap and discount parameters, particularly in rounds with multiple SAFEs outstanding. Pre-money designs concentrate uncertainty in early investors and founders, while post-money designs reallocate that uncertainty toward later entrants and common shareholders. Understanding this difference is therefore essential for aligning incentives and forecasting post-financing ownership outcomes.[6]

9. The upshot is that, notwithstanding their rhetorical simplicity, SAFEs occupy a spectrum of designs. At one pole are pure equity-path instruments with discount-only mechanics and no cash settlement outside liquidation. At the other are constructions which combine a conversion with robust redemption features at liquidity. Across this spectrum, the conversion consideration is almost always a variable share count driven by future valuation, while the possibility of cash settlement is either explicit or implicit in exceptional events. These structural attributes are precisely those that bring the instrument into the ambit of financial-liability (not an equity) accounting under IFRS.

IFRS classification: equity or liability

10. IAS 32 requires classification at inception by reference to contractual substance.[7]

For a derivative on an entity's own equity to qualify as equity, settlement must be by exchange of a fixed amount of cash (or non-derivative financial asset) for a fixed number of the entity's own shares, with no present obligation to deliver cash.[8] In the general case, a SAFE fails the

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[6] https://carta.com/learn/startups/fundraising/convertible-securities/pre-money-vs-post-money-safes

[7] IAS 32.15.

[8] IAS 32.16(b)(ii).

fixed-for-fixed condition because the number of shares on conversion varies with the cap or discount in the future priced round. In parallel, where liquidity or dissolution produces a mandatory cash settlement outside the issuer's control, the "no present obligation to deliver cash" limb is also undermined. Under IAS 32.16(b)(ii) and 32.16(a)(i), those two failures point to financial-liability classification for the issuer.

Unit of account and standalone issuance

11. Although IFRS does not define "freestanding financial instrument", the classification analysis proceeds by identifying the unit of account in the legal contracts:

- Where a SAFE is issued as a separate contract for cash, it is accounted for on a standalone basis under IAS 32 and IFRS 9.
- Where multiple instruments are issued together, IFRS distinguishes between features that are legally detachable and separately exercisable, accounted for as separate instruments, and features that are non-detachable and embedded in a host. The latter are analyzed either as compound instruments under IAS 32 (for non-derivative hosts) or as embedded derivatives under IFRS 9 (for liability hosts where the embedded feature is not closely related).

In ordinary market usage a SAFE is a standalone contract and is therefore analyzed on its own. Only if a SAFE were legally bundled with other instruments in a non-detachable manner would compound or embedded-derivative accounting be contemplated.

This approach is consonant with Grant Thornton's US GAAP Viewpoint,[9] which treats a SAFE as a freestanding equity-linked instrument and observes that, in practice, many SAFEs are classified as liabilities measured at fair value. However, equity classification may be possible where the specific equity-indexation conditions are met. The IFRS analysis reaches substantively similar outcomes via IAS 32 and IFRS 9.

Scope of SAFE fact pattern considered

12. The discussion in this paper is confined to SAFEs whose conversion consideration is a variable number of shares determined by a valuation cap and/or discount applied to a future priced round, and which may alternatively be settled in cash on specified liquidity or dissolution events. Until conversion, the holder has no voting rights, dividend rights, or other shareholder rights by virtue of the SAFE alone.

SAFE is not a compound instrument

13. In this fact pattern, the SAFE does not meet the conditions for classification as a compound instrument under IAS 32.28 and AG31–AG32. A

[9] Available via this link.

compound instrument requires a non-derivative host and a separately identifiable equity component that meets the fixed-for-fixed test. Because the number of shares to be delivered under the SAFE is variable and contingent, there is no equity component that qualifies for separate recognition from inception. The contract is a single financial liability rather than a liability-plus-equity combination.

SAFE is not a hybrid contract with an embedded derivative

14. Nor is it generally appropriate to analyze a market-standard SAFE as a host liability with an embedded derivative under IFRS 9.4.3.1–4.3.3. A hybrid contract under IFRS 9 requires:

    - a non-derivative host (typically a basic lending arrangement measured at amortized cost or FVOCI), and
    - an embedded derivative whose economic characteristics are not closely related to those of the host.

    In a typical SAFE, the entire cash-flow profile is non-SPPI: the payoff is driven by equity-linked terms (cap/discount mechanics and future valuations) and by contingent cash-settlement outcomes. There is no underlying host that would qualify for measurement at amortized cost with a basic lending return to which a conversion option is merely appended. In substance, the SAFE as a whole is a derivative-like financial liability rather than a host-plus-embedded package.

Classification conclusion

15. Consistent with IFRS 9.4.3.2, once the SAFE is classified as a financial liability at fair value through profit or loss, there is no requirement or basis to bifurcate embedded derivatives. The entire instrument is measured at FVTPL, with all fair-value changes recognised in profit or loss. This classification premise (that a SAFE is a standalone derivative-like financial liability and not a compound instrument or hybrid contract) is the starting point for the subsequent analysis of conversion, liquidity events and tax attribution in the remainder of the paper.

IFRS 9 measurement category and failure of SPPI

16. IFRS 9 then prescribes the measurement category. The contractual cash-flow characteristics are not solely payments of principal and interest (SPPI). "Interest" in IFRS 9.B4.1.7A–B4.1.9D is narrowly explained as consideration for the time value of money, credit risk, and basic lending risks and costs. Therefore, SAFEs do not meet the SPPI test in IFRS 9.4.1.2(b). Equity-linked conversion outcomes, valuation-dependent share counts, and contingent cash settlements are antithetical to SPPI.

17. Instruments that fail SPPI cannot be measured at amortized cost or at fair value through other comprehensive income (FVOCI) for debt instruments. Absent the irrevocable FVOCI election for equity instruments (which is inapposite here, because a SAFE is not itself an equity

instrument), measurement at fair value through profit or loss (FVTPL) follows. In short, under IFRS the issuer accounts for the SAFE as a derivative-like financial liability at FVTPL, and the investor holds a corresponding financial asset at FVTPL.

Initial recognition and day-one measurement

18. At inception the instrument should be recognised at fair value according to IFRS 9.5.1.1. Where transaction price and fair value diverge, IFRS 13 and IFRS 9.5.1A require measurement at fair value with any day-one difference recognised in profit or loss unless the valuation relies on significant unobservable inputs. In this case recognition of the day-one difference is deferred until those inputs become observable or the instrument is settled (IFRS 9.B5.1.2A).

19. In practice, early-stage SAFEs almost invariably depend on unobservable parameters, such as volatility, probabilities of exit or change-of-control events, and other Level 3 inputs.[10] So, the relevant question is not whether fair value measurement applies (it does), but **when** any initial difference between transaction price and fair value becomes eligible for recognition.

20. For illustration, assume a SAFE is issued for AED 1 million, but its estimated fair value, derived from a discounted probability-weighted model of conversion and liquidity outcomes, is AED 1.1 million. Because this valuation relies on highly judgmental, unobservable assumptions, the issuer initially measures the SAFE at its fair value of AED 1.1 million but does not recognize the AED 0.1 million day-one loss in profit or loss.

20.1. Instead, that difference is deferred until either the key valuation inputs (for example, exit probability or discount rate) become observable in the market, or the instrument is settled through conversion or cash redemption. At that point, the deferred amount is recognised in profit or loss as required by IFRS 9.B5.1.2A.

20.2. In the issuer's accounts, the SAFE liability is recorded at fair value, while the proceeds received are credited to cash. The AED 0.1 million difference between fair value and transaction price is temporarily held as a deferred loss adjustment:

- Dr Cash AED 1,000,000
- Dr Deferred day-one loss (balance sheet adjustment) AED 100,000

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[10] Unobservable inputs for the asset or liability (IFRS 13, Appendix A, Term 6). Unobservable inputs shall reflect the assumptions market participants would use when pricing the asset or liability in the absence of observable market data (IFRS 13.87-88). Their hallmarks include reliance on entity-specific data calibrated to the transaction price at initial recognition (IFRS 13.89), use of non-quoted proxies (e.g. private-round multiples, bespoke option models), explicit capture of own non-performance risk/own credit risk for liabilities, and required sensitivity and range disclosures for the key unobservable inputs.

- Cr SAFE liability (at fair value) AED 1,100,000

20.3. When the SAFE is subsequently converted or redeemed and the unobservable valuation inputs become determinable, the deferred amount is recognised in profit or loss:

- Dr Profit or loss (fair-value loss recognised) AED 100,000
- Cr Deferred day-one loss AED 100,000

20.4. If the valuation at inception were based on observable market inputs (such as comparable transactions or quoted convertible prices) the entire difference would be recognised immediately in profit or loss:

- Dr Cash AED 1,000,000
- Dr Loss on initial recognition (P&L) AED 100,000
- Cr SAFE liability (at fair value) AED 1,100,000

20.5. From the investor's perspective, the mirror entries apply. The investor recognizes a financial asset at fair value (AED 1.1 million) and the same AED 0.1 million day-one gain is either deferred or recognised in profit or loss depending on whether the valuation relies on unobservable inputs.

20.6. This illustration shows that both parties recognize the instrument initially at fair value, but timing of income or expense recognition depends on whether the fair value measurement involves observable or unobservable inputs. The treatment thus follows directly from IFRS 9.5.1.1, IFRS 9.5.1A, and IFRS 9.B5.1.2A, ensuring that unrealised gains or losses are only reported when measurement uncertainty is resolved or the instrument is settled.

Initial recognition and early-stage tax treatment

21. For Corporate Tax (CT) purposes, the starting point is accounting profit prepared under IFRS (or IFRS for SMEs). There is no SAFE-specific adjustment in the UAE Corporate Tax Law or guidance that would override IFRS outcomes at initial recognition. Consequently, if a day-one difference is recognised in profit or loss at inception (because fair value is supported by observable inputs), it flows into the CT base in the same period.

22. If, by contrast, the difference is deferred under IFRS 9.B5.1.2A (because the measurement relies on significant unobservable inputs), it is not yet in profit or loss and therefore not in the CT base; it will enter the CT base only when IFRS requires recognition (i) upon conversion or cash redemption, or (ii) earlier, if and when the key inputs become observable.

23. In that sense, the tax law does not independently label these amounts as "realised" or "unrealised" gains/losses. Rather, the CT timing mirrors the IFRS recognition pattern by default. When a day-one difference is

recognised immediately in profit or loss, it is taxable or deductible then, irrespective of whether it is economically realised in cash. When recognition is deferred by IFRS, tax follows that deferral.

24. In addition to the default book–tax conformity, the UAE CT framework permits a deferral-until-realisation election for unrealised fair-value and impairment movements where a taxpayer elects and consistently applies an accounting-to-tax policy that:[11]

    (a) defers unrealised gains and losses on assets and liabilities held on capital account until disposal/settlement; or

    (b) defers unrealised gains and losses arising from fair-value or impairment accounting (irrespective of capital or revenue nature) until realisation (for example, derecognition through conversion or cash settlement in the case of a SAFE).

    Under such a policy, day-one differences and subsequent remeasurements recognised in the financial statements are excluded from the CT base until the realisation event, at which point the cumulative amounts are brought into taxable income.

25. For example, if the issuer recognizes a day-one loss under IFRS but applies a deferral-until-realisation policy, the day-one loss (and subsequent unrealised fair-value losses/gains) is excluded from the CT base until conversion or cash settlement. On that event, the entire cumulative fair-value effect to date is included once. The investor applies the mirror mechanics (if elected).

26. The character of these amounts for CT also follows the accounting form. A day-one loss recognised by the issuer at inception (fair value exceeding proceeds) is a fair-value loss on a financial liability. It is not a periodic interest charge and should not be captured by the General Interest Deduction Limitation (GIDL), because there is no payment or accrual of "interest" as understood in IFRS 9's SPPI framework or in the FTA's hybrid-instrument guidance.

27. Symmetrically, the investor's day-one gain is a fair-value gain on a financial asset. Interim fair-value movements recognised at subsequent reporting dates likewise enter profit or loss and (unless a deferral-until-realisation policy is in place) enter the CT base as recognised.

28. In summary, at initial recognition the tax timing hinges on the IFRS timing, unless the taxpayer validly adopts a deferral-until-realisation policy for (i) capital-account items and/or (ii) items subject to fair-value or impairment accounting, in which case unrealised gains and losses are excluded from the CT base until settlement/disposal.

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[11] Corporate Tax Law, Article 20(3).

29. The above discussion proceeds from the premise that IFRS fair-value remeasurement outcomes are the operative starting point for both timing and character under the UAE Corporate Tax regime. In other words, the fair-value accounting prescribed by IFRS 9 is not overridden by the GIDL concept of "interest" or by any retrospective equity reclassification (recycling) treatment. These alternative readings, under which fair-value gains and losses would instead be subsumed within interest computations or re-routed into equity at conversion, are analyzed in detail in later sections of this paper when alternative approaches to tax attribution are introduced.

Subsequent measurement and the timing of gains and losses

30. Until settlement, the instrument is to be remeasured to fair value at each reporting date, with the full effect recognised in profit or loss. IFRS does not recycle FVTPL amounts to equity. The effects remain in profit or loss and move into retained earnings through ordinary closing.

Conversion into equity

31. From the financial reporting perspective, the SAFE remains a financial liability at FVTPL until the moment triggering conversion.

Pre-trigger measurement and scenario-based fair value

Prior to any conversion trigger, fair value must reflect market-participant assumptions at the measurement date and an exit price notion, across all plausible outcomes, including equity financing, liquidity/dissolution, and deferral.

In practice, a probability-weighted expected return method (an expected cash-flow present-value technique) or a similar scenario framework is applied under IFRS 13. The measurement uses Level 3 inputs, such as the likelihood and timing of the next priced round, the expected round price driving the cap/discount mechanics, and the probability of liquidity-type events, and incorporates the issuer's own non-performance risk (including own credit risk) into the SAFE fair value.[12] This necessarily yields a valuation that is not simply the value of shares that might someday be delivered, because the contingent path is not yet resolved.

Imminent conversion and collapse of contingencies

32. When a priced round is contractually secured and the variables in the conversion formula become determinable (round price fixed, cap / discount mechanics applied, and a share-count derivable), the conversion event is imminent. Economically, the main contingency collapses. At that point, the SAFE's fair value converges towards the fair value of the

[12] IFRS 13.42, 13.86–13.89.

specific shares to be issued, subject only to de minimis adjustments for (i) settlement timing and (ii) the issuer's own non-performance risk.

Where the contract provides that, upon a qualifying financing, all cash-settlement and redemption paths lapse for that scenario and only equity settlement remains, the pricing from that date forward is dominated by equity risk rather than by the earlier mixture of equity and liquidity-event outcomes.

Reclassification considerations

33. The classification question is whether, and when, the instrument can (or must) move from financial liability to equity presentation between the trigger date and legal issuance.

33.1. Under one commonly applied reading of IAS 32, consistent with IASB staff's observation that the standard currently contains no general requirements on reclassification between financial liabilities and equity instruments, classification is anchored to the contractual terms at initial recognition. On that reading, subsequent changes in variables (e.g. the future issue price or share count becoming fixed) are treated as measurement issues, not as reclassification events.

In the absence of explicit requirements, practice has developed diverse approaches, with some entities reclassifying in specific fact patterns and others retaining the original classification until derecognition or modification of the instrument.

33.2. The IASB's November 2023 Exposure Draft (ED) Financial Instruments with Characteristics of Equity (FICE) No. ED/2023/5, and the Board's subsequent tentative decisions,[13] seeks to reduce this diversity by introducing a general prohibition on reclassification after initial recognition, with narrow, specified exceptions. In outline, the ED proposes that:

1) reclassification between financial liabilities and equity instruments is generally prohibited after initial recognition;

2) reclassification would be required only when the substance of the contractual arrangement changes because of circumstances external to the contract, in circumstances that do not give rise to derecognition or modification accounting under IFRS 9; and

[13] Exposure Draft IASB/ED/2023/5 "*Financial Instruments with Characteristics of Equity (Proposed amendments to IAS 32, IFRS 7 and IAS 1/IFRS 18)*" was published in November 2023. The comment period closed on 29 March 2024, and the IASB has since been analyzing feedback and redeliberating the proposals. In its 25 September 2025 meeting, the IASB tentatively decided to proceed with the ED's reclassification model, subject to targeted clarifications, including (i) that the requirements apply to changes in the substance of a contractual arrangement arising from "circumstances external to the contractual arrangement" that do not result in derecognition or modification under IFRS 9, and (ii) that reclassification from financial liability to equity is required when the substance of the arrangement changes because a contractual term ceases to be effective (for example, an option expiry). As at the date of writing, no final amendments to the standards have yet been issued.

3) a particular case in which reclassification from financial liability to equity would be required is when the substance of an arrangement containing an obligation to deliver own equity changes because a contractual term ceases to be effective, such that only an equity-settlement outcome remains.

In that latter case, the ED proposes that the equity instrument reclassified from a financial liability should be measured at the carrying amount of the liability on the reclassification date, with no gain or loss recognised in profit or loss on reclassification itself.

For SAFEs, this model would become relevant (if and when finalized) in those fact patterns where, by operation of the original terms and without any modification:

a) all non-equity outcomes (for example, cash-settled liquidity or redemption paths) irrevocably lapse at the financing trigger; and

b) from that date, the issuer's only remaining obligation is to deliver a fixed number of shares for no further consideration, with no surviving variability.

In such a case, the instrument from that point would meet the fixed-for-fixed equity test in IAS 32.22 and, under the ED proposals, would fall within a mandatory reclassification scenario. At the time of writing, however, these proposals remain at exposure-draft/redeliberation stage and do not yet alter the requirements of current IAS 32.

33.3. Against this background, many entities dealing with SAFE-type instruments have, in practice, chosen to retain liability classification up to legal issuance, particularly where:

- the contract continues to contain surviving features that prevent the instrument from meeting the fixed-for-fixed equity test (for example, anti-dilution adjustments or other variable elements); or
- the period between the trigger event and share issuance is short, so any incremental post-trigger fair-value movement is viewed as immaterial.

Other entities adopt policies under which reclassification is permitted in narrow circumstances where they consider that, economically and legally, only a fixed-for-fixed equity outcome remains and that the equity definition is clearly met. This diversity is precisely what the FICE project seeks to address. If the ED proposals are finalized substantially as exposed, they would:

1) confirm that ongoing reassessment of classification is not required in the ordinary case; and

2) introduce limited reclassification requirements in the specific situations described above (external changes in circumstances changing the substance of the arrangement, or contractual terms ceasing to be effective so that only equity settlement remains).

For many SAFEs, the conversion trigger is itself part of the original contract rather than an external circumstance, and residual variability may remain. In those cases, a policy of retaining liability classification until conversion can still be reconciled with both current IAS 32 and the direction indicated by the FICE proposals, provided the policy is applied consistently and adequately disclosed.

33.4. Under either approach, measurement up to the relevant cut-off point remains at fair value through profit or loss under IFRS 9, with all gains and losses recognised in profit or loss. IFRS does not permit those historical FVTPL amounts to be recycled into equity at a later date. They are embedded in the carrying amount of the instrument immediately before any reclassification or derecognition.

33.5. If there is no reclassification prior to conversion, the SAFE remains a liability at FVTPL up to settlement. On conversion, the liability is derecognised and equity is recognised under IFRS 9’s liability-extinguishment guidance, with any final difference between the liability’s carrying amount and the fair value of the equity issued recognised in profit or loss (unless the transaction qualifies as an equity transaction with owners).

33.6. If, in a future regime, a reclassification to equity occurs under the FICE model (for example, when all non-equity terms lapse and only a fixed-for-fixed equity obligation remains), the liability would be reclassified to equity at carrying amount with no profit or loss effect on reclassification. Previous FVTPL gains and losses would not be reversed or “recycled”; subsequent changes in the value of the equity interest would not be recognised in profit or loss.

33.7. In both cases, the historic FVTPL profile of the SAFE remains in profit or loss. The effect of the FICE proposals is limited to when the instrument may (or must) be reported as equity rather than as a financial liability in the run-up to conversion, not to any retrospective re-labelling of prior fair-value movements.

34. Under IFRS 9 and IFRS 13, a financial liability measured at fair value through profit or loss is measured at fair value at each reporting date, with gains and losses recognised in profit or loss in accordance with IFRS 9.5.7.1. IFRS does not explicitly mandate a separate remeasurement on intra-period settlement dates. Accordingly, if no additional measurement is performed on the conversion date itself, the carrying amount of the liability at conversion will be the most recent reporting-date fair value.

The analysis that follows assumes a fact pattern in which the SAFE remains classified as a financial liability up to conversion (i.e. there is no pre-conversion reclassification to equity under the FICE model).

Then, upon conversion, the liability is derecognised and equity is recognised. IFRS 9.3.3.3 requires recognizing in profit or loss any difference between (i) the carrying amount of the SAFE liability at the derecognition date and (ii) the fair value of the consideration paid (the fair value of the equity instruments issued on that date).[14] Where the liability has not been remeasured on the conversion date itself, this difference effectively captures the cumulative change in fair value between the last measurement date and the issuance date.

Interpretive alternatives around IFRIC 19.3(c)

34.1. In the baseline case where the SAFE remains a financial liability up to conversion, a conversion of a liability into equity is also addressed in IFRIC 19. Paragraph 6 states that "*when equity instruments issued to a creditor to extinguish all or part of a financial liability are recognised initially, an entity shall measure them at the fair value of the equity instruments issued, unless that fair value cannot be reliably measured*". If the fair value of the equity instruments cannot be reliably measured, the instruments shall be measured by reference to the fair value of the financial liability extinguished (IFRIC 19.7). IFRIC 19.9 requires recognizing in profit or loss the difference between the carrying amount of the financial liability extinguished and the consideration paid, in accordance with IFRS 9.3.3.3.

However, per IFRIC 19.3 this interpretation does not apply where:

(a) the creditor is also a direct or indirect shareholder and is acting in its capacity as a direct or indirect existing shareholder.

(b) the creditor and the entity are controlled by the same party or parties before and after the transaction and the substance of the transaction includes an equity distribution by, or contribution to, the entity.

(c) **extinguishing the financial liability by issuing equity shares is in accordance with the original terms of the financial liability**.

An ordinary SAFE conversion typically falls under paragraph 3(c) (conversion in accordance with the original terms). Were the parties to negotiate a settlement outside the original terms (e.g. a distress exchange or a substantial modification), IFRIC 19 would apply, with any difference from the liability's carrying amount recognised as a gain or loss on extinguishment in profit or loss.

[14] IFRIC 19.5.

34.2. Why 3(c) is scoped out? There is no clear answer to this in IFRS regulations and guidance. A plausible explanation could be that when settlement in shares is specified from inception, the possibility of conversion is already embedded in the contractual terms and therefore priced into the liability's fair value throughout the life of the instrument. The opportunity for fair-value effects arising from conversion risk is recognised under IFRS 9 over time (FVTPL), and its imminence is captured as inputs become observable at the trigger. In that sense, conversion under the original terms is not a renegotiated debt-for-equity swap but the culmination of a continuing contractual mechanism for acquiring shares. That could be why IFRIC 19 (which addresses renegotiated debt-for-equity extinguishments) is scoped out by 3(c): the case is already within the general IFRS 9 liability-extinguishment framework, not the Interpretation's special guidance for swaps.

In the baseline SAFE conversion under 3(c), although IFRIC 19 does not apply, IFRS 9 still does: the liability is derecognised and equity is recognised at the fair value of the instruments issued, with any difference recognised in profit or loss under IFRS 9.3.3.3. By contrast, where 3(a)–(b) applies (transactions with existing owners or under common control), consistency with the Conceptual Framework (CF 4.68–4.71) means the effect is treated as an equity transaction (i.e. no gain or loss in profit or loss from operations relating to contributions from holders of equity claims).

The FICE reclassification proposals, if finalized, would not disturb this sequencing in a baseline 3(c) scenario. They would only introduce the possibility of a prior reclassification to equity at carrying amount in narrow cases where:

1) the contractual terms that create non-equity outcomes cease to be effective; and

2) only a fixed-for-fixed equity-settlement obligation remains.

In such a case, no extinguishment gain or loss would arise on conversion because the liability would already have been reclassified to equity.

34.3. A different, shareholder-centric construction (not reflected in existing IFRS requirements but occasionally advanced in academic or practitioner commentary) reads all three limbs of IFRIC 19.3 as manifestations of a single equity-framework exception grounded in CF 4.68–4.71. Under these provisions, transactions representing contributions from or distributions to shareholders cannot give rise to income or expense in profit or loss. Instead, their effects are confined to movements within equity, never to the statement of profit or loss. On this view:

- paragraph 3(a) addresses an extinguishment with an existing owner acting in that capacity;

- paragraph 3(b) captures common-control settings that are, in substance, contributions/distributions; and
- paragraph 3(c) extends the same principle to a creditor who, by virtue of terms present ab initio, is entitled to become a shareholder through conversion.

The unifying proposition is that each case ultimately falls within the owner transaction rubric. So, the extinguishment difference (any gap between the fair value of the equity issued and the carrying amount of the liability) should be recorded in equity rather than in profit or loss. Proponents argue that the economics of share acquisition are continuous from inception where conversion is built into the original arrangement. Therefore, routing the extinguishment effect through equity at the culmination of that process avoids mischaracterizing an owner-related flow as operating performance.

34.4. A third interpretation, also not grounded in explicit IFRS text but sometimes posited in doctrinal debate, goes further and posits that IFRIC 19.3(c) proceeds on the assumption that IFRS 9.3.3.3 is inapplicable in original-terms conversions because, in substance, the shares issued are not "consideration paid" to extinguish a liability at all. Rather, the issuer is simply performing the original obligation as agreed from inception: a liability whose contracted mode of settlement is equity is discharged by issuance of that equity, with no extinguishment gain or loss. On this construction, the carrying amount of the liability immediately before settlement is reclassified to equity in the same amount, and no measurement of the equity leg at fair value is required (or permitted) at the conversion entry.

A further conceptual analogy sometimes invoked to support this construction is IAS 32.AG32. It sets out that, for compound instruments containing a liability component and a separately recognised equity component, conversion at maturity gives rise to no gain or loss. The liability component is reclassified to equity, and the pre-existing equity component remains within equity. Proponents argue that AG32 embodies a broader principle that, where equity settlement is embedded in the original contractual terms, the eventual issuance of shares is the mechanical fulfilment of an equity-linked obligation rather than an exchange giving rise to profit or loss.

However, this analogy has limited force for a SAFE. AG32 applies only to instruments that are accounted for as compound instruments under IAS 32, i.e. where an equity component is recognised from inception. A SAFE that is classified throughout as a single financial liability at FVTPL does not fall within the scope of AG32. Accordingly, while the AG32 logic can be cited as conceptual reinforcement for the equity-reclassification approach envisaged in 30.4, it does not provide a textual basis for disapplying IFRS 9.3.3.3 to a liability-only SAFE at conversion.

34.5. Whichever construction one prefers, the FICE proposals tend to favor a model under which any pre-conversion classification change (where permitted) is dealt with by reclassifying the instrument to equity at the liability's carrying amount, without recognizing profit or loss on the reclassification itself. They do not contemplate re-routing any extinguishment gain or loss that arises on derecognition under IFRS 9 (or, where applicable, IFRIC 19) through equity, other than in those cases that already qualify as equity transactions with owners under existing IFRS.

Holder perspective on conversion

35. For the holder, the SAFE is a financial asset at FVTPL from inception, with remeasurement through profit or loss at each reporting date.[15] Prior to any trigger, the fair value reflects a Probability-weighted expected return method or analogous Level-3 construct consistent with IFRS 13, including the same cap/discount dynamics, exit probabilities and timing assumptions that inform the issuer's liability. However, the holder's own non-performance risk should be excluded and the issuer's credit risk must be embedded in the price. The accounting therefore mirrors the issuer's in measurement basis and symmetry of gains and losses, subject only to bid–ask/own-credit conventions in fair value.

35.1. Once the financing trigger occurs and the share count is determinable, the instrument continues to meet the definition of a financial asset until settlement. In the absence of explicit reclassification requirements in IFRS for the holder in this fact pattern, entities typically retain classification as a financial asset at FVTPL up to legal issuance. There is no separate "equity pending issuance" category under IAS 32 or IFRS 9 merely because variables have become known. Any fair-value drift between trigger and issuance continues to be recognised in profit or loss (IFRS 9.5.7.1), mirroring the issuer's liability-side remeasurement, unless and until the financial asset is derecognised. The FICE reclassification proposals are directed primarily at the issuer's liability/equity presentation and do not themselves create a separate holder-side equity classification prior to the receipt of the shares.

35.2. At the conversion date, in the baseline case where the SAFE has remained a financial asset up to settlement, the holder derecognizes the SAFE because the contractual rights expire upon settlement (IFRS 9.3.2.3(a)). The consideration received is the equity instrument issued, measured at fair value at the date of exchange under IFRS 13. The difference between (i) the asset's carrying amount immediately before derecognition and (ii) the fair value of the equity received is recognised in profit or loss (IFRS 9.3.2.12). In practice, if the holder has updated fair value to the issuance date, this extinguishment effect is often minimal; if the last measurement date precedes issuance, the residual difference

[15] IFRS 9.5.7.1.

is captured in profit or loss at conversion, broadly mirroring the issuer's IFRS 9.3.3.3 effect on the liability side.

35.3. Where the investor's initial fair value differs from transaction price because of Level-3 inputs, IFRS 9.B5.1.2A(b) applies symmetrically: any day-one gain is deferred until the inputs become observable or until settlement, at which point it is recognised in profit or loss. This mirrors the issuer's treatment of a day-one loss on the liability side.

Liquidity and dissolution events

36. If a liquidity or dissolution event occurs before conversion, the contingent equity path collapses into a monetary obligation equal to the amount stipulated in the SAFE. Depending on the design, this may be the original purchase amount, an amount derived from the cap or discount mechanics, the fair value associated with the conversion formula at the event date, or a contractual redemption multiple. Economically, the SAFE ceases to be a multi-outcome instrument and becomes a single-outcome cash liability.

37. At that moment, the liability is updated to the settlement amount, either by performing a fresh fair-value measurement or, if no such remeasurement is carried out on the event date, through recognition of the difference between the existing carrying amount and the contractual cash consideration due on derecognition in accordance with IFRS 9.3.3.3. In both cases, the resulting gain or loss is recognised in profit or loss. Where a remeasurement to the settlement amount is performed at the event date, subsequent settlement of the cash due derecognizes the liability with no further profit or loss.

38. This sequencing under IFRS[16] leads to the same practical end-point that U.S. GAAP commentators highlight for SAFEs containing cash-settlement features outside the issuer's control.[17] In the U.S. literature, such features are treated as incompatible with equity classification ex ante. The instrument is therefore carried as a liability at fair value through profit or loss, and when the cash-settlement contingency is triggered, the liability is updated to the settlement amount and then extinguished upon payment.

Under IFRS, the path is even more direct. A typical SAFE is already a financial liability at FVTPL because at least one non-equity outcome (including cash settlement) is substantive from inception. Accordingly, a liquidity or dissolution event merely crystallizes the cash leg. It requires a final measurement to the contractual cash amount (either through a fresh FVTPL remeasurement or through recognition of the difference on

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[16] Remeasuring the liability to the cash-settlement amount at the liquidity or dissolution event and then derecognizing it on payment.

[17] Grant Thornton, Viewpoint Issuers' accounting for SAFEs, February 2024. Available via link.

derecognition under IFRS 9.3.3.3) followed by derecognition when the cash is paid.

At no point does the event give rise to a reclassification to equity..

Corporate Tax

SAFEs give rise to intrinsic tax issues that can be framed around four core questions:

1) Whether amounts recognised under IFRS 9's FVTPL model should ever be re-characterized for tax as "interest" or as equity adjustments, and if so, when (from inception, only after a conversion or liquidity trigger, or solely at settlement)?

2) How a valid deferral-until-realisation policy affects timing without altering character?

3) In any recycling construct, what is principal and what is return, and whether participation-exemption and Partex timelines engage?

4) Whether a rebuttable presumption (equity-leaning or debt-leaning) should be applied based on market intent and the instrument's design, with subsequent correction when facts crystallize.

Taxation: international prospects

39. Since the SAFE is a U.S. innovation, introduced and popularized through the Y Combinator templates, one might reasonably expect the United States to be the jurisdiction with the most developed, SAFE-specific tax guidance and to set the benchmark for other countries. In reality, the opposite is true. Despite the instrument's ubiquity in venture financing, there is still no dedicated IRS or Treasury guidance on SAFEs. They are approached only indirectly, through general debt–equity and derivative-contract doctrines. The most sophisticated analysis comes instead from practitioner literature, in particular U.S. BDO (2024),[18] Dolson (2024)[19] and U.S. Baker Tilly (2023),[20] which collectively map the main characterization options (equity, variable prepaid forward, hybrid) and highlight the weaknesses of a straight-debt approach.

Accordingly, in what follows we treat the U.S. material not as a source of positive SAFE-specific rules, but as an analytical laboratory. It helps to identify which features of a SAFE are economically and doctrinally salient, and how different characterization choices play out in practice. On that basis, we then consider how other tax systems may respond

[18] BDO USA, P.C., *Simple Agreements for Future Equity (SAFEs): Overview of Key Tax Considerations* (2024); available via link.
[19] Scott W. Dolson, *Guide to the Federal Income Tax Treatment of SAFEs* (Frost Brown Todd LLP, Apr. 2024), available via *link*.
[20] U.S. Baker Tilly, 2023 year-end tax letter (Oct. 30, 2023); available via link.

when confronted with similar instruments in their own doctrinal frameworks.

40. The above U.S. doctrinal surveys on SAFEs broadly converge on three propositions:

1) In the absence of express IRS or Treasury guidance, SAFEs are best understood as hybrid instruments that do not fit neatly within classic categories of straight debt or issued equity and must be characterized by reference to their specific terms

2) All three sources treat a pure debt characterization as the weakest analytical fit, pointing to the absence of a fixed maturity date, stated interest and conventional creditor remedies, and noting that SAFEs were designed precisely as an alternative to convertible debt.[21]

3) Each analysis emphasizes that the debt–equity–forward classification has material consequences for holding-period issues (including long-term capital gain[22] and Qualified Small Business Stocks[23] relieves eligibility) and, in cross-border structures, for the potential application of regimes such as CFC and Passive Foreign Investment Company (PFIC) treatment.[24]

Within that common framework, the commentators differ in emphasis and in their default "starting point". BDO, for example, generally frames the inquiry as a choice between equity and a variable prepaid forward contract (VPFC). Equity treatment is viewed as more plausible where the SAFE provides voting and dividend rights, uses a fixed conversion formula, and is highly likely to convert. By contrast, the absence of such rights and the presence of a variable share formula tend to push the analysis toward VPFC characterization.

Baker Tilly likewise canvasses four possible characterizations: debt, warrant, VPFC and equity. It tends to view a typical pre-money SAFE as closer to a VPFC than to either debt or a warrant. The equity "flavor" strengthens only when post-money forms import liquidation preferences and dividend participation. Baker Tilly remains more cautious about treating SAFEs as stock ab initio and stresses the persistence of uncertainty, especially for IRC § 1202 holding periods.

Dolson, by contrast, offers a more extended "form-versus-substance" analysis of the Y Combinator-style instruments. He is comparatively

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[21] BDO 2024; Baker Tilly 2023

[22] IRC §§1222(3), 1(h)

[23] IRC § 1202.

[24] Gwayne Lai, The Four-Letter Tax Trap for Simple Agreements for Future Equity (SAFEs): Could yours be a PFIC? (2020), available via link.

more willing to treat SAFEs that layer in equity-leaning features[25] as stock for many federal income tax purposes from inception. VPFC or hybrid analyses are reserved chiefly for earlier or more debt-like variants.

41. The Israel Tax Authority updated guidelines applicable to transactions in 2025–2026 provide that, where defined conditions are met, a SAFE will be treated as an advance payment on account of shares in the issuing company.[26] In that safe-harbor track, entering into the SAFE, funding it and its subsequent conversion do not, in themselves, constitute a taxable event for the investor or create an Israeli withholding tax obligation for the issuer. Taxation is generally deferred until a later disposal of the shares received (or, in certain cases, a cash settlement), which is then examined under the ordinary capital-gains rules.

The conditions for this treatment include, inter alia, the absence of stated interest or other non-equity-type returns (beyond limited indexation), automatic conversion upon a qualified financing round or other specified trigger events, subordination of the SAFE to other creditors on liquidation, and a bounded discount / valuation-cap structure. If the conditions are not satisfied, the instrument falls outside the safe harbor and is characterized under general Israeli tax principles on the basis of its terms (equity, debt or hybrid). The updated guidance expressly notes that failure to satisfy the safe-harbor conditions does not, of itself, mean that the SAFE must be treated as debt.

Structural features of the UAE regime

42. Against that landscape, the UAE Corporate Tax regime supplies no SAFE-specific statutory adjustment. Five features of the UAE system are decisive:

1) By design, CT starts from IFRS profit, i.e. the starting point is accounting profit under IFRS (or IFRS for SMEs), with explicit tax adjustments layered on.

2) The general interest deduction limitation (GIDL) applies to interest and payments economically equivalent to interest. By design, periodic returns on liabilities are swept into the net interest computation, subject to the AED 12 million de-minimis and the 30 percent EBITDA cap.

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[25] Economic exposure, downside risk, participation in upside and lack of creditor-style protections, etc.

[26] See Israel Tax Authority, updated guidance and safe harbor for SAFEs applicable from 1 January 2025, as discussed in Pearl Cohen, “Key tax updates – SAFE 2025: Summary & key changes from SAFE 2023” (January 2025), available at link; Arnon, Tadmor-Levy, “Updated Guidelines – Israel Tax Authority Regarding SAFE Transactions” (2025), available at link; and ITR World Tax, “The ITA publishes an updated version of its guidance and safe harbor for SAFEs” (2025), available at link.

3) The FTA's hybrid-instrument guidance links tax character to IFRS classification in broad terms: where the instrument is not equity under IFRS, issuer cash outflows tend to be treated as interest; where it is equity, distributions are dividends.

4) The "amounts incurred in connection with raising finance" rubric is deliberately expansive for non-equity financing, whereas capital contributions (including issues of shares) are treated as equity movements outside profit or loss.

5) There is no general rule that re-characterizes or "recycles" fair-value remeasurement gains and losses recognised in the financial statements:

   a) The realisation-basis elections operate as timing conventions (deferral-until-realisation), not as re-measurement overrides.

   b) Where gains or losses are recorded in other comprehensive income and would never pass through profit or loss, the Minister ordained tax adjustments to bring such amounts into the taxable base.

   c) The participation exemption suite targets gains/losses (including impairment/reversal) on participating interests, not generic FVTPL movements on equity instruments.

Taken together, these points support the inference that fair-value remeasurement constitutes a distinct income (or loss) category with its own recognition triggers under CT. This category largely follows IFRS measurement and the chosen timing policy, rather than being subsumed into equity or debt rules by default.

Holding period under UAE CT and DMTT regimes

43. Within this architecture, a further question arises that is familiar from the U.S. SAFE debate but has particular importance under UAE law: from what date should any holding period be measured for regimes that depend on owning an equity interest for a minimum period. In the UAE, this issue surfaces in at least three contexts:

1) the participation-exemption suite for "Participating Interests";

2) domestic minimum top-up tax (DMTT) dividend exemption for portfolio interest; and

3) the 0% rate for "holding of shares and other securities" as a Qualifying Activity in a Free Zone context, where holding period may be relevant.

In our view, these timelines are anchored to IFRS classification, not to the date on which the SAFE was initially funded. As long as the SAFE is accounted for as a financial liability at FVTPL, the investor does not hold an equity instrument for IFRS or UAE CT purposes, even though it is economically exposed to the issuer's value. The holding period for participation-exemption, DMTT and 0% Qualifying Activity purposes should therefore run only from the date on which the instrument first meets the equity definition and is recognised as equity in the financial statements (whether that is the legal conversion date or, in a future FICE-type regime, an earlier reclassification date when all non-equity outcomes have lapsed and a fixed-for-fixed equity obligation remains).

This view maintains coherence between:

- the classification premise (SAFE as liability until equity criteria are actually met), and
- the policy design of these regimes, which are drafted to reward and relieve long-term holdings of equity interests, not mere exposure through liability-classified, derivative-like instruments. It also avoids back-dating holding periods to times when, under IFRS and UAE CT, no equity interest yet existed.

44. For the 0% CT rate applicable in UAE Qualifying Free Zones, however, the logic could partially differ. The relevant rules are framed in terms of "*holding of shares and **other securities** for investment purposes*". "Securities" are defined broadly to include not only equity instruments but also a range of financial and derivative instruments that are, or can be, traded or are convertible or exchangeable into a security. On that broader reading, a SAFE held on investment account can be regarded as a "security" for the investor even while it is classified as a financial liability, so there is an arguable position that, specifically for testing the 12-month investment holding condition under the Free Zone 0% regime, the period may run from the date the SAFE is first acquired as a qualifying security rather than only from the later date on which it converts into equity.

Book–tax conformity and realisation elections at conversion

45. Within this framework, the interaction between book–tax conformity and a deferral-until-realisation policy should be analyzed:

    Under the default book–tax conformity, FVTPL amounts recognised up to the last measurement date have already flowed through taxable income. At conversion, any accounting gain or loss recognised under IFRS on extinguishment of the SAFE (for example, the residual change between the last measurement date and the conversion date if no interim remeasurement is made) likewise flows into the CT base in the ordinary way. Conversion does not, however, require (or permit) any separate reclassification of cumulative past FVTPL to equity for tax purposes. The only CT effect is the IFRS gain or loss, if any, recognised at conversion itself.

Under a valid deferral-until-realisation policy, pre-conversion fair-value gains and losses are deferred for CT purposes and are not brought into the CT base when recognised in IFRS. At conversion, inclusion depends on the policy design:

a) if the policy defines conversion as a realisation event, the cumulative deferred amount is included in the CT base at conversion by way of a tax-only adjustment;

b) if the policy treats conversion as a rollover, the cumulative amount is carried forward into the tax base of the equity received (or tracked off-balance) and is included only on disposal of that equity (or on cash settlement).

45.1. Under option (a) ("conversion as realisation"), the deferral-until-realisation policy functions solely as a timing rule. Pre-conversion fair-value gains and losses that would otherwise flow into the CT base period-by-period (under book–tax conformity) are deferred and then brought in once at conversion by a tax-only adjustment. The quantum recognised over the life of the instrument is the same as in a case with no election:

- only the timing shifts (ignoring time-value effects);
- there is no reclassification into equity for tax purposes,
- no change to the underlying character of amounts, and
- no potential to reach a different ultimate tax result.

Option (a) therefore preserves neutrality: it achieves administrative simplicity and timing alignment with the FTA's realisation notion (settlement of a liability at conversion). It doesn't cause permanent differences that would arise under an equity-recycling or rollover approach.

45.2. In contrast, option (b) treats conversion as a continuation rather than a settlement for tax purposes. So, the cumulative pre-conversion fair-value balance is not brought into taxable income at that point. Instead, it is carried forward, either embedded into the tax basis of the equity received to be included only on a later disposal of that equity (or on a subsequent cash settlement).

For the investor, this design can materially change outcomes. If the post-conversion holding qualifies as a participating interest, later gains may be exempt and losses non-deductible, with the practical effect that the deferred balance is never taxed if positive and never deducted if negative. What is a mere timing deferral under option (a) may therefore become a permanent difference under option (b) by virtue of how the participation exemption applies at the exit.

For the issuer, the logic is the same. Conversion extinguishes a liability and creates issued equity, and amounts regulating the measurement of issued equity are, by design, outside profit or loss.

45.3. In Sec. 5.2 of the Accounting Standards Guide No. CTGACS1, the FTA adopts a realisation-basis framework under which unrealised gains and losses that are deferred for tax must be brought into the CT base upon realisation. Realisation is defined to include, inter alia, the settlement of a liability. A SAFE's conversion extinguishes the liability by issuing equity. Accordingly, conversion constitutes a realisation event for CT purposes. It follows that any amounts deferred under a deferral-until-realisation policy are included in taxable income at conversion by way of a tax-only adjustment, notwithstanding that IFRS does not recognise profit or loss at that moment.

45.4. The Guide is explicit on both limbs:

- first, that electing the realisation basis means unrealised fair-value and impairment movements recorded in the financial statements are excluded from the CT computation until realisation;
- second, that upon realisation of an asset or a liability, any amounts previously not recognised for CT (for example, unrealised gains or losses) must be included in the Taxable Income.

These statements, read together with the definition of realisation noted above, confirm the "conversion-as-realisation" design implicit in the FTA's framework.

45.5. The worked examples in the Guide (Examples 5–7) illustrate the mechanics of excluding unrealised movements during the holding period and then including the cumulative amount at the realisation event, reinforcing the treatment described above even though the examples are not SAFE-specific.

45.6. In summary, under the FTA's approach, policy (a) applies as the default:

- conversion is a realisation event, and
- the cumulative deferred amount is included in the CT base at conversion via a time-only adjustment.

A rollover-at-conversion approach would require an explicit, alternative policy design that treats conversion as a continuation rather than a settlement. That approach is not the one contemplated by the Guide's definition of realisation and its "include on realisation" rule.

Alternative CT attribution approaches for SAFEs

46. Within that framework, four interpretive approaches can be articulated for SAFEs, each internally coherent and reconcilable with IFRS and UAE Corporate Tax design.

46.1. Approach 1. Pure IFRS conformity with optional deferral

Under this baseline, tax follows IFRS accounting entirely, subject to a valid deferral-until-realisation election where applicable.

The SAFE is a derivative-like financial liability (issuer) or financial asset (holder) at FVTPL throughout its life. All remeasurement gains and losses pass through profit or loss with no recycling to interest or equity.

Upon a conversion trigger, the accounting result (whether (i) an extinguishment gain/loss in profit or loss, (ii) an equity reclassification, or (iii) no effect due to remeasurement alignment) is mirrored for tax.

At a liquidity or dissolution event, only the cash amount exceeding the then-carrying value is treated as interest for GIDL.

The legal rationale for this approach is that previously recognised fair-value gains and losses on the SAFE arose from the remeasurement of a contingent derivative financial asset or liability – a financial instrument distinct from equity. Conversion, economically, constitutes an exchange: the SAFE instrument is extinguished and replaced by an equity instrument. The cumulative remeasurements are already embedded in the carrying amount of the instrument being surrendered. They do not become a "contribution" merely because the surrendered instrument is exchanged for shares.

Put differently, the remeasurement relates to the period during which the SAFE was held and accounted for as a non-equity financial instrument. Therefore, the anti-P&L principle for equity transactions in CF 4.68–4.71 and IAS 32.35 (which keeps equity transactions out of profit or loss) does not require (or justify) any recycling of past FVTPL to equity on conversion/

This model is simple and transparent, but it appears vulnerable after conversion / liquidity trigger dates, when contingencies are removed and the obligation to issue shares crystallizes. At that point, continued classification of subsequent movements as generic FVTPL, rather than as equity-related or interest-like, may be challenged as economically detached from the now-determinable outcome.

46.2. Approach 2. Trigger-based re-anchoring

This approach consolidates the preceding one with the logic of equity milestones.

Up to the trigger date, fair-value movements follow IFRS (FVTPL, possibly deferred). Once the conversion or liquidity trigger occurs, the character of subsequent gains and losses is re-anchored to the nature of the crystallized obligation:

- if conversion is triggered, *subsequent* changes are treated as equity-related, falling under the owner-transaction principle (non-deductible/non-taxable);
- if liquidity is triggered, *subsequent* changes are treated as interest-related, aligning with the cost of finance.

This approach preserves conformity pre-trigger but aligns the post-trigger phase with the economic substance of the settled outcome, ensuring that post-trigger measurement does not continue to generate synthetic trading-style gains or losses once the form of settlement is predetermined.

Several considerations can be invoked to support this treatment:

1) Economic crystallization at the trigger.

   The trigger marks the point at which the SAFE ceases to be a multi-outcome derivative and becomes economically equivalent to a single, clearly defined obligation: either the issuance of equity on fixed terms or a cash-settled payoff akin to interest. From that moment, the holder's and issuer's positions no longer resemble a trading instrument with open optionality. Re-anchoring the tax character of subsequent movements recognises that the "speculative" phase has ended.

2) Consistency with the owner-transaction principle.

   Once conversion is locked in, the remaining value changes are, in substance, changes in the value of an anticipated equity position vis-à-vis existing or incoming owners. Treating those post-trigger movements as equity-related (and therefore non-taxable / non-deductible) aligns with the general principle that owner transactions should not give rise to taxable income or deductible expense in the profit-and-loss sense, even if accounting fair-value changes continue to be recognised under IFRS.

3) Alignment with the cost-of-finance paradigm on liquidity.

   Where the SAFE ultimately settles in cash following a liquidity event, the post-trigger phase functions economically as a financing cost: it is the price paid for access to capital on agreed terms, rather than a series of trading gains or losses. Re-characterising post-trigger movements as interest-related more faithfully matches the economic burden of funding and avoids treating funding costs as if they were speculative P&L.

4) Avoidance of over-taxation of unrealised volatility.

   Continuing to attribute ordinary or trading-type tax character to post-trigger fair-value movements risks taxing (or allowing deductions for) short-term valuation noise on an exposure that is already economically locked into equity or financing. Trigger-based re-anchoring confines such trading-style treatment to the genuinely contingent phase and prevents the tail (fair-value mechanics) from wagging the dog (the underlying capital or funding transaction).

5) Conceptual consistency with reclassification reform.

The direction of travel in financial-instruments classification is to recognise that, once particular contingencies lapse, an instrument's substance can change (e.g. from liability-like to equity-like). A tax model that re-anchors character at the same milestone respects this conceptual shift. It acknowledges that, from the trigger date, the SAFE is best viewed as part of the capital structure (if equity-settled) or as a financing arrangement (if cash-settled), not as a standalone trading instrument.

Taken together, these points support the view that a trigger-based re-anchoring of character provides a more accurate and principled mapping of economic outcomes into the tax base than a model that treats all fair-value movements, both pre- and post-trigger, as homogeneous trading income or expense.

46.3. Approach 3. Finance-raising primacy (broader Interest lens)

Here, the SAFE is viewed as an instrument for raising finance until equity is actually issued.

All remeasurement effects (both before and after the trigger) are treated as part of the aggregate cost of financing, thus falling within the interest or economically equivalent interest definition for GIDL purposes.

Only when the SAFE converts does its treatment pivot to equity: the difference between the fair value of the shares issued and the carrying amount of the liability is treated as an equity issuance (issuer) or equity acquisition (investor) effect, with no recycling of prior amounts.

If a liquidity event occurs instead, the interest classification continues to the cash payment.

This approach simplifies tax administration and reinforces the financing substance of SAFEs but risks overstretching the statutory meaning of "interest" to encompass unrealised fair-value effects that IFRS does not identify as yield.

The following arguments provide a legal rationale for this approach. From a UAE Corporate Tax perspective, there is textual support for a broad characterisation of SAFE-related returns as "Interest" (or payments economically equivalent to Interest) while the instrument remains classified as a financial liability:

1) Statutory definition of Interest.

   Article 1 of the Corporate Tax Law defines "Interest" as "*any amount accrued or paid for the use of money or credit, including discounts, premiums and profit paid in respect of an Islamic financial instrument and* ***other payments economically equivalent to interest****, and* ***any other amounts incurred in connection with the raising of finance****, excluding payments of the principal amount*" This formulation is not confined to periodic coupon-type returns: it extends to "*other payments economically equivalent to interest*" and to "*any other amounts incurred in connection with the raising of finance*".

2) Primacy of economic substance over accounting labels.

Article 2(1) of Ministerial Decision No. 126 of 23 May 2023 provides that where the financial returns on a financial asset or liability comprise Interest or other payments economically equivalent to Interest, "*the interest component on those returns shall be considered Interest expenditure or income for the purposes of the General Interest Deduction Limitation Rule, **regardless of the classification and treatment of the interest component under the applicable Accounting Standards***". This supports the proposition that, even if IFRS presents an amount as a fair-value movement rather than as an explicit yield, it can still be characterized as "Interest" for GIDL purposes if, in substance, it represents compensation for the use of money or the raising of finance.

3) FTA guidance on "payments economically equivalent to Interest" and hybrid instruments.

Section 3.5 of CTGGIDL1 states that:

a) "*payments economically equivalent to Interest*" encompass a "*wide array of financial charges*" that, although not labelled as Interest, "*fulfil a similar economic role*",

b) the economic substance may be akin to debt or equity "*regardless of how they are structured or named*" and "*may not necessarily follow the treatment under applicable Accounting Standards*".

Section 3.8, dealing with "hybrid instruments", confirms that where such instruments are **not** converted to equity and **not** classified as equity under IFRS, "*the income and expenditure in relation to [the instrument] will be considered as Interest*". This logic is reinforced by Article 5 of Ministerial Decision No. 302 of 10 December 2024, which reverses the analysis only where a debt instrument is in fact classified as an equity interest under the applicable Accounting Standards: in that case, amounts are treated as participation / dividend rather than debt/ interest.

4) Amounts incurred "in connection with the raising of finance".

Section 3.10 of CTGGIDL1 interprets "*amounts incurred in connection with raising finance*" broadly to include "*the various costs that a Business may incur when obtaining capital through borrowing or other financial instruments (other than equity instruments)*", and states that these costs "*are considered to be Interest*". The FTA emphasizes that "*the broad definition ensures that* *all forms of compensation to creditors or costs related to financing are captured, regardless of how they are structured or named*".

Against this backdrop: as long as the SAFE remains accounted for as a financial liability and has not yet converted into equity, all economic remuneration arising under it realised in a liquidity or dissolution scenario[27] can be framed as "*payments economically equivalent to Interest*" or "*amounts incurred in connection with the raising of finance*" within the meaning of Article 1 and the FTA guidance. This classification can apply even though IFRS presents such amounts as fair-value movements rather than as a yield or coupon. Conversely, once the SAFE has converted and is classified as equity under IFRS, those same amounts would fall on the "dividend / profit distribution" side rather than interest, consistent with the FTA's treatment of hybrid instruments classified as equity.

On this reading, while the SAFE is a liability, all non-principal amounts associated with it are within the interest concept for GIDL purposes. Only a completed conversion into equity displaces that treatment and re-routes subsequent flows into the equity / participation category.

46.4. Approach 4. Full equity/interest recycling framework

A more radical equity–interest synthesis would treat both potential settlement paths under the SAFE as discrete and internally consistent regimes. Where conversion occurs, the entire equity-settlement leg, comprising the original cash inflow, all cumulative remeasurements recognised through profit or loss, and any final difference at the conversion date, is re-routed into equity (for the issuer) or cost of investment (for the investor), thereby removing it from taxable profit.

Conversely, where a liquidity or dissolution outcome materializes instead of conversion, the instrument's cash-settlement leg is treated as a financing outcome: the entire spread between the original proceeds received and the cash paid at exit represents interest or an amount economically equivalent to interest under the GIDL.

This symmetrical treatment yields full recycling on both sides (equity for the conversion path and interest for the liquidity path) achieving conceptual purity and alignment with the shareholder-contribution principle of CF 4.68–4.71. However, it departs most sharply from the statutory architecture and IFRS conformity: it assumes a comprehensive equity/interest reclassification mechanism that neither IFRS nor the UAE Corporate Tax Law currently provides.

47. In practice, the defensibility and conservatism of each approach depend not only on abstract logic but on the specific contractual features of the SAFE: its conversion mechanics, presence or absence of liquidity

[27] Including liquidation premiums, redemption multiples and fair-value uplifts.

preferences, discount or cap structures, and the sequencing of equity triggers. All recognised international commentaries reach the same conclusion: the accounting and tax outcomes hinge on the terms of the particular SAFE rather than on a universal rule, and this observation holds with full force in the UAE context.

48. In general terms, for the issuer (investee), Approach 2 represents a balanced and sustainable position: intermediate between the more conservative treatments under Approach 4 (full recycling) and Approach 3 (finance-raising primacy), on the one hand, and the risk-heavier treatments under Approach 1 (pure IFRS) and Approach 3 when applied expansively, on the other. It recognizes the re-anchoring of substance at the conversion or liquidity trigger without much of abandoning IFRS measurement discipline.

For the investor, the symmetry broadly holds. Approach 2 remains well balanced, but Approach 1 may in some cases prove more conservative than Approach 4, particularly where fair-value gains exceed losses and the investor's carrying amount has accumulated unrealised appreciation. Conversely, where losses outweigh gains, the ranking may invert, and Approach 4 would then appear the more prudent of the two.

Hence, the notion of "conservatism" or "risk" is relative and outcome-dependent, determined by the SAFE's realised economics rather than by form alone. On balance, Approach 2 emerges as the most conceptually coherent and practically defensible framework for both issuer and investor: it preserves IFRS integrity, honors the timing and substance of conversion or liquidity triggers, and provides a clear bridge between accounting presentation and tax attribution, without assuming statutory adjustments that the UAE Corporate Tax Law does not presently contain.

Related-party and transfer-pricing considerations

49. The related-party and control analysis matters at two levels. For financial reporting, it determines whether the SAFE investor and issuer are Related Parties under IAS 24, which in turn affects disclosure, segment reporting, and the presentation of key management relationships. For UAE Corporate Tax, the classification of the SAFE relationship as "Related Party" has two distinct consequences:

1) it brings any pricing of the SAFE and ancillary arrangements within the scope of the transfer-pricing and arm's-length rules, with potential TP adjustments if terms deviate from market;

2) for a SAFE investor that is a Qualifying Free Zone Person, the related-party status of the issuer can influence revenue recognition under the 0% regime: Article 2(1)(j) of Cabinet Decision No. 229 of 2025 extends the 0% CT rate to income from financial services, including the provision of loans and similar instruments, only where such services are supplied to Related Parties or undertaken

for the investor's own account. Accordingly, whether the SAFE counterparty is a Related Party can directly affect whether the investor's returns on the SAFE fall within the 0% or 9% CT rate.

50. Before conversion, SAFE holders ordinarily have no voting rights, no right to appoint directors, and no vetoes over relevant activities. They therefore neither control the issuer under IFRS 10 nor jointly control it under IFRS 11, nor do they have significant influence under IAS 28 by virtue of the instrument alone. So, they are not related parties under IAS 24 on that basis.

51. For UAE transfer pricing, however, the FTA may consider economic dependence and financing dominance in addition to formal governance rights. Where funding magnitudes or side arrangements indicate substantive influence, a careful functional analysis and contemporaneous documentation remain advisable even if the instrument does not confer legal control.

52. The FTA's Transfer Pricing Guide No. CTGTP1 emphasizes that, for Corporate Tax purposes, "Control" and hence Related Party status can arise not only from formal voting rights or majority equity, but also from the ability to exercise "significant influence" over the conduct of a Business. While a 50% threshold is used as a key indicator in several examples, the Guide stresses that significant influence is ultimately a substance-based notion, tested case by case. In particular, Example 3 illustrates a scenario where a third-party lender becomes a Related Party because its loan comes to represent 50% of the borrower's total capital and is accompanied by involvement in strategy, product design, pricing, and target-market decisions. The FTA treats this combination of financing dominance and de facto strategic input as sufficient to establish Control, even in the absence of equity or voting rights.

53. By analogy, a SAFE investor that supplies a funding amount which, post-issuance, accounts for a very large share of the issuer's capital structure may be viewed as exercising significant influence if, in practice, it participates in setting business strategy, product portfolio, pricing or key commercial policies. In such circumstances, even though the SAFE does not itself confer voting rights or board appointment powers, the FTA could regard the relationship as a Related Party one under the "financing-based influence" rubric of CTGTP1, with the SAFE forming part of the controlled transaction landscape for transfer-pricing purposes.

54. Example 4 of CTGTP1 further confirms that an entitlement to 50% or more of another Person's profits can, by itself, establish Control under Article 35(2)(c) of the Corporate Tax Law. Standard SAFEs do not typically grant a current share in profits. They grant a contingent right to future equity or to cash proceeds in defined events. However, where a SAFE or a SAFE-like instrument is structured so that the investor is economically entitled to a fixed proportion of the issuer's profits or net

proceeds (for example, via revenue-sharing or profit-participating terms packaged alongside the SAFE), the threshold in Article 35(2)(c) may be engaged notwithstanding the absence of formal equity. In such fact patterns, the FTA could regard the counterparty as having Control through profit entitlement, and the SAFE-related flows would then fall squarely within the Related Party and transfer-pricing regime.

55. Finally, Example 5 in CTGTP1 illustrates that even where legal ownership rests with one shareholder, another Person may be found to have Control if it effectively directs market strategy and key operating decisions. In a SAFE context, this serves as a reminder that side arrangements (strategic cooperation agreements, board-observer rights, vetoes embedded in parallel contracts, or long-term exclusivity undertakings, etc.) can be relevant to the Related Party analysis even if the SAFE documentation is formally "clean".

56. A SAFE that is modest in size, held by a typical portfolio investor with no strategic role or side rights, is unlikely on its own to give rise to Control. Conversely, where the SAFE is part of a broader financing and strategic package, the overall arrangement should be evaluated holistically against the FTA's Control indicators, with transfer-pricing documentation and, where relevant, Free Zone 0% qualification analysis calibrated accordingly.

Disclaimer

Pursuant to the MoF's press-release issued on 19 May 2023 "*a number of posts circulating on social media and other platforms that are issued by private parties, contain inaccurate and unreliable interpretations and analyses of Corporate Tax*".

The Ministry issued a reminder that official sources of information on Federal Taxes in the UAE are the MoF and FTA only. Therefore, analyses that are not based on official publications by the MoF and FTA, or have not been commissioned by them, are unreliable and may contain misleading interpretations of the law. See the full press release here.

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