

To: Financial Reporting Working Group

From: Philippe Angelis

Meeting: 16 April 2019

Reference: ECO-FRG-19-058

Subject: IFRS 9 Update - FRWG 16 April

Objective

For discussion – EFRAG is currently working on an online survey on alternative measures of equity. The secretariat will be seeking member's preliminary views on how to respond to EFRAG's consultation.

Insurance Europe continues to lobby based on Financial Reporting issues based on the positions summarised below:

IFRS 9

- There is a need to allow recycling for equities measured at FVOCI to ensure the profit and loss account correctly reflects financial performance of long-term investors.
- Impairment rules would be needed as part of this and should be similar to IAS 39 (not the revaluation model as proposed by EFRAG)
- The recycling rules should also apply to equity investment via funds such as UCITS.

Background

The lack of recycling for equity capital gains in IFRS 9 was a significant issue which Insurance Europe lobbied on to rectify during the development of IFRS 9 and has since highlighted as an issue that should be addressed. We therefore have welcomed the Commission's request to EFRAG to consider solutions to this issue and the related issue of recognition of certain equity like instruments under IFRS 9. EFRAG published a discussion paper in March, with deadline for answers on 25 May. The secretariat responded to EFRAG's discussion paper on equity instruments - impairment and recycling (see [ECO-FRG-18-075](#)) and sent a letter to EFRAG's president (see [ECO-FRG-18-076](#)) on 24 May

While the Commission appears to recognise the need for recycling, there remains considerable opposition. EFRAG staff and TEG have opposed advising in favour of the reintroduction of recycling. The IASB through Sue Lloyd have also opposed the reintroduction of recycling and exposed their arguments in an article ([here](#)). The main reasons cited for not reintroducing recycling were that:

- there is no real need as insurers can always use FV which appears to work well for some insurers
- it can be used as an earnings management tool
- it provides a confusing/un-transparent presentation of performance

On 22 November, the EFRAG Board decided on its final recommendation in response to the Commission's call for advice on recycling for FVOCI equities ([ECO-FRG-18-178](#)). While EFRAG recognises that an impairment model needs to be introduced should recycling be allowed for equities measured at FVOCI and show preference for an improved IAS 39 impairment model, EFRAG will not advise for the immediate reintroduction of recycling and modification of IFRS 9. In addition, EFRAG has included an opinion on the reopening of IFRS 9 in its advice which we believe was not part of the Commission's request.

On 13 December, EFRAG presented its technical advice on recycling for equities to the ARC Committee. ARC members decided to wait for the outcome of the second request the Commission sent to EFRAG on alternative



measurements of equity. This advice is expected by Q2 2019. The secretariat will now focus on presenting the EFRAG technical advice to the EC on the first request in a positive light.

On 27 September, the ExCo confirmed the Insurance Europe position on IFRS 9 – both on the recycling for FVOCI instruments and for the application date (which should match IFRS 17's). On 2 October, the ECOFIN Committee decided that Insurance Europe's IFRS 9 position should not be put forward together with the IFRS 17 position at this stage.

At the same time, the IASB staff asked the IASB Board to decide whether IFRS 9 and IFRS 17 application dates should be aligned for insurers at the IASB 14 November Board meeting. Ahead of the meeting, the secretariat invited members to reach out to IASB Board members reiterating our position on the alignment of the two standards ([ECO-FRG-18-163](#)). On 14 November, the IASB Board voted in favour of extending the fixed expiry date for temporary deferral of IFRS 9 by one year.

EC request for technical advice on alternative measures of equity

The European Commission, as part of its **Action Plan on sustainable finance** sent a request to EFRAG to investigate "alternative" methods of accounting for long term equity investments on 1 June ([ECO-FRG-18-123](#)). The EC expects the outcome of EFRAG's work by the second quarter of 2019 and has confirmed that the equity recycling under IFRS 9 and alternative measures of equity projects should be kept separate. EFRAG is currently working on the technical advice and the papers.

On 27 September, the EFRAG TEG discussed 3 initial criteria to define the long-term investing. Some TEG members were not persuaded that a definition would help in developing the answer to the request, or that it would be feasible to find a practical definition. While some TEG members supported the development of a definition based on the notion of business model of the investor – this is in line with the view voiced at the last FR WG. The majority of EFRAG TEG members were not in favour of developing a definition of long-term investing. The EFRAG Secretariat will provide a more detailed analysis on alternative measurements for equity and equity-type instruments at the next TEG meeting.

On 29 November, TEG discussed possible alternative measurement models for equity instruments in the context of the third phase of its research on the potential effects on long-term investment of IFRS 9's requirements on accounting for equity and equity-like instruments. TEG Members noted the limitations of the various alternative measurements. Some members suggested that certain of the alternatives, such as the linked approach, would only work only in limited circumstances. The discussion will continue at the next meeting and the EFRAG secretariat will prepare a draft consultation document for consideration.

On 17 January, EFRAG TEG discussed a first draft discussion paper (DP) on alternative measurement approaches for equity. The DP identifies a number of alternative measurement bases to depict the performance of long-term equity investments, focusing on historical cost and averages fair value. The DP also discusses the implications of including equity-type instruments in such measurement as well as possible approaches to defining long-term investment. At the 17 January TEG meeting, TEG members had significant comments on the draft and asked the staff to work on a second draft, which was further refined following the 14 February TEG meeting.

On 28 February, the EFRAG Board ultimately decided that the consultation would take a different form, and would become an online survey. The Board will approve the final version of this survey by written procedure. The staff draft DP ([ECO-FRG-19-027](#)) will remain available as support material to the online survey.

On 21 March; the EFRAG TEG discussed the examples prepared by the EFRAG staff to be added to the online questionnaire. Following comments from some TEG members, the EFRAG TEG chair agreed to include an insurance example to the list if they provided one. The secretariat worked to provide such an example, and received indication that the insurance example would be added.



The secretariat will be seeking member's preliminary views on how to respond to EFRAG's consultation.

Next steps

- EFRAG
 - End April 2019: Publication of the survey on alternative measures of equity – expected consultation period of 60 days.