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Submitted through EFRAG website

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### **Discussion Paper *Equity Instruments – Impairment and Recycling***

Dear Jean-Paul

The UK Financial Reporting Council (FRC) welcomes the opportunity to respond to your Discussion Paper *Equity Instruments – Impairment and Recycling* issued in March 2018.

We believe that during the IASB's post-implementation review of IFRS 9 *Financial Instruments* the evidence of the impact of IFRS 9 should be assessed. The debates about whether IFRS 9 should introduce recycling and if so, under what conditions, should take place during the post-implementation review. The evidence gathered by the European Commission and EFRAG could be useful to influence the IASB's decision about the timing and scope of the post-implementation review and can inform the IASB about possible accounting solutions.

#### **Key issues raised in the Discussion Paper**

In January 2018 EFRAG reported on its outreach activities on the possible effects of IFRS 9 on long-term investments. Based on the responses from 26 participants, EFRAG concluded that some European entities expect to modify their asset allocation decisions, whilst others would not. EFRAG noted in the report that insurers are still at an early stage of their assessment. Most entities have not yet reported in accordance with the standard.

In our view, the evidence presented by EFRAG is inconclusive on whether there is a need for a change to IFRS 9 or not. We believe more extensive research and outreach is necessary to assess the impact of IFRS 9 to reach a conclusion.

In the FRC response to the 2015 IASB Exposure Draft *Conceptual Framework for Financial Reporting*, we disagreed with the proposal for recycling items reported in other comprehensive income (OCI) to the statement of profit or loss. We retain a preference for non-recycling because we believe the statement of financial performance should report income and expenses resulting from events during the period. It can be argued, that any re-measurement gains or losses previously recognised arose during the holding period and not at disposal. However, we acknowledge that the IASB's revised *Conceptual Framework*, issued in March 2018, recognises that there can be situations when recycling is appropriate. In addition, recycling is required for other financial assets measured at FVOCI.

On the specific question as to whether recycling should be accompanied by an impairment model, we recognise that different views exist. Some believe that impairment should be a prerequisite for recycling, others are less definite because of the limitations of the impairment models. There may also be a case for recognising impairments of equity instruments even without recycling.

To reach a conclusion a wider debate is needed about when recycling provides more relevant information or a more faithful representation, and what conditions should apply. The discussions should explore the case for impairment and possible impairment models in more detail. We have therefore not responded to the detailed questions in the Discussion Paper.

### **Practical solution**

Disclosure could be a means to provide information on the cumulative gains and losses since acquisition of equity instruments that have been de-recognised and on possible impairments. This option is available without a change to IFRS 9. Disclosures about gains and losses on the disposal of equity instruments and about the nature of losses on equity instruments, e.g. whether they relate to significant adverse economic events or changes in market prices could be provided.

If you would like to discuss any points raised in this letter, please contact me or Anthony Appleton at [a.appleton@frc.org.uk](mailto:a.appleton@frc.org.uk).

Yours sincerely



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