

To: Mr Jean-Paul Gauzès
European Financial Reporting Advisory Group
President of the EFRAG Board
35 Square de Meeûs
B-1000 Brussels

Subject: IASB Discussion Paper Financial Instruments with Characteristics of Equity (FICE) (DP/2018/1) – EFRAG response letter to IASB

Brussels, 6 December 2018

Dear Mr Gauzès,

We would like to provide the following high level comments on the IASB's Discussion Paper "Financial Instruments with Characteristics of Equity" (DP/2018/1) for EFRAG to consider in finalizing its own views on this paper.

We acknowledge that the IASB's main aim is to retain current accounting for most financial liabilities and equity instruments and yet address difficulties that have arisen in applying IAS 32 in some circumstances. We note that the DP aims also to improve information provided through presentation and disclosures. However, we have some significant high-level concerns.

We are not convinced by the DP's new definition of a liability, as we are not clear that:

- in practice there will be sufficient certainty about identifying the 'amount independent of the entity's available economic resources';
- having this new definition will prevent other application issues arising in the future, as innovation in financial instruments will continue;
- It meets a cost/benefit test, because even though the new definition should not change much current practice, companies will have to check anyway and so in effect incur unnecessary costs.

In addition, amongst our members, there are different views about the inclusion of a reference to liquidation in the definition of a liability. Concerns include the need for guidance to ensure that the definition is consistent with a going concern basis for accounting, and that the definition may be driven by conflated consideration of the quite different information needs that relate to an ongoing business on the one hand and the liquidation on the other hand. We suggest that further work is carried out in this area before any further changes are proposed.

We suggest that the IASB looks instead to:

- review its principles for distinguishing liabilities and equity the next time it reviews its conceptual framework, assuming a going concern basis accounting;
- consider more comprehensively how any information needs relating to a liquidation should be met in accounts prepared on a going concern basis;
- make targeted improvements to IAS 32 to address specific known issues in identifying financial instruments as liabilities or equity;
- reconsider the issue of puttable instruments (investment funds, private equity funds). For the equity/liability decision it should not only be the issuer perspective of relevance but the investors' perspective as well.

We are also concerned that the DP's presentation and disclosure proposals would add greatly to the operational burden faced by preparers – particularly:

- attributing comprehensive income to different equity types and their carrying amounts - we question whether the cost is outweighed by benefits to users;
- disclosing priorities on liquidation – we note that IFRS is used primarily at the group level, and yet liquidation occurs at the individual company level;
- giving information on terms and conditions – it may be difficult to avoid either reporting at too high a summary level to be useful to users or adding considerably to the length and complexity of financial statements.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Olav Jones', written over a horizontal line.

Olav Jones
Deputy Director General & Director ECOFIN