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29 May 2018

Re: EFRAG Discussion Paper “Equity Instruments – Impairment and recycling”

Dear Jean-Paul,

We are pleased to have the opportunity to provide our comments in order to contribute to the debate on the treatment of equity instruments designated at FVOCI in accordance with IFRS 9.

We welcome the EFRAG efforts in order to contribute to the European Commission requests to investigate the significance of the equity portfolio for long-term investors under IAS 39 and IFRS 9 and to assess the significance of an impairment model to the re-introduction of recycling.

We generally support the reintroduction of recycling of equity instruments designated at FVOCI.

We think that a robust and operational impairment model for equity instruments would be appropriate, because it would reduce any accounting incentive to maintain for a long period of time loss-making investments in equity instruments.

We also think that the IAS 39 impairment model for available for sale (AFS) instruments is a good starting point. We think that this model could be improved allowing the reversal of impairment losses for equity instruments and providing application guidance on the terms “significant” and “prolonged”.

However, we understand that developing a robust and operational impairment model could be difficult. Consequently, we think that a “second-best” approach could be to consider an accounting model that does not require impairment, but requires recycling to profit or loss of cumulative gains or losses recognised in OCI on derecognition.

Our detailed comments are set out below.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,

Angelo Casò

(Chairman)

Q1.1 What are your views on the arguments presented in paragraphs 2.3-2.10? Do you consider that the reintroduction of recycling would improve the depiction of the financial performance of long-term investors? Alternatively, do you consider that the existing requirements of IFRS 9 provide an adequate depiction? Please explain.

We support the reintroduction of recycling to profit or loss of cumulative gains or losses recognised in OCI, because IFRS 9 already permits the recycling for debt instruments and we think that equity instruments should be accounted for in the same way.

In particular, we support paragraph 2.5 of the DP, which states that both dividends receipts (which are included in profit or loss) and gains on disposal from the sale of equity instruments represent a form of realisation of the fair value of the instruments. Therefore, both events should be presented in the same way.

Q2.1 What are your views on the arguments presented in paragraphs 2.11-2.17? Do you consider that, from a conceptual standpoint, recycling should be accompanied by some form of impairment model? Please explain.

We broadly agree with the EFRAG arguments about the relevance of impairment model if equity instruments were to be measured as at FVOCI with recycling. We think that a robust impairment model would be appropriate, because it would reduce any accounting incentive to maintain for a long period of time loss-making investments in equity instruments.

However, we understand that developing a robust and operational impairment model could be difficult. Consequently, we think that a "second-best" approach could be to consider an accounting model that does not require impairment, but requires recycling to profit or loss of cumulative gains or losses recognised in OCI on derecognition. This approach is consistent with IFRS 9, which states that an entity shall recognise in profit or loss dividends on equity instruments, even if the entity makes the irrevocable election to present in OCI changes in the fair value. This approach is based on the assumption that both dividends receipts and gains on derecognition of equity instruments represent a form of realisation of the fair value of the instruments.

Q4.2 Which, if either, of the two models do you prefer? Please explain.

In relation to the two proposed impairment models, we have the following comments:

- Revaluation model: this model, in our view, is not attractive, because:
 - o under this approach, only the changes in fair value below the original acquisition cost are recognised in profit or loss. Thus, changes in fair value above the cost are not recognised in profit or loss, while
 - o under IFRS 9, if equity instruments are carried at FVPL, all changes in fair value (including changes above the cost) are recognised in profit or loss.

Consequently, we think that preparers would always be inclined to apply the FVPL model.

- Impairment model similar to IAS 39 with less subjectivity: in our view, the IAS 39 impairment model for AFS is a good starting point. We think that the main disadvantage of the IAS 39 impairment model is that IAS 39 does not allow the reversal of impairment losses. For this reason, we think that this "new" impairment model should:

- allow the reversal of impairment losses for equity instruments;
- provide application guidance on the terms “significant” and “prolonged” to reduce the subjectivity around the interpretation of these terms. Quantitative thresholds might be included in this guidance.

Q5.1 Do you support the inclusion of quantitative impairment triggers in an impairment model? If so, should an IFRS Standard specify the triggers, or should management determine them?

Please consider our answer to **Q4.2**.

Q6.1 How should subsequent recoveries in fair values be accounted for? Please explain.

As explained in our reply to Q4.2, we support the introduction of reversal of impairment losses.

Q6.2 If subsequent recoveries in fair values are recognised in profit or loss, which of the approaches in paragraphs 5.2-5.10 do you support and why?

At this stage, we think that all proposed approaches seem reasonable.