

## EFRAG CALLS FOR AN ACADEMIC LITERATURE REVIEW ON THE INTERACTION OF IFRS 9 AND LONG-TERM INVESTMENT DECISIONS

**8 September**

### Background

IFRS 9 *Financial Instruments*, which becomes effective in 2018, requires entities to account for investments in equity instruments at fair value with the changes recognised in profit or loss. Entities have an option to irrevocably designate investments in equity instruments<sup>1</sup> at fair value with the changes recognised in Other Comprehensive Income (OCI). If this election is chosen, the entity does not recycle gains or losses from OCI to profit or loss on disposal and does not recognise impairment losses. IFRS 9's requirements in this area differ from those in the previous Standard, IAS 39 *Financial Instruments: Recognition and Measurement*, which requires both recycling and the recognition of impairment losses for investments in equity instruments classified as available-for-sale.

EFRAG is currently investigating, at the request of the European Commission, whether the removal of recycling for equity investments measured at fair value through OCI could affect the investment decisions of long-term investors. EFRAG is also undertaking a technical assessment of the relationship between the recycling of gains or losses and the recognition of impairment losses. By 'long-term investors' EFRAG refers to IFRS-reporting entities that purchase and hold investments in equity instruments for the long-term<sup>2</sup>.

In the context of its investigation, EFRAG is interested in commissioning a review of existing academic literature related to the impact of accounting requirements on entities' investment strategies (both asset allocation and holding period).

Examples of literature that is of particular interest to EFRAG include, but are not limited to:

- Is there evidence that investment strategies are affected by accounting requirements (including decisions on the weighting of investment portfolios between equities and other asset classes, and decisions affecting the holding period)? What other factors affect these investment decisions? What is the relative importance of these factors?
- What factors, including but not limited to accounting requirements, lead long-term investors to dispose part of their portfolio of equity instruments?
- Do users of financial statements assign a different relevance to 'holding gains and losses' (that is, changes in fair value occurring before the entity disposes of the instrument) and 'selling gains and losses' (that is, the ultimate change value realised on sale)?

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<sup>1</sup> Other than held-for-trading investments

<sup>2</sup> For the purpose of this study, EFRAG does not intend to provide a definition of "long-term"

## How to apply

Applications are open to individuals or groups who are affiliated with an internationally recognised university and have previously published research on accounting in high quality peer reviewed journals.

If you are interested to apply, please submit summary CVs and a brief proposal together to [call.for.tender@efrag.org](mailto:call.for.tender@efrag.org) **before 9 October 2017**.

The proposal should include:

- university affiliation and previous research;
- a review plan outline;
- a brief review of some relevant research/literature;
- a summary of the key issues which you believe are likely to arise from the review; and
- the amount of the funding required along with a breakdown of the estimated costs.

Applicants will be advised of the decision by 15 October 2017.

## Terms of agreement

A draft of the literature review and summary report in a form understandable for non-academics is to be submitted by *31 January 2018*. The EFRAG project team will provide feedback and final submission is expected by *28 February 2018*. Authors will be required to make a short presentation of findings to the EFRAG Board and EFRAG TEG at one of its meetings.

EFRAG may also require the authors to present their findings at other meetings *after* publication by EFRAG of the literature review. EFRAG will incur the traveling expenses to attend the meetings after publication (until publication all expenses including travel expenses are to be included in the proposal).

Funding of up to 12.000 (including VAT if applicable)<sup>3</sup> euros is available to commission the literature review. The review and summary report will be made publicly available on EFRAG website. The authors will be allowed under specific conditions to use the findings for their own research and publish them.

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<sup>3</sup> The proposal should include VAT: EFRAG has no VAT status and should therefore be invoiced VAT included for all provision of services, including those received from abroad.