EFRAG
European Financial Reporting Advisory Group

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EFRAG Secretariat: Equity Instruments team

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FEEDBACK STATEMENT

SURVEY ON ALTERNATIVE ACCOUNTING TREATMENTS FOR LONG TERM EQUITY INVESTMENTS

JANUARY 2020

EFRAG
European Financial Reporting Advisory Group

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Executive Summary

In May 2019 EFRAG launched a public consultation to gather constituents' views on whether alternative accounting treatments to those in IFRS 9 *Financial Instruments* are needed to portray the performance and risks of equity and equity-type instruments held in long-term investment business models (the questionnaire can be found here). EFRAG requested comments by 5 July 2019.

EFRAG is now issuing a feedback statement, which describes the main comments received.

Why was this Public Consultation launched?

In June 2018, the European Commission ('EC') requested EFRAG to consider alternative accounting treatments to measurement at Fair Value through Profit or Loss (FVPL) for equity instruments. Possible accounting treatments should:

- properly portray the performance and risk of long-term investment business models, in particular for those equity and equity-type investments that are much needed for achieving the UN Sustainable Development Goals and the goals of the Paris Agreement on climate change; and
- preferably enhance investors' insight in the long-term performance of investments, as opposed to recognising point-in-time market-based value changes in reported profit or loss during the duration of the equity investment.

The letter from the EC with the request can be found here.

Purpose and use of this feedback statement

This feedback statement has been prepared as a formal record of the responses received. It summarises the messages received from constituents and notes any key themes identified. The feedback received on the questionnaire will be used by EFRAG in developing its response to the EC and should be read in conjunction with the Survey and Background paper which are available on the EFRAG website. EFRAG advice to the EC will also be available on EFRAG website once finalised.

While being designated to get input to the advice of EFRAG to the EC, this survey provides extensive feedback from a relevant number of European constituents on a topic of relevance in the current financial reporting debate. For this reason, EFRAG Secretariat is issuing this feedback statement as a separate document.

Overview of survey's respondents

EFRAG received sixty-three surveys responding to EFRAG questionnaire. A list of respondents is in Appendix I to this summary of responses. All surveys received are available on EFRAG's website, except for two surveys as these respondents asked to remain anonymous.

The questionnaires received came from national standard setters, business associations, professional organisations, listed companies and EU authorities. In particular:

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- The majority of the respondents declared that they were engaged in a Long-term Investment Business Model (LTIBM) and/or sustainable activity;
- Almost half of the respondents were from the financial sector, including insurance companies, banks, conglomerates and relative industry associations; and
- Approximately 15% of the respondents were users(*), a high rate of response when considering EFRAG's outreaches on other topics.

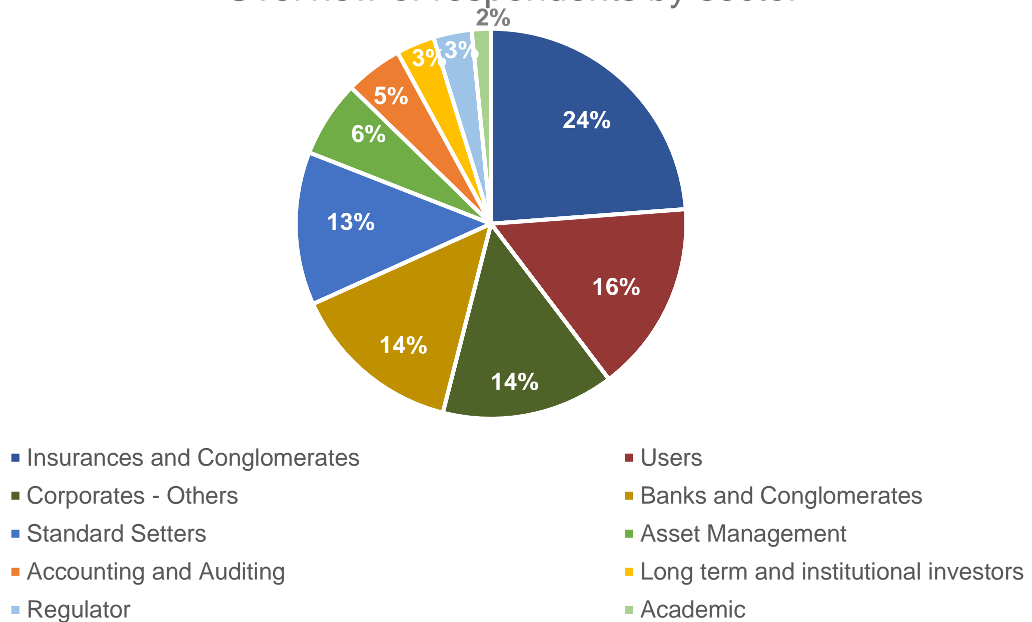

Figure 1 - Overview of respondents by sector

Figure 2 - Overview of respondents by country

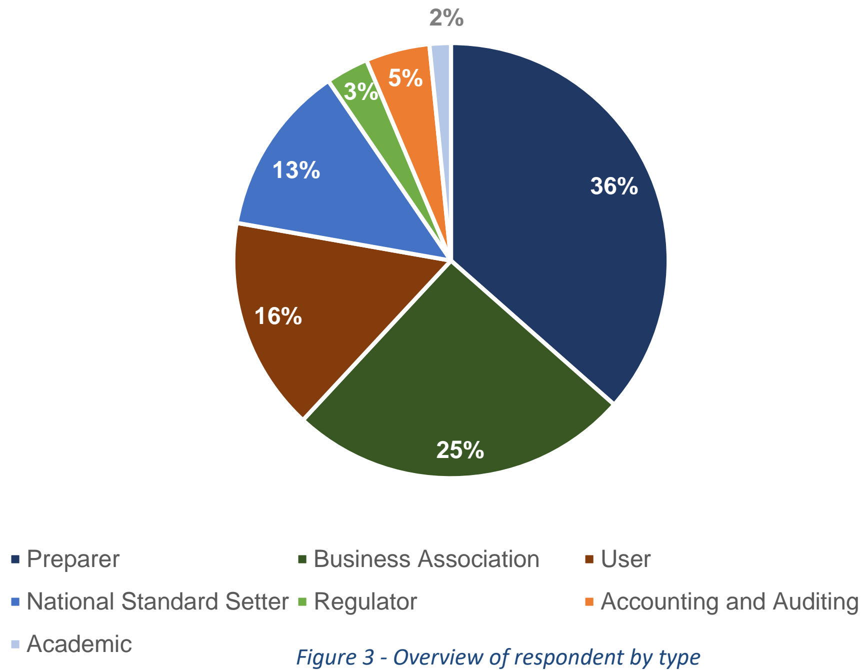

Figure 3 - Overview of respondent by type

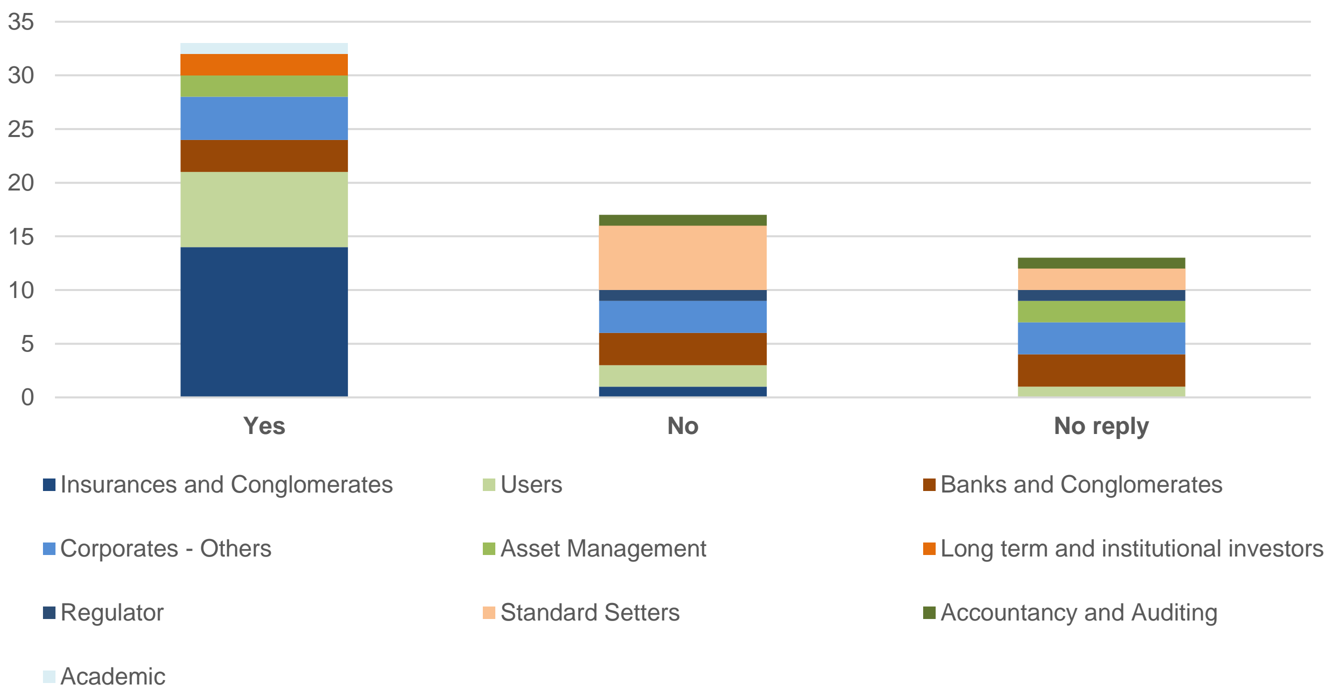

Figure 4 - Are you engaged in LTIBM?

The majority of the respondents [70%] from the financial sector(*) and users of financial statements stated that they were engaged in LTIBM. Other respondents that were not engaged in a LTIBM or did

not reply were mainly corporates, national standard setters, regulators and accounting/auditing professional associations.

Outreach activities

In addition to the surveys, EFRAG undertook a number of outreaches and meetings on this project, including with European Fund and Asset Management Association (EFAMA), Insurance Europe and Task Force on Long-Term Investment of the Paris Financial Marketplace. These entities subsequently submitted a survey to EFRAG.

The EFRAG Secretariat also discussed the contents of the DP with its Working Groups and external organisations. In particular, on 16 July 2019, EFRAG User Panel debated EFRAG's public consultation on whether alternative accounting treatments were needed for equity and equity-type instruments held in long-term investment business models.

In line with survey responses, EFRAG User Panel members provided mixed views and referred to different measurement approaches (even if there was a slight preference for the first approach described below):

- *Fair value through profit or loss:* such an approach helps users assessing the entities' risk exposure to equity instruments. In addition, disclosures about the methodologies used to calculate fair value are fundamental for users;
- *Fair value through OCI with recycling:* such an approach provides information about realised and unrealised gains and losses. The ability to identify realised vs. unrealised gains or losses is fundamental and highly relevant to the users of financial statements to assess the performance of an entity;
- *Adjusted cost – Equity Method:* such an approach is particularly useful for situations where entities are currently applying level 3 fair value calculation; and
- An approach that provides information about the future value of equity (i.e. reflecting the full potential of the business) rather than focusing on the fair value of the equity instrument.

Key messages of the responses received

This feedback statement uses the following terms to describe the extent to which particular feedback was shared by respondents (both when referring to total respondents or a subset of respondents).

Term	Extent of response among respondents
Almost all	90%-100%
Most	80%-90%
Majority	50% to 80%
Many	20% to 50%
Some, others	10%-20%
A few	0%-10%
(*)	Statement reported, among others, by European associations

Table 1 - Terms

Definition of sustainable activities

Some respondents [19%] observed that currently there is not a single definition for "sustainable activities" and acknowledged the challenges of defining it. Nonetheless, some respondents [16%] defined sustainable activities as those that take into account environmental, social and governance ('ESG') objectives, aiming at having a positive impact on society in the long-term.

Although in general respondents supported the aim of encouraging sustainable activities, many respondents [22%], particularly from the financial sector(*), considered that sustainable activities should not be a distinguishing feature in accounting.

In addition, EFRAG received mixed views on whether a change in IFRS 9 would contribute to the objective of the Action Plan on Sustainable Finance. Some respondents [16%], particularly national standard setters and regulators, considered there is little evidence to support the assertion that IFRS 9 may impact investments in sustainable activities; others [10%] presented the view that the introduction of an alternative accounting treatment for equity instruments in IFRS 9 (particularly the reintroduction of recycling for Fair Value through Other Comprehensive Income ('FVOCI')), would positively contribute to the objective of the Action Plan on Sustainable Finance.

Definition and characteristics of long-term investment business model

Some respondents [16%] observed that currently there is no formal definition for 'long-term investment business model' and acknowledged the challenges of defining it.

Those respondents that provided a definition of LTIBM provided different views on what a LTIBM is. Nonetheless, it is worth noting that respondents often referred to the expected holding period and the

use of thresholds to distinguish between short-term and long-term equity investments. Some respondents [17%], particularly from the financial sector, also provided a definition LTIBM closer to their business model. For example, A few respondents [8%] defined it as a model in which the company acquires assets in order to match long-term insurance or savings related liabilities.

Nonetheless, many respondents [30%], particularly from the financial sector(*), considered that it was not necessary to define LTIBM for the purpose of defining an alternative accounting treatment for equity instruments in IFRS 9. Instead, many of these respondents considered that the focus should be on determining whether an equity instrument is held for (non-)trading purposes. In addition, a few insurance companies(*) [8%] suggested that for the purpose of defining an alternative accounting treatment for equity instruments the focus should be on an efficient asset-liability management aimed at matching the investments with long-term insurance/savings liabilities.

When asked which characteristics should be required to identify a LTIBM, the majority of the respondents approximately 50%, referred to the “expecting holding period” and/or the “characteristics/business model of the investor”. Only some respondents referred to the “long-term nature of the liabilities that fund the assets”. Nonetheless, many respondents [47%] used the option “other” (i.e. none of the above).

Is there a need for an alternative accounting treatment to IFRS 9 requirements?

The majority of the respondents, approximately 70% of respondents, particularly from the financial sector(*), considered that there is a need for an alternative accounting treatment for equity instruments in IFRS 9. However, many of the respondents [30% or 44%] that called for an alternative accounting treatment did not relate the need for an alternative accounting treatment to the objective of “properly portraying the performance and risks of equity instruments held in a LTIBM. These respondents related the need for an alternative accounting treatment to the objective of properly portraying the performance and risk of “non-trading equity instruments” or an efficient asset-liability management.

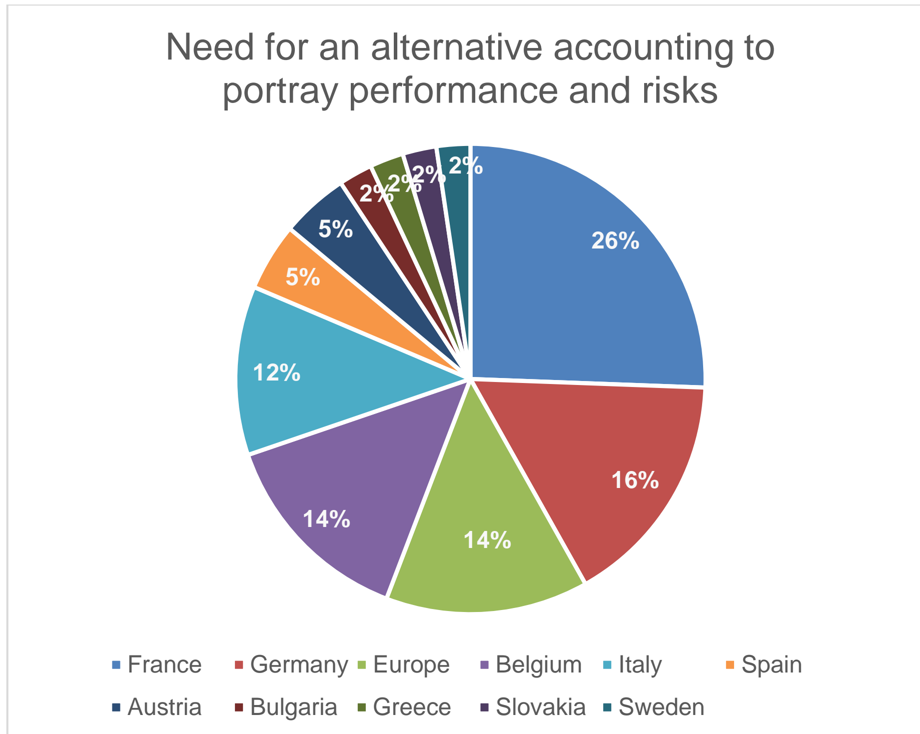

Figure 5 - Need for an alternative accounting treatment

In addition, the majority of the respondents [52% or 78%], particularly those from the financial sector(*), would favour a FVOCI model with recycling and impairment, without making differentiations on whether investments are related to sustainable activities (i.e. scope similar to the FVOCI option under IFRS 9).

By contrast, many respondents, approximately 30% of respondents(*) (a mix of all types of respondents), were not convinced that there is a need to identify a LTIBM nor an alternative accounting treatment for long-term equity investments in IFRS 9. These respondents considered that:

- there is no evidence to suggest that a change to IFRS 9 would advance the goals of the EC to foster investment in sustainable activities and support achieving the UN Sustainable Development Goals or the goals of the Paris Agreement on Climate Change;
- whether an equity instrument is held in a LTIBM is a rather subjective assessment that most likely will result in divergence in practice;
- IFRS 9 has only been in effect since January 2018 (although most European insurance firms have exercised the option to not apply IFRS 9 until 2021 or later) and the issues investigated in this request would be best considered through the post-implementation review of IFRS 9;
- EFRAG previous research (here) was inconclusive on whether IFRS 9 was problematic and would impact on investment decisions; and
- alternative accounting treatments such as FVOCI with recycling would enable earnings management and require a robust impairment model.

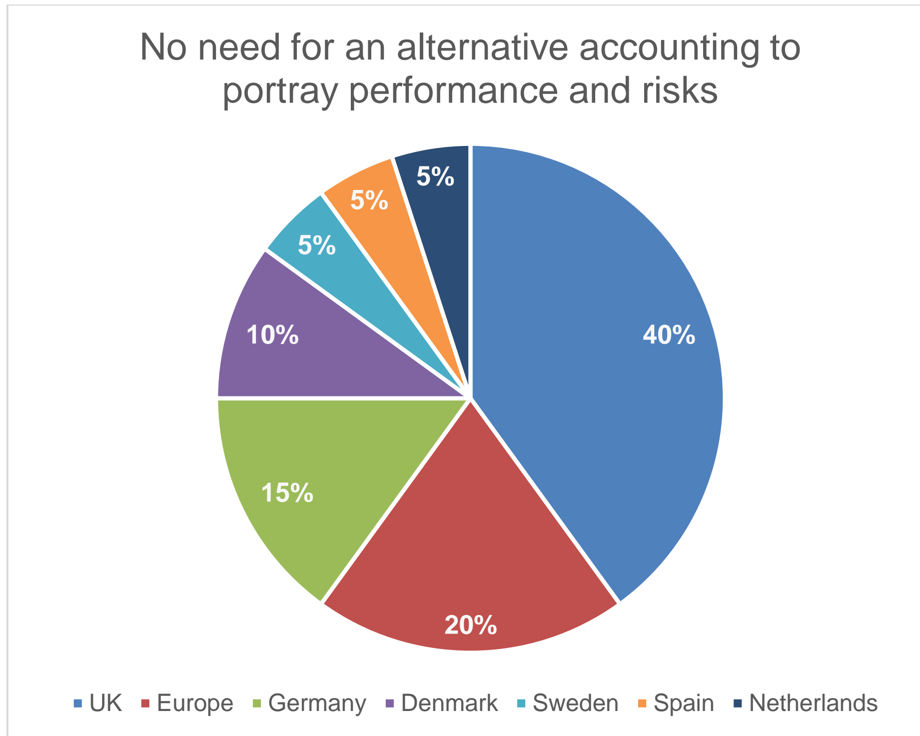

Figure 6 - No need for an alternative accounting treatment

Finally, a few respondents [3% or 10%] simply mentioned it was too early to conclude whether IFRS 9 (potentially in conjunction with the accounting model in IFRS 17 *Insurance Contracts*) affects any asset allocation decisions to the disadvantage of long-term equity investments and suggested reconsidering any potential issues as part of the IFRS 9 *Post-Implementation Review*.

The table below summarises the feedback received by type of respondent. When answering to the question, it is clear from the table below that most insurance, banks, corporates, asset management and long-term investors consider that there is a need for an alternative accounting treatment.

Type of respondent	Response	Number	%
Academic (individuals)	Yes	1	2%
	No	0	0%
Users (individuals, associations, accounting valuators)	Yes	5	8%
	No	5	8%
Insurance and conglomerates (entities and associations)	Yes	14	22%
	No	1	2%
Banks and conglomerates (entities and associations)	Yes	6	10%
	No	3	5%
Asset Management (entities and associations)	Yes	4	6%
	No	0	0%
Long term and institutional investors (associations)	Yes	2	3%
	No	0	0%
Corporates – other sectors (entities and associations)	Yes	7	11%
	No	2	2%
Accounting and Auditing	Yes	0	0%
	No	3	3%
Standard Setters	Yes	4	6%
	No	4	6%
Regulators	Yes	0	0%
	No	2	3%
		63	**100%**

Table 2 - There is a need for an alternative accounting treatment?

Why is there is a need for an alternative accounting treatment?

Most respondents[(*)] [57% or 84%] justified the need for an alternative accounting treatment in IFRS 9 by highlighting the limitations of accounting for equity instruments either at FVPL or FVOCI without recycling in accordance with IFRS 9 (consistently with previous EFRAG's consultations on the accounting for equity instruments under IFRS 9). In particular, respondents considered that:

- FVPL is not appropriate to adequately depict the financial performance of LTIBM, particularly insurance companies, as it increases the volatility in the statement of profit or loss and generates a mismatch between the liabilities and the assets that fund the liabilities;
- the use of FVPL for equity instruments does not reflect the business intention of holding equity investments for strategic reasons and market-to-market estimates fail to provide a faithful representation of the real strategy underlying long-term equity investments;
- the use of FVOCI without recycling creates the false impression that the cumulative gains and losses at the time of disposal of equity instruments are not economically relevant and not a part of the financial performance. This is preventing entities, particularly insurance companies, to properly reflect their investment performance on non-trading equity instruments;
- both dividends and gains on disposal 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; and
- the ability to identify realised vs. unrealised gains or losses is fundamental and highly relevant to the users of financial statements.

As mentioned above, many of the respondents(*) [30% or 44%] that called for an alternative accounting treatment did not relate it to the need of properly portraying the performance and risks of equity instruments held in a LTIBM. Those that related to the need of properly portraying the performance and risks of equity instruments held in a LTIBM referred for example (in addition to the points already mentioned above):

- fair value accounting loses significance for long-term investments as such investments may be considered closer to subordinated debt rather than equity ownership; and
- fair value changes in profit or loss over-represent into the entity's performance the entity's ability to immediately dispose of an asset.

In addition, a few of those respondents [6% or 9%] from the financial industry referred to the limitations related to the elimination of the cost exception for equity instruments (i.e. exception in IAS 39 *Financial Instruments: Recognition and Measurement* from fair value measurement for unquoted equity instruments when the fair value is not reliably measurable).

Many respondents [25% or 37%] that called for an alternative accounting treatment, particularly entities from the financial sector(*), also considered that IFRS 9 in its current form created disincentives for insurers to maintain and increase investments in long-term and/or illiquid assets.

Which alternative accounting treatments have been suggested?

When specifically referring to an alternative accounting treatment in IFRS 9 for equity instruments respondents indicated many different approaches.

The majority of the respondents [52% or 77%] which called for an alternative accounting treatment, particularly from the financial sector(*), supported fair value measurement of equity and equity-type instruments in the statement of financial position but called for the reintroduction of recycling in the FVOCI approach (please see table below for more details).

Some of these respondents considered appropriate further analysing other alternative measurement approaches for equity instruments if recycling was not reintroduced; others were not in favour of any other alternative measurement at all.

The cost model, in its possible variations (dual measurement, adjusted cost, cost exception, historical cost) was supported by 14% of these respondents.

It is also worth noting that in general there was little support or references to FVOCI without recycling as a preferred approach. However, it is worth noting that this outcome refers to those respondents that supported the need for an alternative accounting treatment; as stated above, many respondents were of the opinion that an alternative accounting treatment is not needed, so implicitly they supported as well FVOCI without recycling.

The table below summarises the feedback received on which alternative accounting treatment respondents prefer (43 respondents want an alternative but 1 did not identify the alternative):

Type of respondent	Model	Number	%
Academic (individuals)	Dual Measurement	1	2%
Users (individuals, associations, accounting valuators)	Adjusted cost	1	2%
	FVOCI with Recycling	3	8%
	Variable fee approach	1	2%
Insurance and conglomerates (entities and associations)	FVOCI with Recycling	11	25%
	Cost exception	2	5%
	Historical Cost	1	2%
Banks and conglomerates (entities and associations)	FVOCI with Recycling	5	12%
	Cost exception	1	2%
Asset Management (entities and associations)	FVOCI with Recycling	3	8%
Long term and institutional investors (associations)	FVOCI with Recycling	1	2%
	Equity Method	1	2%
Corporates – other sectors (entities and associations)	FVOCI with Recycling	7	17%
Standard Setters	FVOCI with Recycling	3	8%
	Adjusted cost	1	2%
		42	**100%**

Table 3 - Which alternative accounting treatment is preferred?

Which impairment models have been suggested if recycling would be introduced?

When mentioning specific impairment models, many respondents(*), approximately 30%, considered that an improved version of the IAS 39 impairment model could be used as a way forward. These respondents considered that a robust impairment model can be developed without undue costs by using IAS 39 as a starting point but with additional guidance to reduce subjectivity.

How can the impairment model be improved?

Respondents that suggested improvements to the impairment model referred to:

- improve definition and criteria for the notion of 'significant' and 'prolonged' decline;
- allow the reversals of impairments;
- additional disclosures, including on methodology;

Should the alternative accounting treatment be restricted to equity instruments held in a long-term investment business model?

Most respondents(*) [54% or 81%] that replied to this question considered that the alternative accounting treatment should not be restricted to equity instruments held in a LTIBM. However, respondents provided mixed views to which instruments it should be applied and which approaches should apply.

The remaining respondents either preferred to restrict the alternative accounting treatment to equity instruments held in LTIBM, as FVPL seemed an appropriate measurement approach for equity instruments other than those held in LTIBM or rejected the need for an alternative accounting treatment.

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The table below summarises respondents reply on whether an alternative accounting treatment should be restricted to equity instruments held in a LTIBM.

	Is there a need for an alternative accounting treatment?			If Yes (43 responses and 1 did not respond). Should the different accounting treatment be restricted to equity instruments held in **a LTIBM**?		
Type of respondent	**Response**	**Number**	**%**	**Response**	**Number**	**%**
Academic (individuals)	Yes	1	2%	Yes	1	2%
	No	0	0%	No	0	0%
Users (individuals, associations, accounting valuators)	Yes	5	8%	Yes	1	2%
	No	5	8%	No	4	10%
Insurance and conglomerates (entities and associations)	Yes	14	22%	Yes	2	5%
	No	1	2%	No	12	29%
Banks and conglomerates (entities and associations)	Yes	6	10%	Yes	2	5%
	No	3	5%	No	4	10%
Asset Management (entities and associations)	Yes	4	6%	Yes	0	0%
	No	0	0%	No	3	7%
Long term and institutional investors (associations)	Yes	2	3%	Yes	0	0%
	No	0	0%	No	2	5%
Corporates – other sectors (entities and associations)	Yes	7	11%	Yes	2	5%
	No	2	2%	No	5	12%
Accounting and Auditing	Yes	0	0%	Yes	0	0%
	No	3	3%	No	0	0%
Standard Setters	Yes	4	6%	Yes	0	0%
	No	4	6%	No	4	10%
Regulators	Yes	0	0%	Yes	0	0%
	No	2	3%	No	0	0%
		63	**100%**		**42**	**100%**

Table 4 - Should the different accounting treatment be restricted to equity instruments held in a LTIBM?

Should the alternative accounting treatment referred to in the previous questions be extended to instruments that are "equity-type"?

When referring specifically to equity-type instruments, most respondents[(*)] [57% or 88%] that replied to this question and supported an alternative accounting treatment, considered that the different accounting treatment referred to in previous questions should be extended to "equity-type" instruments (even if respondents were referring to many accounting treatments, as described above).

By contrast, some respondents [8% or 12%] considered that the alternative accounting treatment referred to in previous questions should not be extended to "equity-type" instruments. One respondent noted that it was difficult to define the "equity-type" in such a way that it is not complex to apply from a holder´s perspective and that in turn does not introduce inconsistency with the accounting treatment of other financial instruments.

Most of the remaining respondents did not think that new options were necessary. One respondent detailed that one of the objectives of IFRS 9 was to reduce complexity compared to IAS 39. Creating a new class of instruments that are "equity-type" would increase rather than reduce complexity (i.e. how to define instruments that are "equity-type").

The table below summarises respondents reply on whether the different accounting treatment referred to in the previous questions be extended to instruments that are "equity-type".

	Is there a need for an alternative accounting treatment			If Yes (43 responses and 2 did not respond). Should the different accounting treatment referred to in the previous questions be extended to instruments that are "**equity-type**"?		
Type of respondent	**Response**	**Number**	**%**	**Response**	**Number**	**%**
Academic (individuals)	Yes	1	2%	Yes	1	2%
	No	0	0%	No	0	0%
Users (individuals, associations, accounting valuators)	Yes	5	8%	Yes	5	12%
	No	5	8%	No	0	0%
Insurance and conglomerates (entities and associations)	Yes	14	22%	Yes	13	32%
	No	1	2%	No	1	2%
Banks and conglomerates (entities and associations)	Yes	6	10%	Yes	5	12%
	No	3	5%	No	1	2%
Asset Management (entities and associations)	Yes	4	6%	Yes	3	7%
	No	0	0%	No	0	0%
Long term and institutional investors (associations)	Yes	2	3%	Yes	2	5%
	No	0	0%	No	0	0%
Corporates – other sectors (entities and associations)	Yes	7	11%	Yes	4	10%
	No	2	2%	No	2	5%
Accounting and Auditing	Yes	0	0%	Yes	0	0%
	No	3	3%	No	0	0%
Standard Setters	Yes	4	6%	Yes	3	7%
	No	4	6%	No	1	2%
Regulators	Yes	0	0%	Yes	0	0%
	No	2	3%	No	0	0%
		63	**100%**		**41**	**100%**

Table 5 - Should the different accounting treatment referred to in the previous questions be extended to instruments that are "equity-type"?

From the table above we notice that most of the respondents [88%] that considered that there is a need for an alternative accounting treatment considered that it should be extended to equity-type instruments.

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How relevant an alternative accounting treatment is to the objective of reducing or preventing detrimental effects on investment in sustainable activities in Europe?

Many respondents(*), [46%] particularly from the financial sector, considered that an alternative accounting treatment was relevant to the objective of reducing or preventing detrimental effects on LTI. However, there was an equally a significant number of respondents, particularly standard setters, users, regulators and professionals in accounting and auditing that did not consider an alternative accounting treatment relevant or did not reply.

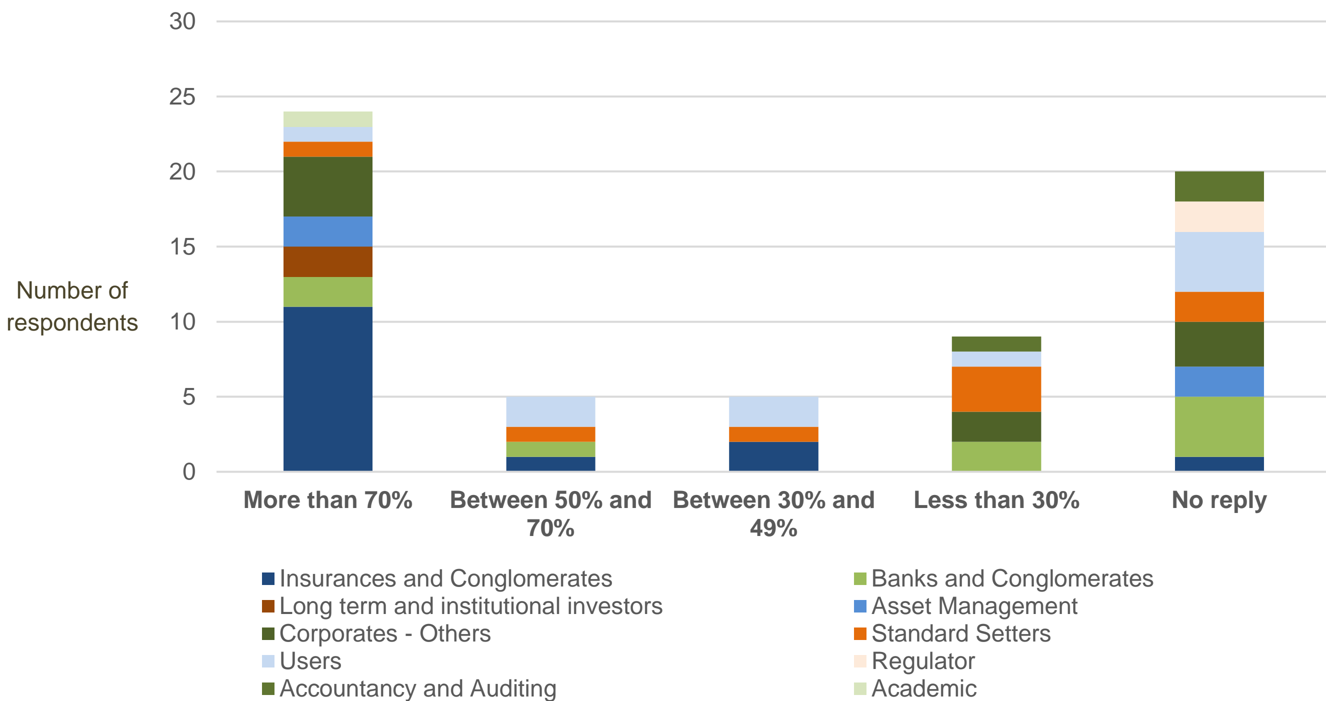

Figure 7 - How relevant a different accounting treatment is to the objective of reducing or preventing detrimental effects on LTI

Detailed analysis of the comments received

European Commission request for technical advice

1 Some respondents [16%] specifically welcomed EFRAG public consultation to gather constituents' views on whether alternative accounting treatments to those in IFRS 9 are needed to portray the performance and risks of equity and equity-type instruments held in long-term investment business models. In particular, one respondent appreciated the promotion by EFRAG, and Local Standard Setters of a wider project aimed at assessing the impact of the UN Sustainable Development Goals and the goals of the Paris Agreement on Climate Change on IFRS in terms of presentation, disclosures and measurement requirements.

2 By contrast, a few respondents [3%] were not convinced of the usefulness of the current consultation. One respondent recalled that during the EC request on *Equity Instruments Impairment and Recycling*, EFRAG had gathered sufficiently robust evidence that "the majority of respondents do not expect to modify their holding period for equities following the introduction of IFRS 9"; "asset allocation decisions of long term investors are driven by a plurality of factors"; and "it is difficult to assess the relative importance of accounting requirements". One other respondent was actually against the objective of EFRAG's request for feedback and was not convinced about the arguments raised to further investigate the need for an alternative accounting treatment in IFRS 9.

Definition of sustainable activities

3 Some respondents [19%] highlighted that currently **there is not a single definition for "sustainable activities" and acknowledged the challenges of defining it**.

4 Nonetheless, **some respondents** [16%] **defined sustainable activities as those that take into account environmental, social and governance ('ESG') objectives**, aiming at having a positive impact on society in the long-term.

5 In addition, respondents considered that sustainable activities include, more generally, activities that make use of existing resources in a way that is sustainable for the environment/society now and in the future. For example, respondents referred to:

a) businesses that take into account metrics as climate change, circular economy, local communities, employees, satisfaction, reduction of CO2, such as investments in sustainable infrastructures in order to reduce gas emissions;

b) any activity financing innovative businesses involved in reducing pressure on the environment, such as renewable energies;

c) products, solutions and technologies that add value to the environment, the society and the economy;

d) investments that have a direct impact on one (or more) Sustainable Development Goals of the UN 2030 Agenda;

e) innovative therapies for human disease, low cost medicines for developing countries, wind farms, bee-friendly pesticides and electric vehicles;

f) activities that allow self-replenishment of resources used/consumed;

g) the activities, an entity engage in, impact its surroundings on a broad scale, being cognizant that profit is not the only purpose of its investment;

h) sustainability aims at preserving our planet and society so that future generations may enjoy and find happiness in their lives. There is an obvious relationship between long term investment and sustainability as there is with responsible investment as defined in the UNO PRI initiative;

i) business operations that generate positive cash-flows without causing a negative impact and/or damage in the natural and social environment;

j) activities that contribute to a better living for society over generations without harm to nature and excessive consumption of resources; and

k) all activities related to Corporate Social Responsibility.

6 One respondent highlighted that there is an ongoing work to define sustainable activities in future regulation on disclosures relating to sustainable investments and sustainability risks (amending Directive (EU) 2016/2341) at European level.

7 Finally, one respondent thought that as a definition of sustainable activities has not been developed by the IASB nor the EC for the purpose of the EU endorsement of IFRS standards, then the definition of "Sustainable Activities" for any accounting purposes should be determined by each company (entity-specific definition) according to its own criteria and consistently with its mission and strategic plan.

Should the notion of sustainable activities be reflected in accounting to promote sustainable investments?

8 Although in general respondents supported the aim of encouraging sustainable activities, **many respondents, [22%] particularly from the financial sector, considered that sustainable activities should not be a distinguishing feature in accounting** (i.e. the notion of sustainable activities should not be considered for classification purposes in IFRS Standards). In particular, these respondents considered that:

a) Financial reporting should remain focused on depicting economic reality in a neutral way and:

(i) it is not the aim of financial reporting standards to encourage or discourage any types of investments and if governments want to promote sustainable investments, changing accounting rules is not the right solution.

(ii) it would be better to consider other methods such as subsidies, tax benefits, guarantees, etc. In addition, the EC had not made a convincing case for the linkage between its sustainable finance initiative and the accounting treatment of equity investments.

(iii) there is no evidence to suggest that a change to IFRS 9 would advance the goals of the EC to foster investment in sustainable activities. Thus, respondents not convinced that a change to the measurement requirements in IFRS 9 would support the EC's goal to support long term investment in sustainable activities.

(iv) the primary objective of endorsed accounting standards remains to promote transparency and better decision-making in financial markets and, therefore, they should be considered as neutral with respect to other public policy objectives. This approach is ultimately the most beneficial for the performance of capital markets, including their capacity to support long-term investments"

b) sustainability is not explicitly defined by the IASB nor the EC for the purpose of the EU endorsement of IFRS standards. In addition, the EC should abstain from defining "sustainable activities" for financial reporting purposes;

c) what is considered sustainable today may not be sustainable tomorrow;

d) the focus should be on fixing the deficiencies of IFRS 9 in reflecting the business model of long-term investors of insurance companies rather than a particular understanding of sustainable investment;

e) IFRS 9 does not pose an obstacle to broader policy objectives such as sustainability and long-term investment; and

Does accounting affect investment decisions, including those in sustainable investments?

9 EFRAG received **mixed views on whether accounting affects investment strategies** (including those in sustainable investments) **and whether a change in IFRS 9 would affect the objective of the Action Plan on Sustainable Finance**.

10 Some respondents [16%], particularly national standard setters and regulators, considered **there is little evidence to support the assertion that the implementation of IFRS 9 may impact investment strategies or investments in sustainable activities** and noted that the global use of IFRS as issued by the IASB remains the most effective way of providing relevant and reliable information to investors, including those focused on sustainable business models. One respondent added that in order to best support long-term investment and contribute to the shift towards more sustainable systems, financial statements should remain focused on depicting economic reality in a neutral way, while avoiding the possibility of giving rise to structuring opportunities and incentives to short-term opportunistic behaviour.

11 By contrast, some respondents [10%] presented the view that the **introduction of an alternative accounting treatment for equity instruments in IFRS 9, particularly the reintroduction of recycling for FVOCI, would positively contribute to the objective of the Action Plan on Sustainable Finance.** Some of these respondents highlighted that the current requirements in IFRS 9 (FVOCI without recycling) would probably hamper investments in equity more generally (i.e. reduce attractiveness for the equity asset class).

Definition and characteristics of long-term investment business model

Definition of LTIBM

12 Some respondents [19%] observed that currently **there is no formal definition for LTIBM** and **acknowledged the challenges of defining it**. In particular, these respondents noted that:

a) there are several definitions for long-term investment;

b) assessing whether an equity instrument is held in a LTIBM is a very subjective exercise that most likely will result in divergence in practice; and

c) it would have been useful if the survey had proposed a definition of LTIBM.

13 In addition, **respondents provided many different definitions of a LTIBM**:

a) **Many respondents** [22%] **referred to the expected holding period** and the use of thresholds to distinguish between short-term and long-term equity investments. For example, respondents defined it as:

(i) a model in which the company invests with a view of holding a security for a long period of time. Respondents however provided different notions of what is a long period of time. For example, respondents referred to holding a security for at least 1, 3, 5 and 10 years. It was also mentioned that many long-term investors such as pension funds, sovereign wealth funds, etc. have extended investment horizons, often for decades or longer;

(ii) a model in which the company buys and holds an investment in an entity and expects to generate and collect the contractual cash-flows rather than sell the instrument over the holding period of the financial assets (this is particularly true for the insurance business where the long-term nature of insurance liabilities requires insurance companies to pursue a long-term investment strategy. For example, for some insurance products (pension savings), there is a legal requirement to hold a minimum level of investments in specific equity-type which are typically held for a very long period);

(iii) a model in which investments made by an entity are held for the long term but this does not necessarily imply that the underlying business of the investee is long-term;

b) **Some respondents, particularly from the financial sector, provided a definition LTIBM closer to their business model**, particularly the Asset Liability Management (‘ALM’) and insurance business. For example, some respondents defined it as:

(i) a model in which the company acquires assets in order to match long-term insurance or savings related liabilities and to obtain revenues from these investments and often holds these assets, irrespective of short-term market volatility;

(ii) a financial investment strategy deployed by any operator holding stable resources which at the same time allows for and requires asset allocation able to generate an economic return over time;

(iii) model characterized by an investment strategy primarily determined by the duration and predictability of their resources (liabilities and own funds). As for example, insurers invest the premiums they collect from policyholders to pay claims and benefits on their policies. Efficient asset-liability management enables insurers to match the long-term profile of their resources (liabilities and own funds) with appropriate portfolios of assets;

(iv) the long-term business model of insurers is related to the nature of the liabilities combined with liquidity and other aspects of ALM which enables or even requires long-term investment strategy;

(v) long-term strategy is a balance sheet management strategy, i.e. joint management of assets and liabilities;

(vi) long term business model could be that of insurance companies which investments in equity instruments are expected to generate the cash flows required to settle their insurance liabilities, for instance when the duration of the liabilities is longer than that of debt instruments (for instance, annuities), or when sales may be required only in specific circumstances (payment of large unexpected claims); and

(vii) an insurance asset investment portfolios strategy.

c) Other definitions provided include:

(i) an attitude towards investing rather than a type of asset class or a specific underlying project;

(ii) a model aimed at creating value in a sustainable manner without relying on short-term market fluctuations;

(iii) a model which the objective is the development of long-term assets and, therefore, capital appreciation is not the main reason to either hold or realise the asset. In this sense, in addition to equities, it could also consider the inclusion of certain tangible and intangible assets (as per the "Green Paper on the long-term financing of the European economy");

(iv) a model where long-term investments are managed with an objective of assuming participations and profit sharing in companies for purposes of supporting and implementing initiatives related to development and promotion of major interest;

(v) a model where an investor or an intermediary such as open or closed end funds, pension funds or insurance companies, hold investments with the objective of earnings returns other than through short-term active trading; and

(vi) investments in companies which are developing activities complementary to the investor's core business or developing new products or services related to the future of the investor's core business.

The focus should not be on defining LTIBM

14 Many respondents [30%], particularly from the financial sector considered that it was **not necessary to define LTIBM for the purpose of defining an alternative accounting treatment for equity instruments in IFRS 9.** Instead, many of these respondents considered that the **focus should be on determining whether an equity instrument is held for (non-)trading purposes**. These respondents argued that:

a) there is no need for an alternative accounting treatment focused on a LTIBM to properly portray the performance and risks of equity instruments. The FVOCI model is a suitable accounting model for both long-term and shorter-term investments as long as changes in fair value recorded in OCI are reclassified ('recycled') to profit or loss on disposal and a robust impairment model is foreseen;

b) there is no need to try to differentiate long-term investments from shorter-term investments as companies already distinguish long-term investments by accounting for them at FVOCI instead of FVPL. This choice is made based on the nature of the underlying liabilities, as part of the ALM strategy;

c) an accounting treatment for other than non-trading will diminish the transparency of the rules and could create arbitrage opportunities;

d) an instrument by instrument analysis that aims at identifying equity instruments held for short-term trading purposes is appropriate to derive the appropriate accounting treatment of the respective equity instruments;

e) Identification of specific features of long-term investments is a very difficult and subjective task in terms of classification of financial instruments; and

15 In addition, a few [9%] insurance companies suggested that for the purpose of defining an alternative accounting treatment for equity instruments the focus should be on:

a) the nature of the liabilities combined with liquidity and other aspects of asset liability management which enables or requires long-term investment strategy; and

b) an efficient asset-liability management aimed at matching the investments with long-term insurance/savings liabilities.

16 One respondent called for the possibility of having a more global approach for public or private entities that define themselves as long-term investors and who manage their investment portfolios in a clear and transparent way ("well-documented"). This could allow them to apply a consistent measurement treatment, such as the Assets Dedicated to Liabilities model (ADL), to all their confined segregated portfolios of debt or equity securities, their funds, futures and hedges and residual cash. One respondent considered that although such an approach was very ambitious (as it would consist in abandoning the SPPI test & measurement for the debt instruments of these segregated portfolios), such an approach would be closer to the reality of the way of management of these portfolios.

Characteristics that identify a long-term investment business model

17 When replying to which characteristics should be required to identify a LTIBM, respondents provided mixed views.

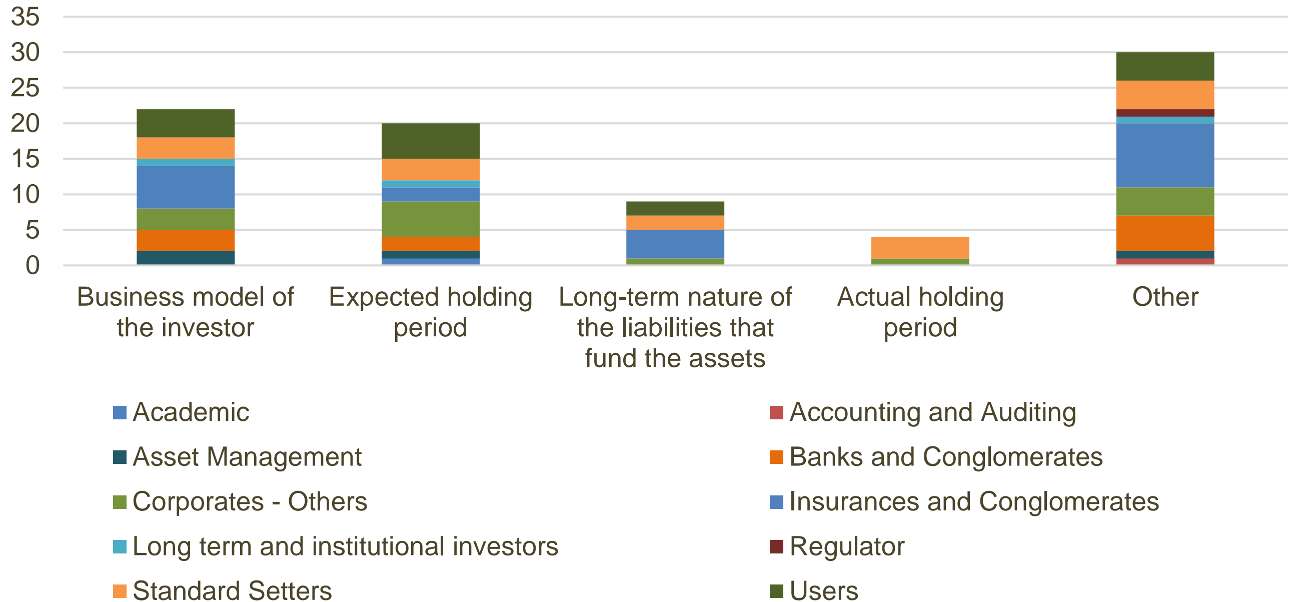

Figure 8 - Characteristics of long-term investment business model

18 The majority of the respondents**, approximately 50%, referred to the "expecting holding period" and/or the "characteristics/business model of the investor"**. Only a few referred to the "long-term nature of the liabilities that fund the assets" or the "actual holding period**.**

19 Nonetheless**, a significant number of respondents used the option "others"**. Many of these respondents used this option to state that:

a) there is no need to define a LTIBM (paragraph 14 above);

b) no need to include other options in IFRS 9 (paragraph 24 below),

c) no need to have EU modifications to IFRS Standards (paragraph 29 below); and

d) FV calculation of equity investments.

20 Some respondents [16%] also referred to, among others, the following characteristics:

a) the fungibility of investment (e.g. listing of the investment);

b) the entity's past practice of buying and selling;

c) the primary objective of endorsed accounting standards remains to promote transparency and better decision-making in financial markets and, therefore, they should be considered to be neutral with respect to other public policy objectives;

d) the way the reporting entity intends to manage the equity instruments to realise cash flows should be the decisive factor for classifying an equity instrument as long-term investment;

e) linked to the primary business purpose of the entity or its business model. That is, closely aligned with the management environment and strategy in which they are embedded: objectives, governance, dominant asset classes, classic or alternatives, diversification strategies, type of sought performance (regular income, capital gains, mix of both), risk management policy and strategy; and

f) the long term does not entail greater risk, but simply presents a different risk profile, with a greater emphasis on long-term trends but a lesser one on short-term market fluctuations.

21 One respondent considered that new definitions or classifications, for example, "long-term investment", "equity-type investment" and "impairment of equity investments" could increase the complexity of financial reporting and require considerable judgement. Therefore, it was important to ensure that any new definitions are clear and the principles behind are well understood in order to avoid inconsistency in practice or confusion among users.

Is there a need for an alternative accounting treatment to IFRS 9 requirements?

Support for an alternative accounting treatment for equity instruments in IFRS 9

22 The majority of the respondents**, approximately 70% of respondents, particularly from the financial sector, considered that there is a need for an alternative accounting treatment for equity instruments** in IFRS 9 (further details, please see paragraph 30 below).

23 However, many of the respondents [30% or 44%] **that called for an alternative accounting treatment did not relate the need for an alternative accounting treatment to the objective of "properly portraying the performance and risks of equity instruments held in a LTIBM".** As already highlighted above in paragraph 14, many respondents [44%] related the need for an alternative accounting treatment to the objective of properly portraying the performance and risk of "non-trading equity instruments" or an efficient asset-liability management.

No support for an alternative accounting treatment for equity instruments in IFRS 9

24 **By contrast, many respondents, approximately 30% (a mix of all types of respondents) were not convinced that at this stage there is a need to identify a LTIBM nor an alternative accounting treatment for long-term equity investments in IFRS 9**. These respondents, considered that:

a) there is no evidence to suggest that a change to IFRS 9 would advance the goals of the EC to foster investment in sustainable activities and support achieving the UN Sustainable Development Goals or the goals of the Paris Agreement on Climate Change;

b) IFRS 9 has only been in effect since January 2018 (although some insurance firms will not apply IFRS 9 until 2021 or later) and it is important to allow for a period of stability for effective implementation. The issues investigated in this request for feedback would be best considered through the post-implementation review of IFRS 9 once there is sufficient evidence to assess them, following several years of application of the standard;

c) whether an equity instrument is held in a LTIBM is a rather subjective assessment that most likely will result in divergence in practice. Preparers that have long-term business models have other means of communicating this to their investors;

d) EFRAG previous research was inconclusive on whether IFRS 9 was problematic and would impact on investment decisions. Unless there is more comprehensive evidence, there is no reason to believe that a change to IFRS 9 would result in more useful information for investors;

e) there is no consensus about whether there is a need for change and if so, what measurement basis would be preferable;

f) IFRS 9 has the appropriate options and entities need to be careful about electing the FVOCI option as this option is rarely appropriate when considering the entity's business model;

g) If a modification or exemption in IFRS 9 removes the requirement to measure investments at fair value (the basis which investors use to report periodic performance information to their investors, boards, etc), transparency and usability of investment information would be adversely impacted. Whether changes in fair value are reported as part of profit and loss or through other comprehensive income is of far less importance;

h) introducing additional business models and measurement basis would add complexity which is unlikely to encourage users of the financial information to invest in the entity producing this information;

i) FVPL with appropriate supporting disclosures does not discriminate against or discourage long-term investment. The fact that short term changes will not necessarily crystallize in a long-term perspective can be explained in the notes and management's report;

j) applying FVOCI, the entity has the option to reflect the performance of its activity avoiding reporting the investment results fluctuation in the profit or loss;

k) unconvinced that the alternative measurement approaches included in the Background Paper are preferable to those currently available. For example, some of these respondents:

   (i) rejected the adjusted cost and adjusted or average fair value approaches as they provide less relevant and reliable information;

   (ii) considered that neither historical cost nor FVOCI with recycling provide useful information to the users of financial statements because they can enable earnings management;

   (iii) the alternatives suggested seeming to be designed with a view to minimise reported volatility in profit and loss rather than to provide transparency to investors;

   (iv) if cost or other method were relevant, pension providers and other investors would already present this information to their long-term investor clients, which is not the case;

(v) caution against adding to the multiple measurement options for the same equity instrument as it would, increase complexity for users. A lesson learned from IAS 39 was that users generally prefer measurement consistency for the same instrument;

(vi) there is no evidence on whether the benefits of changing IFRS 9 would outweigh the costs to be incurred by the constituency to implement alternative models;

(vii) avoid another complex development trajectory to come up with a new accounting treatment together with a (more) complex implementation and auditing process; and

(viii) one suggestion for relieving concerns would be to strengthen and improve narrative reporting and notes in relation to long-term investments.

25 In addition, **a few respondents** [3%] **simply mentioned it was too early to conclude whether IFRS 9 (potentially in conjunction with the accounting model in IFRS 17) affects any asset allocation decisions to the disadvantage of long-term equity investments**. Further, it was also not expected that an investment decision in sustainable activities is mainly driven by the accounting treatment. So, these respondents recommended **to observe how practice evolves and to reconsider the potential issues as part of the IFRS 9 Post-Implementation Review (PIR)**.

26 In particular, one standard setter added that the option of designating the equity instruments to FVOCI included in IFRS 9 should be eliminated as it would improve comparability between entities and would ensure that any performance generated should be included in profit or loss. If fair value is considered to be the appropriate measurement criteria for equity instruments, it should be assumed that this circumstance implies greater volatility of the entity's performance than if the cost model were applied. Nonetheless, this respondent considered that if the option to designate the equity instruments to FVOCI is maintained, then it would agree with the re-introduction of recycling, because not recycling positive or negative performance seems to be the worst of the solutions.

27 One user representative detailed that investors prefer FVPL with separate presentation of the cash dividends from the investment and the changes in FV measurements (i.e. investors would prefer cash and FV at each reporting date). However, there should be an IFRS 13 *Fair Value Measurement* compliant disclosure to ensure global comparability should be provided to investors

28 Finally, a regulator recalled that IFRS 9 already captures two fundamental components of the features that are suitable to properly and faithfully reflect economic reality when accounting for financial instruments across all investment horizons:

a) the business model; and

b) the contractual cash flow characteristics.

No support for an initiative that could result in EU amendments to IFRS Standards

29 Many respondents [21%] **strongly opposed to any initiative that could result in the EU amending aspects of IFRS** (as this would constitute a ‘carve-in’ situation). These respondents:

a) considered that deviating from international standards contradicts the objective of uniform international accounting;

b) considered that any modifications would inevitably cause uncertainty for global investors, create a need for detailed explanations and reconciliations from local European GAAP to the globally accepted IFRS, and in the end be detrimental for European listed entities; and

c) were hesitant about a solution that would change the standard only in the European Union and thereby create a parallel accounting framework.

Why is there is a need for an alternative accounting treatment?

30 **Most respondents** [57% or 84%] **justified the need for an alternative accounting treatment in IFRS 9 by highlighting the limitations of accounting for equity instruments either at FVPL or FVOCI without recycling in accordance with IFRS 9** (consistently with previous EFRAG's consultations on the accounting for equity instruments under IFRS 9).

31 In addition, **a few respondents** [6% or 9%] **from the financial industry referred to the limitations related to the elimination of the cost exception for equity instruments** (i.e. exception in IAS 39 from fair value measurement for some unquoted equity instruments which FV is not reliably measurable).

32 Furthermore, **many respondents** [25% or 37%]**, particularly entities from the financial sector considered that its current form, IFRS 9 created disincentives for insurers or other companies to maintain and increase investments in long-term and/or illiquid assets** (and contrary to the objectives of the Commission as part of the European strategy for a Capital Markets Union). One respondent detailed that current IFRS 9 requirements created disincentives for long-term investors with respect to equity and equity-type instruments as they are not adequate in reflecting their respective investment performance. One other respondent considered that it was important to ensure that the EU accounting rules do not unduly discourage long-term investment.

Limitations related to the use of FVPL for equity instruments

33 When referring to the use of FVPL for equity instruments, respondents highlighted the following issues:

a) the use of FVPL for equity instruments **creates volatility** in the statement of performance and may not fit all situations, especially when financial instruments are not planned to be shortly disposed of or in case of asset-liability management. For those cases, volatility in profit or loss appears as if the equity investment is monitored on fair value basis, which is not the case,

b) FVPL is not appropriate to adequately **depict the financial performance of long-term investors** such as insurance companies. The use of FVPL increases the volatility in the statement of profit or loss statement and generates a mismatch with the liabilities funding these assets since these liabilities are not accounted for as FVPL;

c) presenting fair value changes in profit or loss does not reflect the business intention of holding equity investments for strategic reasons and over-represent into the entity's performance the entity's ability to immediately dispose of an asset;

d) fair value accounting loses significance for long-term investments as such investments may be considered closer to subordinated debt rather than equity ownership (i.e. usually held for the collection of cash flows in the form of dividends);

e) the use of fair value accounting increases procyclicality. That is, increases the tendency to contribute to asset price volatility and to exacerbate financial market movements. By encouraging pro-cyclical behaviour, fair value accounting increases systemic market risk;

f) long term investments often consist of unlisted equities, which are measured according to market-based techniques, which fail to consider firm-specific risk factors that are key for long-term investment. As a result, mark-to-model estimates **fail to provide a faithful representation of the real strategy** underlying long-term equity investments;

g) activities that consume liquidity and require substantial reinvestment of profits to achieve a strategic goal in 5-7 years at the expense of currently outperforming market rivals may well increase the valuation of an equity instrument held under "long-term" model if the investor judges the investment rationale as good, even as it will most likely decrease the "current market" valuation of the equity instrument;

h) IFRS 9 requirements make investments in long term equity investments less attractive when compared to the previous IAS 39 regime where such gains would have been recycled into PL on disposal; and

i) FVPL creates a significant gap in the representation of the entity's total result over the entire time horizon related to the funding of long-term provisions. This occurs for example with reference to a provision for dismantling that is set initially when a plant is commissioned. Measuring the financial assets acquired to fund the liabilities at FVPL can generate significant short-term volatility whereas the investment horizon is long term.

Limitations related to the use of FVOCI without recycling for equity instruments

34 When referring to the use of FVOCI without recycling for equity instruments, respondents highlighted the following issues:

a) the existing option in IFRS 9 to account for equity instruments at FVOCI does not allow the recycling of the gains or losses to profit or loss when these equity instruments are disposed/sold. Hence a significant part of the equity instruments **performance is not properly portrayed** when the FVOCI option is used. This prevents entities, particularly insurance companies, to properly reflect their investment performance on non-trading equity instruments;

b) the use of FVOCI without recycling creates the **false impression that the cumulative gains and losses at the time of disposal of equity instruments are not economically relevan**t and not a part of the financial performance;

c) both dividends receipts 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;

d) since OCI cannot be recycled, FVOCI generally does not represent a realistic alternative to FVPL;

e) the ability to identify realised vs. unrealised gains or losses is fundamental and highly relevant to the users of financial statements since a gain or a loss is certain only upon the sale of the underlying instrument;

f) the FVOCI option is supposed to address the dual measurement issue of financial instruments measured at fair value in the balance sheet and at historical cost in the PL. This works well for SPPI debt instruments but not for equity instruments, since OCI is not recycled;

g) in the insurance industry, investments in equities are used to cover the insurance liabilities. The full return on the equity investments is part of the financial return used for the profit sharing to be distributed to the policy holder and thus included in the IFRS 17 fulfilment cash flows. Not taking into account the overall financial return on equities, including realised gains and losses, would create mismatches in profit recognition;

h) the current prohibition of recycling does not permit entities to reflect faithfully the way they manage their resources being thus contrary to one of the main objectives of financial reporting; and

i) the FVOCI method without recycling will probably hamper investments in equity by insurance companies (reduce attractiveness for the equity asset class).

Limitations related to the use of fair value measurement more in general

35 One respondent referred to the limitations of fair value measurement as it does not faithfully represent the risk the reporting entity is exposed to in connection with the equity instrument. This is due to the reporting entity not being exposed to short-term market fluctuations. The value of an equity instrument from the perspective of the reporting entity may also not be represented faithfully, when applying fair value measurement. Long-term investments usually result in economic benefits that are either not directly available to other market participants (e.g. due to competitive advantages) or not directly attributable to an investment on a stand-alone basis (e.g. due to synergies). Therefore, another accounting approach besides fair value measurement can be adequate.

36 One other respondent explained that applying IFRS 13 hierarchy level 2 and 3 to equity instruments, FV is difficult to obtain as market data are not enough to obtain a reliable FV and therefore the result obtained is not so accurate and valuation costs are very high.

Which alternative accounting treatments have been suggested?

37 **When specifically referring to an alternative accounting treatment for equity instruments in IFRS 9 respondents indicated many different approaches** such as FVOCI with recycling, adjusted cost, historical cost and variable fee approach.

38 **Nonetheless, it is worth noting that the majority of the respondents** [52% or 77%] **that called for an alternative accounting treatment, particularly from the financial sector, supported fair value measurement of equity and equity-type instrument and called for the reintroduction of recycling for the FVOCI approach**. Some of these respondents only considered further analysing other alternative measurement approaches for equity instruments if FVOCI was not reinstated; others were not in favour of any other alternative measurement at all.

39 **It is also worth noting that in general there was little support and references to for FVOCI without recycling as a preferred approach**. However, the approximately 30% of respondents that did not think that an alternative approach to IFRS 9 was needed, indirectly may be seen as supporting this approach as already available in IFRS 9.

FVOCI with recycling

40 When specifically referring to an alternative accounting treatment for equity instruments in IFRS 9, the majority of the respondents [77%], particularly from the financial sector considered that most of the **concerns** faced by long-term investors **would be solved with the reintroduction of recycling for the FVOCI approach.**

41 Respondents that supported the reintroduction of recycling for the FVOCI approach considered that:

a) the reintroduction of recycling would significantly improve the depiction of the financial performance of insurance companies and other entities with LTIBM. This is because gains and losses realised on disposal of equity instruments measured at FVOCI are an integral part of the company performance and should be included in profit or loss, particularly when considering that many key performance indicators are focused on profit or loss (e.g. return on capital employed) rather than OCI;

b) in a LTIBM cash flows are generated by holding the asset (e.g. in the form of dividends) and from sale of assets instruments. Just like dividends, gains and losses realised on disposal of equity instruments measured at FVOCI are an integral part of the company performances and should be shown in profit or loss (both events should be presented in the same way);

c) if there is no recycling, then systematic fair value decreases remain in OCI and never transferred to profit or loss;

d) many users of financial statements are interested in information that distinguishes between realised and unrealised gains and losses. Presenting in profit and loss realised gains and losses from disposal would provide clear information about the contribution of disinvestment decisions;

e) the recycling provides the possibility of recognising in profit or loss matching effects with expenses incurred on related long-term liabilities which are backed by the equity investments;

f) the reintroduction of recycling would ensure consistency with the accounting treatment of debt instruments accounted for at FVOCI for which interest payments as well as gains and losses upon realisation are recognised in profit and loss;

g) any recycling approach would be preferable to the current status quo;

h) the use of FVOCI would support the attractiveness of equity instruments from the perspective of long-term investors such as insurance companies;

i) long-term investors did not express serious concerns in respect of measurement methods applied for equity investments in the IAS 39 environment; and

j) reintroduction of recycling should be approached by the IASB ahead of IFRS 17's effective date.

42 In addition, a few of these [9%] respondents did not deem other measurement of accounting alternatives (e.g. those in the background paper) superior to FVOCI with recycling or those in IFRS 9 requirements and did not support any solutions at the European level only. These respondents acknowledged the benefits that may be associated with these alternatives, however each of them is also subject to a set of more or less severe deficiencies. Further, consistency issues would arise in the accounting for financial assets within IFRS 9, including different measure approaches in the statement of financial position;

43 However, these respondents provided mixed views on the scope of use of FVOCI with recycling. For example, respondents considered that FVOCI with recycling **should be applied to:**

a) **non-trading equity instruments**; for example, one respondent detailed that an instrument by instrument analysis that aims that identifying equity instruments held for short-term trading purposes is appropriate to derive the appropriate accounting treatment of the respective equity instruments;

b) all equity instruments that are eligible to the FVOCI option under IFRS 9;

c) all equity instruments;

d) long term equity investments;

e) all equity instruments that are eligible to the FVOCI option under IAS 39 but as an option; and

f) in the context of insurance companies, financial-conglomerates and other long-term investment business models. For example, one respondent mentioned that the use of cost less impairment losses (without impairment on early stages) should be allowed for investments in sustainable activities. The cost measurement would avoid issues with fair value measurement which would often be largely based on unobservable inputs.

44 One respondent considered that at this stage, it is not clear for what type of instruments the FVOCI option could be extended.

No support for the reintroduction of recycling for the FVOCI approach

45 By contrast, many respondents [30%] did **not support the reintroduction of FVOCI with recycling**. In particular, respondents considered that:

a) FVOCI with recycling does not provide useful information to the users of financial statements because it can enable earnings management. For example, it provides opportunities for management discretion over when gains or losses that arose during the holding period, especially those relating to equity investments traded in a liquid market that can be sold and repurchased easily, are recognised in profit or loss. The relevance of performance information reported on that basis is highly questionable;

b) such an approach should not be permitted without a viable impairment approach; additional impairment requirements have proven to be difficult to agree upon and would introduce additional complexity into financial reporting which is unlikely to be to the benefit of users of the information.

c) the effects of the options permitted in IFRS 9 and whether these indicate a need for alternatives, should be assessed as part of the IFRS 9 PiR.

d) the IASB intended the FVOCI treatment to apply to equity investments held for 'strategic' reasons, that is, primarily for non-contractual benefits rather than for increases in value. Using FVOCI for such equity investments is preferable as the purpose for holding them is not to generate gains or losses. Therefore, changes in fair value are arguably never of primary relevance to the presentation of their financial performance, whether unrealised or realised on disposal;

e) FVOCI should only be used when the preparer never intends to sell the investment and where the gains and losses in fair value are never deemed relevant to monitor performance; and

f) Reintroduction of FVOCI with recycling would not address the issue of determining fair value at certain points in time.

46 Finally, two respondents, one national standard setter and one accounting and auditing professional organisation, explained that currently there is no consensus and that their members continued to express mixed views on whether OCI should be recycled upon disposal.

Other suggested alternatives

47 Many respondents [22%] also referred to other alternative accounting treatments for equity instruments in IFRS 9, even if they were often not their preferred accounting treatment. For example, those same respondents referred to:

a) **Historical cost:** many respondents [28%] referred to historical cost. One respondent detailed that the most appropriate measurement approach to faithfully reflect the performance of an entity which the business model is to hold the investments for a long period is the historical cost with impairment test. The uncertainty inherent to the LTIBM further justifies prudence and the use of cost to avoid the recognition of unrealised gains while taking into account potential losses through impairment. Two respondents also highlighted that the performance of the equity investment over its entire holding period would be reflected adequately by the recognition of dividends and a disposal gain.

b) **Adjusted cost method (**i.e. equity method): a few respondents [7%] referred to the adjusted cost method where the carrying amount of the long-term investment is adjusted by equity changes of the investee. One respondent detailed that this accounting treatment should be applied to equity investments and equity-type investments, including impairment. This is because long-term investments performances are related to metrics that differ from gains and losses estimated or realised on the investments, such as "achieved initiative purposes, commitments, cash paid to acquire/realise investments";

c) **Revaluation model:** many respondents [21%] referred to a FVOCI model where changes in fair value below acquisition cost would be presented in profit or loss and changes in fair value above acquisition cost would be presented in OCI. Some of these respondents detailed that the revaluation model is preferable since it does not require an impairment test;

d) **Cost model exception**: many respondents [21%] highlighted that investments in equity instruments that do not have a quoted price in an active market and whose fair value cannot be reliably measured should be measured at cost less impairment. This is because it is of high cost and it requires much effort for an entity to determine the fair value of an unlisted equity instrument;

e) **Assets Dedicated to Liabilities (ADL)**: some respondents [14%] referred to a dedicated portfolio of assets approach where assets are managed to cover the financial risk of other types of long-term liability. Under this specific case of dual measurement, the portfolio of assets would be measured at fair value in the balance sheet, with all changes, realised (e.g. dividends received, gains/losses on disposal) as well as unrealised (change in fair value) being recorded in OCI. The changes accumulated in OCI would be recycled into the PL to the extent that the accretion or financial charge of the underlying (IAS 37) liability is actually affecting the PL in the period, being the net PL effect nil. In case the cumulative OCI per portfolio is negative, the amount should be accounted into the PL;

f) **Management orientation and strategy:** one respondent referred to an approach, to be developed in the long term, where the recognition of equity funds is in accordance with the management orientation and the investor's management strategy, in order to ensure neutrality between direct investment and intermediated investment. Furthermore, the recognition of assets should be consistent with related liabilities and be approached on a portfolio basis. This would involve incorporating all forecasted cash flows in accordance with analysis supporting the investment decision. Nonetheless, until such an approach is developed, recycling such be reintroduced.

g) **Strategic investments approach:** one respondent referred to a strategic investments approach where an entity acquires a non-controlling interest in a company that secures its current or future business or technology among others and financial performance is not the primary goal of the entity. Such could be considered as "strategic" investments. In some cases, this preliminary stage of a business, dividends are rarely expected and any gain on sale is remote. The investor rather purchases a kind of "option" to get "insight" information. Accounting for such investment should be at cost with an impairment test (or even amortise the assets if no terminal value is reasonably expected) as it would more appropriately reflect that business model;

h) **Average fair value model**[1]: One respondent mentioned that the advantages of this model are that there is no discussion on recycling of gains and losses on disposal of equity instruments through PL plus shocks in the stock prices will have much less volatility on the PL as only the average movement will impact the PL. Moreover, there is full transparency as the equity instrument remains at fair value on the balance sheet and any unrealised result is disclosed in OCI. This respondent also saw similarities with other accounting standards such as IAS 21 *Foreign Exchanges*, which allows entities to measure the revenues in foreign currency to be converted using average FX rates. The proposed average fair value method is therefore not completely new in the IFRS literature.

i) **Connection with variable fee approach ('VFA') in IFRS 17**: One respondent considered that the new accounting rules could be more connected to VFA business rules designed in IFRS 17, with a risk based long term impairment model. Such a model should also be extended to instruments that are equity-type; and

j) **Other approaches:** For equity instruments that have no (active) primary market or, if any, secondary market it could be appropriate to develop an "alternative accounting treatment" which comprise a presentation alternative (i.e. fair value changes in OCI instead of PL, or recycling upon derecognition, along with or without impairment) or a measurement alternative (i.e. cost instead of fair value).

48 Nonetheless, it is worth noting that many of these respondents [43%] suggested alternative accounting treatments other than FVOCI with recycling only as the second-best approach. For example, one respondent stated that "in case the re-introduction of recycling would not be acceptable by the IASB, a third measurement basis could be a suitable alternative".

Reference to the approaches suggested in the background paper more in general

49 A few respondents [3%] highlighted that the approaches exposed in the background paper would completely change the accounting for equity instruments when companies have just started to implement the new IFRS 9. One respondent considered that it would be better a period of stability in order to identify how IFRS 9 will work and affect the accounting practices. Any effort to alter the accounting measurement at this stage may create extra complexity and disturbance in the accounting process. One other respondent considered there was a need for a full consultation process once any more concrete proposals for change had been formulated and would be important to ensure close collaboration with the IASB in order to help promote single set of high quality global accounting standards as mandated by the G20.

[1] The average FV model refers to the use of some form of average (instead of period end) fair value could reduce the extent to which reported performance is impacted by 'artificial' price swings, while also providing information on the longer-term trend in fair value. Using an average fair value would require specifying a length – i.e. 90 days; and frequency of the values in the set – i.e. daily or weekly. For instance, accounting Standards and tax legislation in some European countries allow or used to allow the daily average of the last 30 days of the reporting period. The frequency could be based on daily, weekly or monthly prices.

50 A few respondents [6%] also generally criticized the approaches exposed in the background paper (in addition to those in paragraph 26 k). For example:

a) the **revaluation model** (i.e. all declines in fair value below the acquisition cost would be immediately recognised in profit or loss and changes in fair value above the acquisition cost would be recognised in OCI and recycled on disposal) does not appear satisfactory because it does not take into account the nature of the unrealised capital losses. It makes no distinction between temporary volatility that affects market prices on the one hand and a significant drop in prices linked to economic fundamentals on the other hand, which can have a lasting impact on the valuation of certain assets;

b) the **adjusted cost approach** (e.g. an approach similar to equity accounting or incorporating observable price changes on the basis of orderly transactions for the identical or a similar instrument of the same issuer) could result either in excessive volatility due to non-recurring adjustments upon occurrence of observable transactions or may suffer from availability and delays of the necessary information when adjusting for the share of profit or loss of the investee;

c) the **historical cost** accounting basis for equity instruments would not provide useful information for users of financial statements as already explained in the basis for conclusions of IFRS 9, except for what concerns the limited circumstances already envisaged by paragraphs B5.2.3 and B5.2.5 of IFRS 9;

d) a **cost** accounting basis (i.e. a single such as historical cost or dual measurement approach such as FVOCI with recycling) would necessarily require an impairment model and currently there is no robust impairment model that can provide relevant and timely impairment information for equity instruments;

e) the approach of **adjustments to the inputs in fair value measurement** (i.e. the average fair value approach where the use of some form of average fair value would reduce the extent to which reported performance is impacted by ‘artificial’ price swings, while also providing information on the longer term trend in fair value) while smoothing the volatility lacks merits. There were questions on why the risk-free rate should be kept constant while other inputs would be adjusted based on market development. Further, the approach could not be applied for comparable company valuation multiple models because they do not use discounting as an input. Average fair value approaches could address the end of year noise in the market prices but as such they hardly remove the volatility; and

f) operational challenges in developing an alternative accounting approach include defining a measurement concept that meets the requirements of recognizing the performance of the equity instrument without incorporating arbitrary (market-based) measurement parameters as well as reflecting the performance of the equity investment in an unbiased manner, e.g. by relying on realised performance.

Which impairment models have been suggested if equity instruments would be measured at FVOCI with recycling?

Is an impairment model needed?

51 Many respondents [25%] **acknowledged the need for a robust impairment model if equity instruments were to be accounted for at FVOCI with recycling.** These respondents noted that:

a) some of the negative fair value changes can have a permanent nature and it would be appropriate and in line with the principle of prudence of the *Conceptual Framework for Financial Reporting* to reflect such fair value changes in profit or loss;

b) a robust impairment model increases the relevance of the profit or loss statement as primary source of information of a company's performance;

c) any IFRS measurement method that leads to an impact in PL upon de-recognition of an asset (either financial or non-financial) is accompanied by an impairment mechanism and there is no conceptual reason to create an exemption for equity investments; and

d) an impairment model would provide relevant information to users if it provides insight into whether a decline in fair value is more or less likely to reverse in the future;

e) a robust impairment model would have to mitigate any concerns of "earnings' management".

52 Nonetheless, one respondent acknowledged the challenges of identifying a robust model and recalled that the IASB dismissed the development of a new impairment model for equity investments. In addition, one user considered that the informational value of impairment with respect to assessing future cash flows would be important regardless of whether or not recycling occurs.

53 By contrast, a few respondents [5%] did not consider that an impairment model was fundamental for recycling to be reintroduced. For example, some of these respondents referred to the revaluation model, which would not require an impairment test.

Which impairment model should be used?

54 When referring to specific impairment models, many respondents [28%] considered that an ***improved version of the IAS 39 impairment model* could be used as a way forward**. These respondents considered that:

a) a robust impairment model can be developed without undue costs by using IAS 39 as a starting point but with additional guidance to reduce subjectivity;

b) IAS 39 impairment model appropriately reflects the business intention of a long-term investor for minority stakes in equity investments and that a decline in fair value should be recognized in profit or loss if the decline is based on an adverse change in the environment of the equity investment. Usually, the investing entity is best-known for assessing whether or not a decline in fair value is sustainable and consequently shall be recognized in profit or loss instead of OCI; and

c) an impairment model should be based on everything it is known and a new assessment of the situation should be made when the entity does not expect that it will be able to recover the capital invested.

How can the impairment model be improved?

55 Respondents that suggested improvements to the impairment model referred to:

a) Improve definition and criteria for the notion of 'significant and prolonged decline';

b) Allow the reversals of impairments;

c) additional disclosures, including on methodology;

d) a common methodology for the determination of recoverable amount should be provided; and

e) a portfolio approach could be considered in order to align the impairment with the unit of account used for managing the performance and the diversification effect.

Improve definition and criteria for the notion of 'significant' and 'prolonged' decline

56 When referring to improvements to the impairment model, many respondents [21%] considered that the **introduction of a clear definition of the notions of 'significant' and 'prolonged' to enhance IAS 39 impairment approach was fundamental**. However, some respondents mentioned that the management should be left responsible for specifying their own definition of these terms with transparent disclosures in the notes.

57 The majority of these respondents [70%] referred to the use of thresholds. For example:

a) a simple way to address the issues that arise in practice would be to set a rules-based definition of "prolonged" that grants comparability and is simple to understand for instance, 12 months. A more principles-based solution would be to leave room to the entity to define its own criterion and explain it in the notes. Such judgmental threshold would be capped by anti-abuse rules (such as a one-year threshold, similar to debt instruments);

b) IAS 39 could be made less subjective if thresholds for 'significant' or 'prolonged' were defined. A "significant" decline could be defined as a specific percentage decline from the acquisition cost and "prolonged" as a specific time period where the fair value has been below the acquisition cost. IFRS Standard could specifically define quantitative thresholds for both terms and reporting entities could select a threshold within the limit;

c) implementation of triggers, such a 'significant deterioration of the credit quality' of the issuer or, for quoted stock, a decrease of the stock price that is strong and permanent;

d) an impairment test threshold for impairment could be related to Solvency II thresholds for equity holds (39% loss or duration of unrealised losses being 1/3 of the duration of the long-term liabilities of the entity);

e) enhance IAS 39 rules with additional quantitative rules on the definition of “significant and prolonged” criterion for example recognizing impairments when unrealised losses are greater than 20% of the historical cost or for more than 6 months. Having such clear limited and prudent bright lines would be a guarantee of a robust impairment model;

f) support the inclusion of rebuttable quantitative impairment triggers in an impairment model determined by management. IFRS 9 could however provide additional guidance on the meaning of "significant" or "prolonged". For example, the reporting entity would need to specify its impairment triggers and to disclose the applied valuation rules, including the quantitative impairment triggers, in the notes to the financial statements;

g) best way to achieve a consistent application of the standard is to introduce thresholds (thresholds set by the standard, not by companies); and

h) would support the introduction of quantitative triggers to define what is a significant or prolonged decline in fair value. This could be done by defining a specific percentage decline from the acquisition cost and a specific time period over which the fair value has been below the acquisition cost. However, these quantitative triggers should be rebuttable to take into consideration certain facts and circumstances.

Allow reversal of impairments

58 Many respondents [25%] also considered that **reversals of impairments should be allowed (improvements to IAS 39)**. These respondents argued that:

a) the notion of 'once impaired always impaired' does not properly reflect the economic reality and is incorrect from a transparency perspective;

b) the prohibition under IAS 39 to reverse in profit and loss previously booked impairment losses ('once impaired always impaired' rule) leads to an asymmetric treatment of significant and prolonged decreases and increases in the fair value of equity instruments);

c) the enhanced impairment model should allow reversals under the same conditions as the asset has been impaired; and

d) reversal of the impairment would either be automatic for any subsequent increase in value above triggers to be defined or follow a symmetrical approach to the impairment model taking into account external and internal indicators that the impairment loss no longer exists or has decreased.

Other views on impairment

59 Respondents provided alternative views on impairment. For example:

a) possible impairment could be presenting fair value changes in OCI as long as the change in FV keeps the price above the historical cost and in PL if the value goes below it. The reverse booking should be possible as soon as an opposite move happens;

b) there are mixed views on the need for impairment, some believe it is prerequisite in a FVOCI (with recycling) model, others are less convinced because of the limitation of any impairment model. Some even support an impairment test for instruments measured at FVOCI (without recycling);

c) it is the difference between historical investment price (adjusted for reimbursed capital, dividends, etc) and fair value (quoted stock price if available). No impairment should be recognised before aggregated OCI amounts become negative;

d) it is too early for an agreement concerning the appropriate impairment model. In any case, for the reintroduction of an impairment model cost benefit considerations are of utmost interest. That means, any operationalization of thresholds, triggers and other have to be as simple as possible;

e) there is no impairment model that would work in practice. If FVOCI is to be retained, then it is best without impairment. Better still use FVPL for all equity investments;

f) it is difficult to provide a definitive answer and substantial research is needed; and

g) introducing recycling for FVOCI equity instruments would cause significant additional complexity which would outweigh any perceived benefits. A major element of this complexity would relate to the impairment model, which would need to be introduced if recycling were applied.

Should an alternative accounting treatment be restricted to equity instruments held in LTIBM?

60 Most of respondents [57% or 81%] that replied to this question considered that **an alternative accounting treatment should not be restricted to equity instruments held in a LTIBM**. The remaining respondents either preferred to restrict the alternative accounting treatment to equity instruments held in LTIBM or rejected the need for an alternative accounting treatment.

Should the different accounting treatment be restricted to equity instruments held in a long-term investment business model?

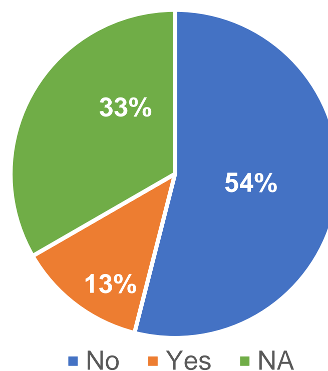

Figure 9 - Should the different accounting treatment be restricted to equity instruments held in a long-term investment business model?

	Is there a need for an alternative accounting treatment			If Yes (43 responses and 1 did not respond). Should the different accounting treatment be restricted to equity instruments held in **a LTIBM**?		
Type of respondent	**Response**	**Number**	**%**	**Response**	**Number**	**%**
Academic (individuals)	Yes	1	2%	Yes	1	2%
	No	0	0%	No	0	0%
Users (individuals, associations, accounting valuators)	Yes	5	8%	Yes	1	2%
	No	5	8%	No	4	10%
Insurance and conglomerates (entities and associations)	Yes	14	22%	Yes	2	5%
	No	1	2%	No	12	29%
Banks and conglomerates (entities and associations)	Yes	6	10%	Yes	2	5%
	No	3	5%	No	4	10%
Asset Management (entities and associations)	Yes	4	6%	Yes	0	0%
	No	0	0%	No	3	7%
Long term and institutional investors (associations)	Yes	2	3%	Yes	0	0%
	No	0	0%	No	2	5%
Corporates – other sectors (entities and associations)	Yes	7	11%	Yes	2	5%
	No	2	3%	No	5	12%
Accounting and Auditing	Yes	0	0%	Yes	0	0%
	No	3	5%	No	0	0%
Standard Setters	Yes	4	6%	Yes	0	0%
	No	4	6%	No	4	10%
Regulators	Yes	0	0%	Yes	0	0%
	No	2	3%	No	0	0%
		63	**100%**		**42**	**100%**

Table 6 - Should the different accounting treatment be restricted to equity instruments held in a LTIBM?

An alternative accounting treatment should not be restricted to equity instruments held in LTIBM

61 **Most respondents** [88%] that replied to this question considered that an alternative accounting treatment should not be restricted to equity instruments held in LTIBM, particularly those that **supported the reintroduction of FVOCI with recycling**. However, respondents provided mixed views to which instruments it should be applied and which approaches should apply. For example, respondents stated that:

a) the alternative accounting treatment FVOCI with recycling should not be restricted to equity instruments held in LTIBM. Nonetheless, mixed views on the scope are described in paragraph 43 above;

b) the alternative accounting treatment *Historical cost* should be applicable to all equity investments which purpose is not to realise the value of investments through short term resales to take advantage of market opportunities (i.e. not held with a trading intent);

c) different alternative accounting treatments should be available for different categories of long-term investments such as *Strategic investments* which should be measured at Historical Cost and *Assets Dedicated to Liabilities* (ADL) which should apply a dual measurement to allow a specific accounting model for the portfolio of assets identified as funding long-term provisions, no matter what type of investment is used;

d) the EC should pay attention to other kinds of investments that it may want to incentivize, for example, green loans. Currently under IFRS 9, the use of these types of loans may be discouraged due to accounting treatment as they need to pass the SPPI test. To determine whether such loans satisfy the SPPI test, the contractual terms that determine variability in cash flows as a result of the Green Measures should be carefully assessed. If the magnitude of the change in the interest rate driven by the sustainability variability has the consequence of not complying with the SPPI test, it may discourage these investments as they will be compulsorily measured at FVPL;

e) an alternative accounting treatment could apply to any investment of "growth assets" kind, (as opposed to "matching assets"). Those "growth assets" show in essence higher expected performance, coupled with a higher level of risk/volatility;

f) there are a substantial range of financial instruments that fall outside of what is classified as equity instruments under IFRS Standards, which have very similar rationale in their performance and valuation for investors; and

g) an alternative accounting treatment should be applied to equity investments over the long term, but more generally to all long-term investments regardless of the support used.

An alternative accounting treatment should be restricted to equity instruments held in LTIBM

62 Some respondents [13%] replied that an alternative accounting treatment for equity instruments in IFRS 9 should be restricted to equity instruments held in a LTIBM. These respondents argued that:

a) for liquid securities traded in active markets that are held for trading, fair value accounting reflects the gains and losses associated with the investment in a timely manner, thus enhancing transparency and facilitating market discipline;

b) the value of short-term investments in equity instruments for the reporting entity is affected by market participants' expectations about future expected cash flows. This is, as short-term investments are sold at conditions prevailing at equity markets with the received price being affected by market participants' estimates. Therefore, fair value measurement (encompassing market participants' estimates) as currently required by IFRS 9 is adequate for those equity instruments; and

c) there is a general agreement that fair value provides useful information about investments in equity instruments for users of financial statements. However, some argue that the changes in fair value reported in the profit or loss in case of equity instruments held in a LTIBM may not be the best indicator of the performance of these investments.

No need for an alternative accounting treatment for equity instruments held in LTIBM

63 Finally, many respondents [32%] were **not convinced there is a need for an alternative accounting treatmen**t for equity instruments, including those held in LTIBM. For example, one respondent did not think that new options were necessary and if they were then they should be limited to a very narrowly defined type of investments.

Should the alternative accounting treatment also apply to equity-type instruments?

64 Most respondents [88%] that replied to this question, particularly those that supported the use of FVOCI with recycling, considered that **the alternative accounting treatment should be extended to "equity-type" instruments**. The remaining respondents either replied no or did not reply.

Should the different accounting treatment referred to in the previous questions be extended to instruments that are "equity-type?

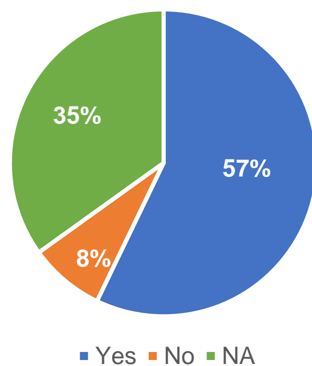

Figure 10 - Should the different accounting treatment referred to in the previous questions be extended to instruments that are "equity-type?

Type of respondent	Is there a need for an alternative accounting treatment: Response	Number	%	If Yes (43 responses and 2 did not respond). Should the different accounting treatment referred to in the previous questions be extended to instruments that are "equity-type"?: Response	Number	%
Academic (individuals)	Yes	1	2%	Yes	1	2%
	No	0	0%	No	0	0%
Users (individuals, associations, accounting valuators)	Yes	5	8%	Yes	5	12%
	No	5	8%	No	0	0%
Insurance and conglomerates (entities and associations)	Yes	14	22%	Yes	13	32%
	No	1	2%	No	1	2%
Banks and conglomerates (entities and associations)	Yes	6	10%	Yes	5	12%
	No	3	5%	No	1	2%
Asset Management (entities and associations)	Yes	4	6%	Yes	3	7%
	No	0	0%	No	0	0%
Long term and institutional investors (associations)	Yes	2	3%	Yes	2	5%
	No	0	0%	No	0	0%
Corporates – other sectors (entities and associations)	Yes	7	11%	Yes	4	10%
	No	2	3%	No	2	5%
Accounting and Auditing	Yes	0	0%	Yes	0	0%
	No	3	5%	No	0	0%
Standard Setters	Yes	4	6%	Yes	3	7%
	No	4	6%	No	1	2%
Regulators	Yes	0	0%	Yes	0	0%
	No	2	3%	No	0	0%
		63	**100%**		**41**	**100%**

Table 7 - Should the different accounting treatment referred to in the previous questions be extended to instruments that are "equity-type"?

Need to extend alternative accounting treatment for equity-type instruments held in LTIBM

65 The respondents that supported extending an alternative accounting treatment to equity-type instruments (although respondents referred to many different approaches) considered that:

a) equity instruments should be treated consistently under IFRS 9, irrespective if they are held directly or indirectly;

b) measuring equity-type instruments at FVPL distorts the depiction of financial performance and would not appropriately reflect the management strategy of the funds;

c) measuring equity-type instruments at FVPL creates volatility in the statement of profit and loss. That is inconsistent with the long-term investment perspective of these instruments and would create accounting mismatches if the corresponding liabilities are not accounted for at FVPL under IFRS 17;

d) LTI can be held either directly or indirectly i.e. through UCITS (Undertakings Collective Investment in Transferable Securities), ETF (Exchange-traded Fund) or AIF (Alternative Investment Fund). From an economic standpoint, the decision to hold equity instruments indirectly can be motivated by various objectives. Excluding LTI held indirectly from an accounting treatment designed to address LTI would clearly be a significant impediment to the overall approach; it is also important not to create competitive disadvantage and reduce the attractiveness to invest in equity-type investments just because the financial assets are hold through different mechanisms;

e) there is no significant difference between investing directly or through vehicles. From an investor point of view an equity-type instrument is also held to generate dividends and a gain or loss at liquidation. Accordingly, and in conformity with the principle of substance over the form, there is no reason to differentiate between equity and such quasi-equity investments when discussing alternative accounting treatments;

f) the alternative accounting treatment could be applied to those "Equity-type" instruments that qualify for the puttable exception but with the additional requirement that the assets held by the fund do not include material items that under IFRS 9 need to be carried at FVPL or could be subject to significant credit losses;

g) the approach for an instrument should be the same for both the issuer and the holder, therefore an equity-type instrument that is recognized as equity for the issuer applying IAS 32 exception should also be recognized as equity for the holder;

h) it creates accounting mismatches if the corresponding liabilities are not accounted for at FVPL under IFRS 17. In case no changes are proposed in the accounting treatment of indirectly held equity instruments, we expect the attractiveness of these types of investments to decrease significantly;

i) the accounting treatment for long-term investments should be applicable also to units of investment funds because they can be very close to equity (e.g., closed funds, restrictions on refund depending on liquidity, price and timeline). The variety of such funds in practice is large and the terms and restrictions around "being puttable" differ widely (e.g., private equity funds). This does not imply that all investment funds should ideally qualify. But it would be difficult to find a conceptually sound and practical definition of the kind of investments that a qualifying investment fund can hold;

j) in order to ensure neutrality between direct investment and intermediated investments, it is fundamental to allow the classification and measurement of equity funds in accordance with the management orientation and the investor's management strategy.

k) given that the objective is to promote "Sustainable Activities", for reasons of comparability and consistency, the same accounting treatment should apply to all equity-type investments. However, the underlying assets of these instruments have to meet the same requirements of sustainable activities as equities; and

l) an alternative accounting treatment could apply to any investment of "growth assets" kind, (as opposed to "matching assets"). Growth assets" are not only pure equity instruments but also equity-type instruments.

66 One respondent mentioned that IFRS 9 should be amended in order to classify investments in investment funds as FVOCI in order to include the new asset category “Investment Entity” holdings as defined in IFRS 10. That is, a reporting entity should be able to elect FVOCI if its investments are in an investment fund that meets the definition of Investment Entity in IFRS 10 Consolidated Financial Statements.

No need to extend alternative accounting treatment for equity-type instruments held in LTIBM

67 By contrast, some respondents [12%] considered that the different accounting treatment referred to in previous questions should **not be extended to "equity-type" instruments**.

68 These respondents explained that:

a) it seems difficult to define the "equity-type" in such a way that it is not complex to apply from a holder´s perspective and that in turn does not introduce inconsistency with the accounting treatment of other financial instruments;

b) it could be useful to better clarify equity-type instrument definition; and

c) adding another category of financial instruments increased complexity and create the risk for accounting approaches that are subject to judgement, in turn decreasing the comparability of financial statement information. It is important to note that reduction of comparability generally has dysfunctional effects on capital markets.

No need for alternative accounting treatment for equity-type instruments held in LTIBM

69 Most of the remaining respondents [81%] did not think that new options were necessary (linked to question 2). One respondent considered that the IASB should further restrict the use of FVOCI and exclude equity investments that invest in finite life assets given that the losses in fair value as the end of life approaches will be relevant to monitor performance. One other respondent highlighted that one of the objectives of IFRS 9 was to reduce complexity compared to IAS 39. Creating a new class of instruments that are "equity-type" would increase rather than reduce complexity (e.g. how to define instruments that are "equity-type").

Which characteristics to define “equity-type”?

70 When referring to which characteristics should be required to define the "equity-type" instruments, the majority of respondents [54%], particularly those from the financial sector, referred to **Units of funds and other instruments that meet the puttable exception in IAS 32**.

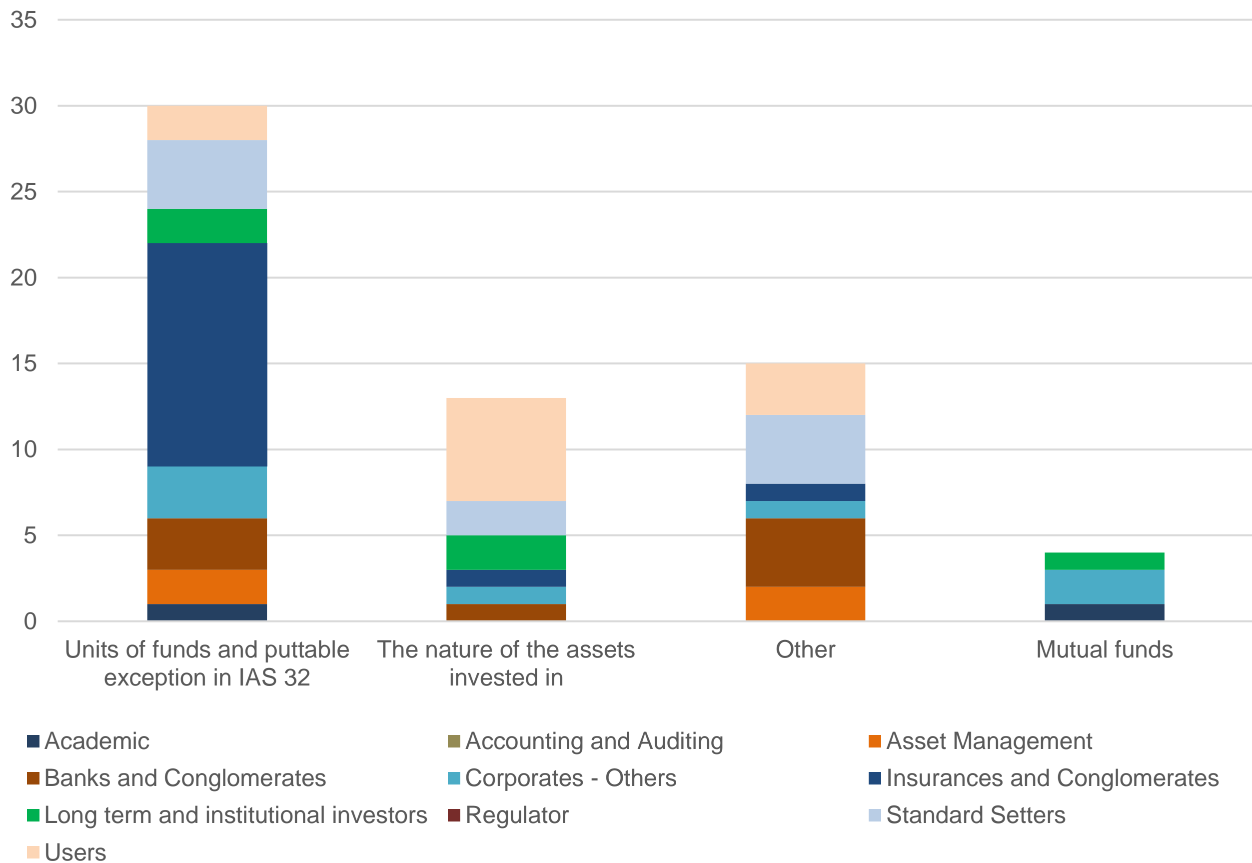

Figure 11 - Characteristics that define the "equity-type" instruments

71 Respondents also referred to other characteristics such as:

a) collective investments in transferable securities (UCITS) such as SICAV (Investment Company with Variable Capital);

b) real estate funds;

c) investment funds;

d) debt instruments with equity-type features that fail the SPPI test; and

e) instruments that put the holder of the instrument in the same economic position as a holder of an equity instrument and thus expose the holder to equity-type risk. This comprises, among others, units of funds and other instruments that meet the puttable exception in IAS 32.

72 A few respondents [3%] suggested to define an equity-type instrument, an approach similar to the contractually linked instruments approach under IFRS 9 should apply. Under such an approach, it would be necessary to look through the underlying pools of assets held by the fund to determine the characteristics of the pool. The underlying pool could include one or more of the following instruments: equity instruments or equity-type instruments, instruments that reduce the cash flow variability, cash or cash instrument used to meet liquidity constraints. If the characteristics are met, then the fund would be treated as an equity-type instrument and the adequate accounting treatment would apply depending on the business model retained.

How relevant a different accounting treatment is to the objective of reducing or preventing detrimental effects on investment in sustainable activities in Europe?

73 Many respondents [46%], particularly from the financial sector, considered that an alternative accounting treatment was relevant to the **objective of reducing or preventing detrimental effects on LTI.** However, there was an equally significant number of respondents, particularly standard setters, users, regulators and accounting and auditing that did not consider an alternative accounting treatment relevant or did not reply.

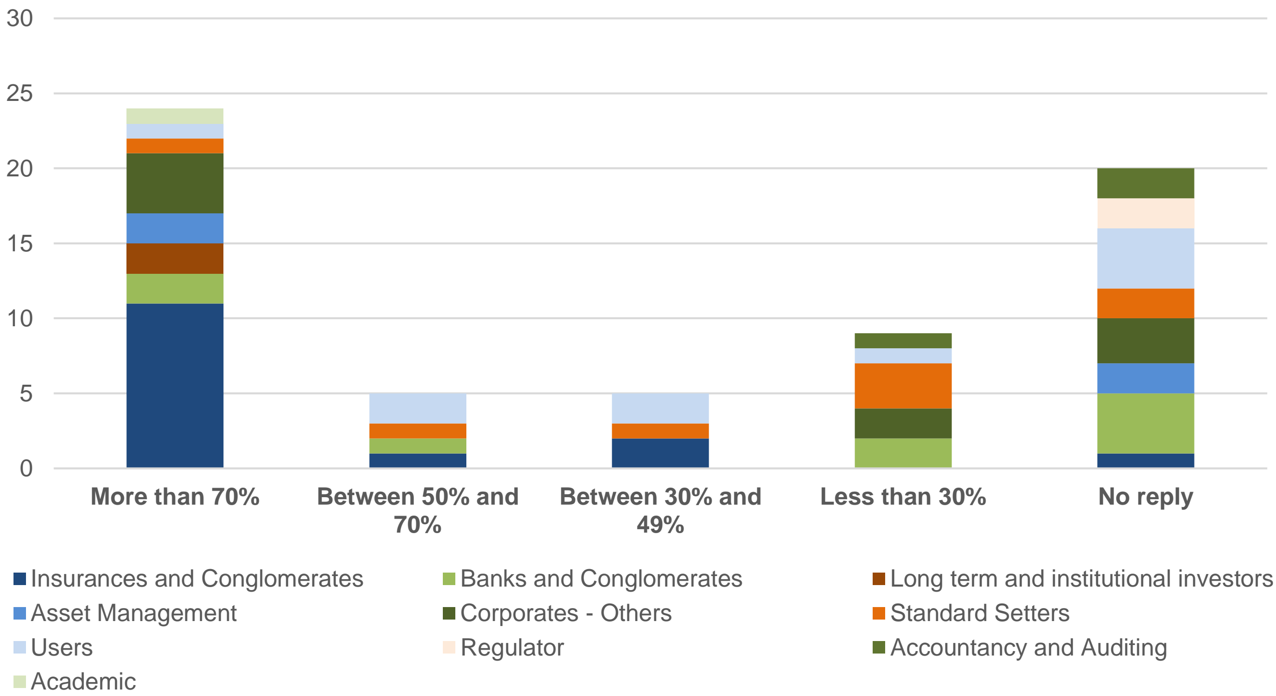

Figure 12 - How relevant a different accounting treatment is to the objective of reducing or preventing detrimental effects on LTI

Analysis of the Illustrative examples

Illustrative example A - Wind farm with predetermined useful life

Scenario A - Wind farm with predetermined useful life

- Entity A holds a 10% non-controlling equity instrument in Entity B. Entity B does not qualify as an associate and, as a consequence, does not qualify for equity accounting.
- Entity B has been set up to build and operate a wind farm as part of a long-term renewable energy programme. At the end of the economic life of the wind farm (10 years) no residual value is expected, and Entity B could either seek additional financing to build a new asset or be put into liquidation.
- Entity A initially expects Entity B to generate a stable annual profit and distribute it to shareholders. Furthermore, given the business purpose of the equity instrument, the terms and conditions of investing in Entity B prohibit investors from selling their equity investment during the 10-year period.
- Entity A is therefore required to hold its investment in Entity B for the full economic life.

74 Almost two thirds of the respondents that responded to this question considered that there was a need for an alternative accounting treatment for the fact pattern presented in illustrative example A.

75 Those that wanted an alternative accounting treatment to address the problems with the current IFRS 9 mentioned the following alternatives:

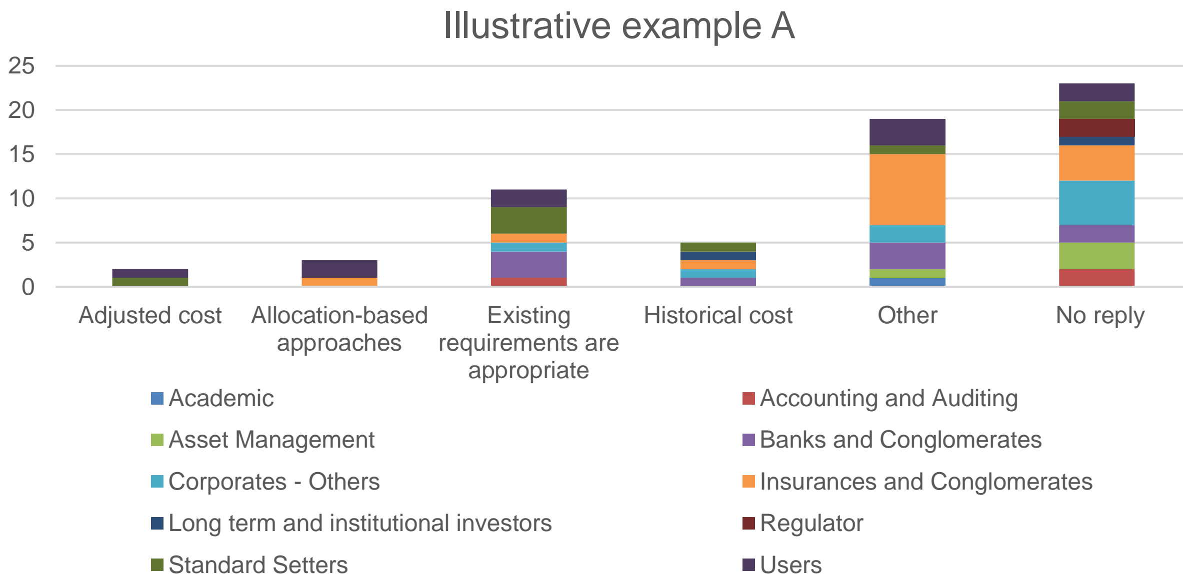

Figure 13 - Illustrative example A

76 The respondents that indicated 'other' in their response (refer to the graph above) made the following comments:

a) FVOCI with recycling**:** The majority of the respondents [53%] in this *other* category, particularly from the financial sector, considered that the reintroduction of recycling for equities measured at FVOCI is necessary since:

(i) it would significantly improve the presentation of financial performance;

(ii) the gains and losses that arise from equity instruments that are sold are an integral part of performance, as the dividend that arise from these instruments; and

(iii) there is no conceptual reason to present an integral part of performance differently.

b) Cost model exception: One respondent added that it would be important to keep the exception of historical cost measurement in IFRS 9, if an entity does not expect that the fair value of the instruments will be materially different from cost; and

c) Average FV: Two respondents from the financial sector mentioned average FV as the best accounting treatment.

77 *By contrast,* almost a third of the respondents that replied to this question considered that there was no need for an alternative accounting treatment, as the existing requirements are appropriate for the fact pattern presented in illustrative example A. These respondents indicated the following:

a) there was not enough evidence that any potential accounting change would help in achieving the UN Sustainable Development Goals or the goals of the Paris Agreement on Climate Change; and

b) FVOCI election would not be appropriate, as there could be an intent to sell and, in that case, each year performance in FV would provide an observable market condition.

78 Adjusted cost or historical cost: Some respondents [17%] referred to the 'adjusted cost' or 'historical cost' as the best accounting treatment, with an impairment test or with a dual measurement approach.

79 The most relevant elements indicated by the respondents were the following (by order of importance):

a) The investor's inability to dispose of the shares;

b) The definite useful life of the investee's operation; and

c) The sustainable nature of the investee's operation.

Illustrative example B - Unlisted single equity instrument

Scenario B - Unlisted single equity instrument

- Entity A buys a 10% equity instrument in Entity B from Entity C for CU 1000. Entity B is an unlisted start-up company manufacturing electronic scooters to be used in the e-scooter sharing industry. Entity B does not qualify as an associate and, as a consequence, does not qualify for equity Accounting.
- Entity A intends to hold the equity instrument in Entity B for the purpose of creating value in the long term by generating a capital gain after a period of time during which Entity B is likely to have gone through a significant transformation.
- Entity A does not have a put option and there are no observable recurring transactions in the equity of Entity B.
- Due to these conditions, Entity A does not expect to dispose of its interest in Entity B in the near future.

80 Almost three quarters of the respondents that responded to this question considered that there was a need for an alternative accounting treatment for the fact pattern presented in illustrative example B.

81 Those that wanted an alternative mentioned the following:

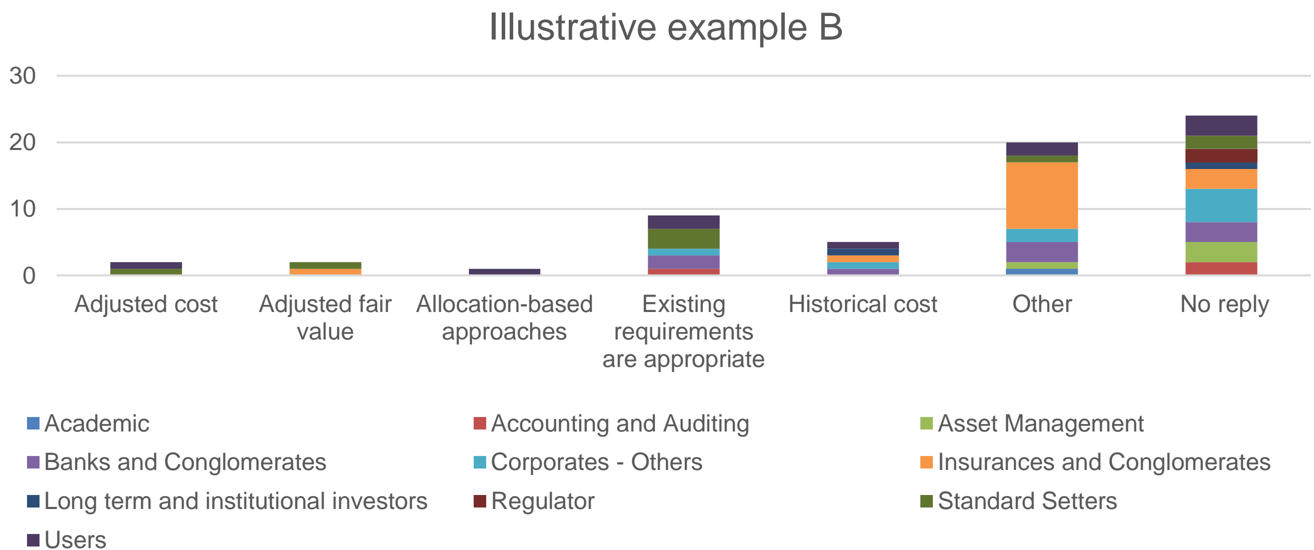

Figure 14 - Illustrative example B

82 The respondents that indicated 'other' in their response (refer to the graph above) had the following comments:

a) FVOCI with recycling**:** The majority of the respondents [60%] in this *other* category, particularly from the financial sector, considered that the reintroduction of recycling for equities measured at FVOCI is necessary. Respondents provided the same arguments as in paragraph 76a) above.

b) Cost model exception: One respondent added that it would be important to keep the exception of historical cost measurement in IFRS 9, if an entity does not expect that the fair value of the instruments would be materially different from cost.

c) Average FV: One respondent mentioned average FV as the best accounting treatment, other respondent proposed a combined model for the asset and liability side of the measurement.

83 By contrast, almost a quarter of the respondents that replied to this question considered that there was no need for an alternative accounting treatment, as the existing requirements are appropriate for the fact pattern of the transaction presented in the illustrative example B.

84 Respondents added that:

a) in some cases, there is a challenge to determine fair value estimates periodically. In these cases, historical cost (including impairment) would be an appropriate measurement model; and

b) FVOCI election would not be appropriate as there could be an intent to sell and, in that case, each year performance in FV will provide an observable market condition.

85 Adjusted cost or historical cost**:** Many respondents [22%] mentioned ‘adjusted cost’ or ‘historical cost’ as the best accounting treatment, with an impairment test and a dual measurement approach.

86 The most relevant elements indicated by the respondents were the following (by order of importance):

a) The fact that the shares are unlisted;

b) The sustainable nature of the investee's operation; and

c) The fact that the investor does not have a put option.

Illustrative example C - Open portfolio of equity instruments held with a view to service a long-term insurance liability

Scenario C - Open portfolio of equity instruments held with a view to service a long-term insurance liability

- Entity A holds a portfolio of various financial instruments, including equity instruments that do not qualify as subsidiaries nor as associates, therefore do not quality for consolidation nor for equity accounting. The objective of entity A is to use the proceeds from the portfolio to serve the cash flows from a long-term obligation of issued insurance contracts.
- Entity A sets up a dedicated "asset base" to serve the long-term obligation which is expected to be settled over the next 30 years. The portfolio includes a significant portion of shares in unlisted corporates, although there is no legal constraint on the composition of the portfolio.
- Entity A regularly monitors the value changes in the portfolio and may occasionally sell part of it and reinvest the proceeds, with a view to achieve its target returns.

87 Almost three quarters of the respondents that responded to this question considered that there was a need for an alternative accounting treatment for the fact pattern presented in the illustrative example C.

88 Those that wanted an alternative mentioned the following:

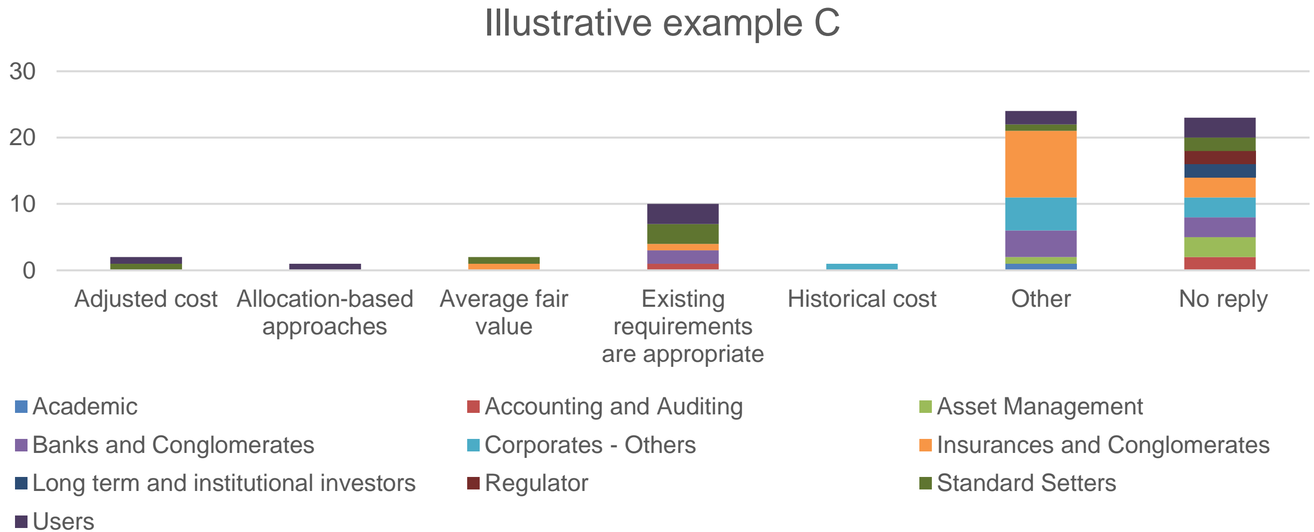

Figure 15 - Illustrative example C

89 The respondents that indicated 'other' in their response (refer to the graph above) had the following comments:

a) FVOCI with recycling: The majority of the respondents [54%] in this *other* category, particularly from the financial sector, considered that the reintroduction of recycling for equities measured at FVOCI is necessary. Respondents provided the same arguments as in paragraph 76 a)above.

b) Cost model exception: One respondent added that it would be important to keep the exception of historical cost measurement in IFRS 9, if an entity does not expect that the fair value of the instruments would be materially different from cost;

c) Another respondent mentioned that this should be applied for equity instruments and also for units of funds that purely invest in equity instruments;

d) Asset-Liability Management (ALM): some respondents [12%] explained that the current fair value measurement treatment of investments under IFRS 9 is necessary to be aligned with the current fulfilment measurement of insurance liabilities according to IFRS 17 and the ALM practices of insurers. However, only realised gains or losses on financial instruments should be part of profit or loss;

e) The unrealised fair value changes which are not caused by impairment (on financial instruments) or changes due to variations in the discount rate (on insurance liabilities) are irrelevant for the purpose of performance reporting in periods before disposal. Therefore, an OCI option should be available to align the treatment of the two sides (for IFRS 9 and IFRS 17). In conclusion, the missing part for the alignment of insurance liabilities (IFRS 17) and financial instruments (IFRS 9) is recycling for FVOCI equities;

f) Variable fee approach (VFA): A few respondents [7%] mentioned that the variable fee approach (VFA) under IFRS 17 would address the concerns related to the treatment of equity and equity-type instruments under IFRS 9. However, two respondents believed that this is not sufficient, as

(i) the variable fee approach is only applicable to a specific category of contracts. It will not alleviate the concerns for the equity and equity-type instruments backing contracts measured under the general model or for reinsurance contracts (not eligible to the VFA);

(ii) resources of insurers are made up or both insurance liabilities and own funds. Therefore, insurers have also equity and equity-type instruments beyond that are backing their insurance liabilities that may also be monitored with long term investing strategies. An appropriate depiction of performance of these instruments is also needed; and

(iii) the fact that the VFA approach under IFRS 17 alleviates some of the concerns caused by IFRS 9 should not be an obstacle to achieve a high quality IFRS 9 per se by solving its intrinsic issues.

g) Average FV: Two respondents mentioned average FV as the best accounting treatment. However, one respondent mentioned that the average FV would just work for long-term investments held through an ETF.

90 *By contrast*, just over one quarter of the respondents that addressed this question considered that for illustrative example C, there was no need for an alternative accounting treatment as the existing requirements are appropriate since:

a) the existing guidance under IFRS 9 represents an appropriate measurement basis in the scenario given, since there is past practice of redemption / disposal of the listed investment unit in combination with rather short-term, investments though varying holding periods; and

b) FVOCI election would not be appropriate as there could be an intent to sell and in that case each year performance in FV would provide an observable market condition.

91 Adjusted cost or historical cost: A few other respondents [7%] mentioned adjusted cost or historical cost in a dual measurement approach as the best accounting treatment.

92 The most relevant elements in the scenario indicated by the respondents were the following, in that order of importance:

a) The link to a long-term obligation (insurance contracts);

b) The fact that the entity holds a portfolio of equity instruments; and

c) The fact that the shares are unlisted.

Illustrative example D - Open portfolio of equity instruments held with a view to service a long-term liability

Scenario D- Open portfolio of equity instruments held with a view to service a long-term liability
• Same fact pattern as Scenario C but the liability is an obligation or financial liability other than insurance contracts, for example a decommissioning liability per IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

93 A little more than two thirds of the respondents that replied to this question considered that there was a need for an alternative accounting treatment for the fact pattern presented in illustrative example D.

94 Those that wanted an alternative mentioned the following:

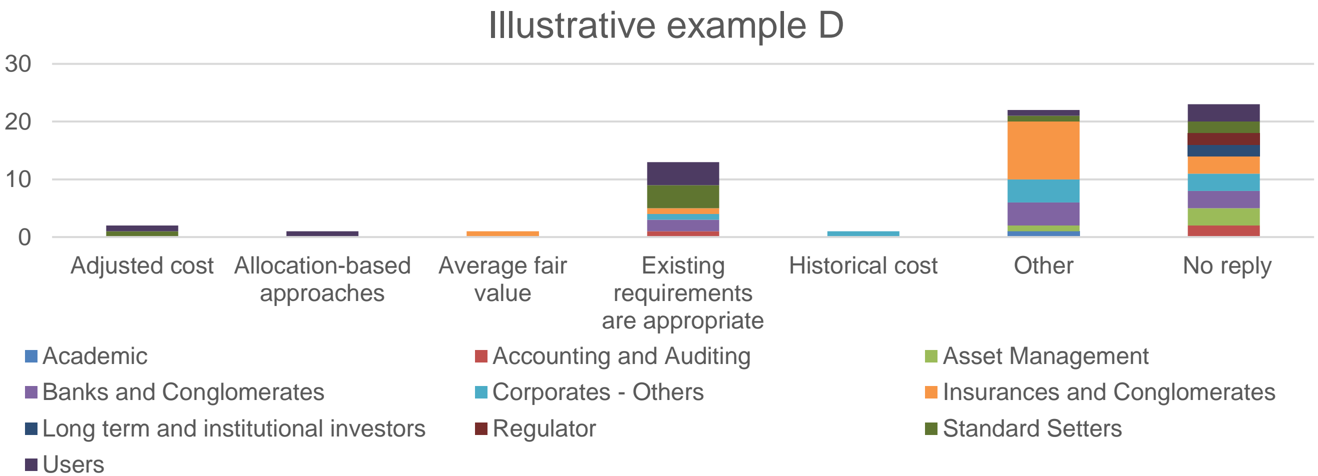

Figure 16 - Illustrative example D

95 The respondents that indicated 'other' in their response (refer to the graph above) had the following comments:

a) FVOCI with recycling: The majority of the respondents [50%] in this *other* category, particularly from the financial sector, stated that the reintroduction of recycling for equities measured at FVOCI is necessary. Respondents provided the same arguments as in paragraph 76 a) above.

b) Cost model exception: One respondent added that it would be important to keep the exception of historical cost measurement in IFRS 9, if an entity does not expect that the fair value of the instruments would be materially different from cost;

c) One respondent added that this should be applied for equity instruments and also for units of funds that purely invest in equity instruments;

d) ALM-strategy: some respondents [14%], even if they could accept the reintroduction of recycling to improve the FVOCI measurement election as a short-term solution, believed that the best approach to reflect ALM-strategy would be to measure assets and liabilities so as to eliminate artificial volatility and accounting mismatches in both balance sheet and performance reporting;

e) Two respondents mentioned that an allocation approach, based on the expected duration of the related liability, might be appropriate. However, considering multiple issues and challenges in developing such an approach, the FVOCI method with recycling and impairment would be suitable as a possible solution. The recycling would enable that matching effects with expenses incurred on related liabilities are recognised in profit or loss, although for this to happen, entities have to perform selective sales; and

f) Average FV: Two other respondents mentioned average FV as the best accounting treatment. However, one respondent mentioned that the average FV would just work for long-term investments held through an ETF.

96 By contrast, almost a third of the respondents that addressed this question considered that, for illustrative example D, there was no need for an alternative accounting treatment, as the existing requirements are appropriate.

97 One respondent added that the FVOCI election would not be appropriate as there could be an intent to sell and, in that case, each year, performance in FV would provide an observable market condition.

98 Adjusted cost or historical cost: other respondents mentioned adjusted cost or historical cost in a dual measurement approach as the best accounting treatment.

99 One respondent mentioned that the accounting treatment should depend on the intended use of the asset, with some assets (that are held to be sold) being subject to the existing fair value measurement approach, while other assets (that are held with the intention of benefiting from the proceeds over a longer period) should be measured at cost. If all assets of the portfolio would potentially be disposed, fair value measurement is adequate for all of the equity instruments. Otherwise, a "mixed measurement" model is proposed, provided that parts of the portfolio are held for disposal while others are held for long-term investment purposes.

100 Allocation-based approaches: One respondent mentioned allocation-based approaches as the best accounting treatment.

101 The most relevant elements in the scenario indicated by the respondents were the following, in order of importance:

a) The link to a long-term obligation;

b) The fact that the entity holds a portfolio of equity instruments; and

c) The fact that the shares are unlisted.

Illustrative example E - Long-term investment held indirectly through a unit fund - listed

Scenario E - Long-term investment held indirectly through a unit fund - listed

- Entity A acquires units in Exchange Traded Funds (ETF) as part of a larger investment portfolio.
- Each ETF invests in a diversified portfolio of financial and non-financial assets. Entity A does not have control over the investment decisions of the funds, which are managed independently.
- Entity A's past practice indicates that, on average, it will hold these units for approximately six months although the holding period varies considerably from one investment to another. When the units are redeemed or sold, Entity A expects to acquire another investment or investments.
- In its management report and other public statements, Entity A presents itself as a long-term investor whose strategy is to allocate assets so as to generate an economic return over time.
- Under IFRS 9, Entity A will be required to classify the investment as FVPL. Refer to Equity-type instruments in Chapter 4 of the Secretariat background paper for more information.

102 A little more than half of the respondents that responded to this question considered that there was a need for an alternative accounting treatment for the fact pattern of the transaction presented in illustrative example E.

103 Those that wanted an alternative mentioned the following:

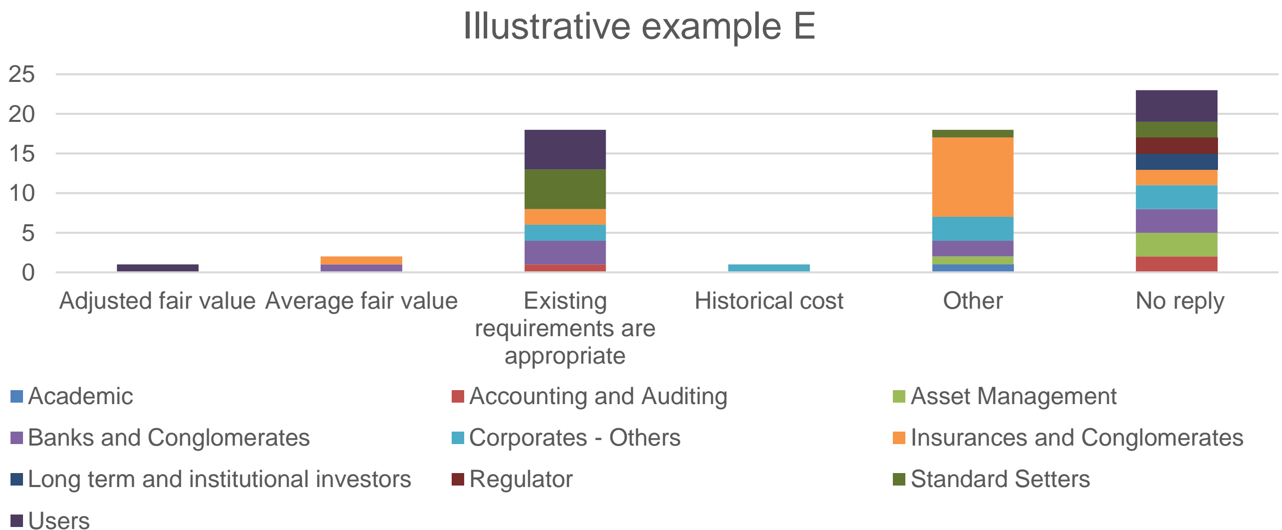

Figure 17 - Illustrative example E

104 The respondents that indicated 'other' in their response (refer to the graph above) had the following comments:

a) FVOCI with recycling: A majority of the respondents [61%] in this *other* category, particularly from the financial sector, indicated that the reintroduction of recycling for equities measured at FVOCI is necessary Respondents provided the same arguments as in paragraph 76 a) above.

b) Cost model exception: One respondent added that it would be important to keep the exception of historical cost measurement in IFRS 9, if an entity does not expect that the fair value of the instruments would be materially different from cost;

c) One respondent mentioned that substance should prevail over form and, as such, equity instruments held through a fund should not be measured differently from the direct holdings;

d) Two respondents mentioned that the FVOCI option with recycling should be applied for equity instruments and also for units of funds that purely invest in equity instruments;

e) Some respondents [12%] mentioned that there should also be the possibility to account at FVOCI with recycling for equity-type instruments, i.e.., for funds that purely invest in equity instruments;

f) Furthermore, for ETFs one respondent also mentioned a distinction should be made between funds that purely invest in equity instruments and other funds (the funds should be considered in function of the nature of their underlying). In addition, for funds that purely invest in debt instruments, or funds that have a mixed portfolio with debt instruments as well as equity instruments, the best accounting approach would be to apply FVPL and

g) Average FV: A few respondents [7%] mentioned average FV as the best accounting treatment. However, one respondent mentioned that the average FV would just work for long-term investments held through an ETF.

105 By contrast, almost half of respondents that addressed this question considered that for illustrative example E, there was no need for an alternative accounting treatment as the existing requirements are appropriate since:

a) the existing guidance under IFRS 9 represents an appropriate measurement basis in the scenario given, since there is past practice of redemption / disposal of the listed investment unit in combination with rather short-term investments, though varying holding periods; and

b) FVOCI election would not be appropriate as there could be an intent to sell and, in that case, each year, performance in FV would provide an observable market condition.

106 Historical cost or adjusted FV: A few other respondents [5%] mentioned historical cost in a dual measurement approach or adjusted FV as the preferred accounting treatment.

107 The most relevant elements in the scenario indicated by the respondents were the following, in order of importance:

a) The investor's assessment of the long-term nature of its investment;

b) The investor's ability to redeem or sell; and

c) The listed feature of the fund.

Illustrative example F - Long-term investment held indirectly through a unit fund – non listed

Scenario F- Long-term investment held indirectly through a unit fund – non listed
• Same fact pattern as Scenario E above, except that the fund is unlisted.

108 A little more than half of the respondents that responded to this question considered that there was a need for an alternative accounting treatment presented in illustrative example F.

109 Those that wanted an alternative, to address the problems with the current IFRS 9, mentioned the following alternatives.

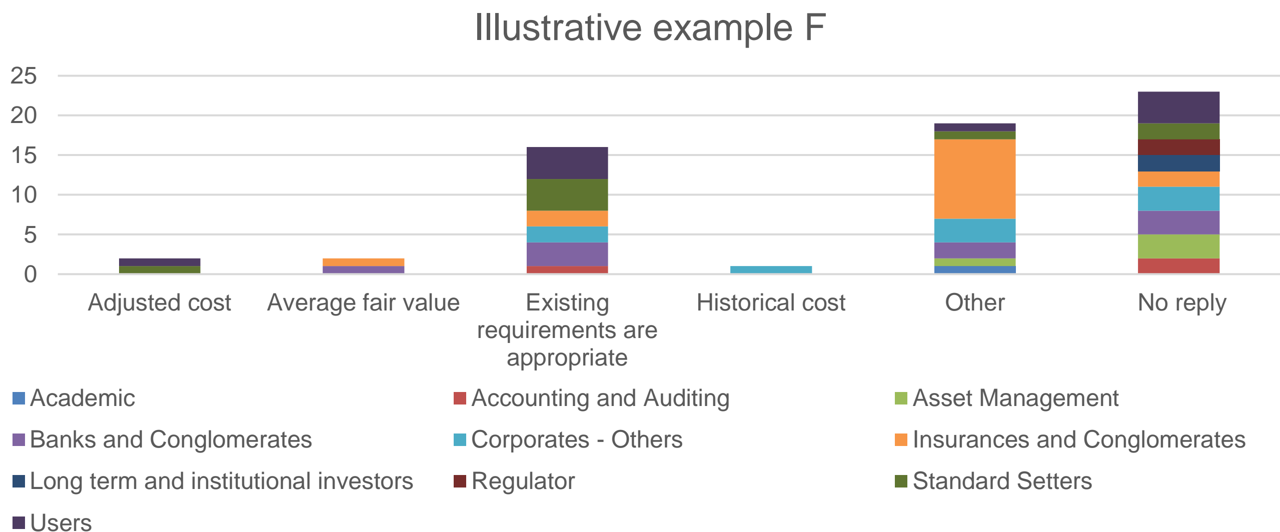

Figure 18 - Illustrative example F

110 The respondents that indicated ‘other’ in their response (refer to the graph above) had the following comments:

a) FVOCI with recycling: A majority of the respondents [63%] in this *other* category, particularly from the financial sector, commented that the reintroduction of recycling for equities measured at FVOCI was necessary since:

(i) it would significantly improve the presentation of their financial performance;

(ii) gains and losses when equity instruments measured at FVOCI are sold are an integral part of performance, the same as dividend on these instruments; and

(iii) there is no conceptual reason to present an integral part of performance differently.

b) Cost model exception: One respondent added that it would be important to keep the exception of historical cost measurement in IFRS 9, if an entity does not expect that the fair value of the instruments would be materially different from cost.

c) Two respondents mentioned that this should be applied to equity instruments and also to units of funds that purely invest in equity instruments.

d) Average FV: A few respondents [7%] mentioned average FV as the best accounting treatment, but this accounting treatment would only work for long-term investments held through an ETF.

111 *By contrast*, almost half of the respondents that addressed this question considered that for illustrative example F, there was no need for an alternative accounting treatment as the existing requirements are appropriate since:

a) if the fund is not listed, there are challenges to determine periodic fair value estimates. However, the preparers that invest in these types of asset portfolios may have some financial information to assess; and

b) FVOCI election would not be appropriate as there could be an intent to sell and, in that case, each year, performance in FV would be an observable market condition.

112 Adjusted cost or historical cost: A few other respondents [7%] mentioned adjusted cost or historical cost in a dual measurement approach as the best accounting treatment.

113 The most relevant elements in the scenario indicated by the respondents were the following, in order of importance:

a) The investor's assessment of the long-term nature of its investment;

b) The investor's ability to redeem or sell; and

c) The unlisted feature of the fund.

APPENDIX I – List of Respondents

Respondent	Country	Type	Category
Accountancy Europe	Europe	Professional Organisation	Audit and Accountancy
ACTEO - AFEP - MEDEF	Europe	Business Association	Corporates - Others
Af2i – Association Française des Investisseurs Institutionnels	France	Business Association	Asset Management
AFRAC – Austrian Financial Reporting and Auditing Committee	Austria	National Standard Setter	Standard Setters
AG Insurance	Europe	Preparer	Insurances and Conglomerates
Ageas	Belgium	Preparer	Insurances and Conglomerates
AIAF - Associazione Italiana per l'Analisi Finanziaria	Italy	Professional Organisation of Users	Users
Allianz	Germany	Preparer	Insurances and Conglomerates
Alpha Bank	Greece	Preparer	Banks and Conglomerates
Altradius N.V.	Netherlands	Preparer	Insurances and Conglomerates
Amundi	France	Preparer	Asset Management
ANC – Autorité des Normes Comptables	France	National Standard Setter	Standard Setters
ASCG - Accounting Standards Committee of Germany	Germany	National Standard Setter	Standard Setters
Assuralia	Belgium	Business Association	Insurances and Conglomerates
AXA	France	Preparer	Insurances and Conglomerates
BASF	Germany	Preparer	Corporates - Others
BBVA Seguros	Spain	Preparer	Insurances and Conglomerates
BMW Group	Germany	Preparer	Corporates - Others
BNP	France	Preparer	Insurances and Conglomerates

CFA Institute – Chartered Financial Analyst	UK	Professional Organisation of Users	Users
Confederation of Swedish Enterprise	Sweden	Business Association	Corporates - Others
Covestro AG	Germany	Preparer	Corporates - Others
DASC – Danish Accounting Standards Committee	Denmark	National Standard Setter	Standard Setters
Duff & Phelps	UK	User	Users
EACB - European Association of Cooperative Banks	Europe	Business Association	Banks and Conglomerates
ECB – European Central Bank	Europe	Regulator	Regulator
EFAMA – European Fund and Asset Management Association	Europe	Business Association	Asset Management
EFFAS – European Federation of Financial Analysts Societies	Europe	Professional Organisation of Users	Users
Enel Group	Italy	Preparer	Corporates - Others
Engie Group	France	Preparer	Corporates - Others
Erste Group	Austria	Preparer	Banks and Conglomerates
ESBG – European Savings and Retail Banking Group	Europe	Business Association	Banks and Conglomerates
ESMA - European Securities and Markets Authority	Europe	Regulator	Regulator
FBF – French Banking Federation	France	Business Association	Banks and Conglomerates
Febelfin - Fédération belge du secteur financier	Belgium	Business Association	Banks and Conglomerates
FFA – Fédération Française de l'Assurance	France	Business Association	Insurances and Conglomerates
Finance Denmark	Denmark	Business Association	Banks and Conglomerates
FRC – Financial Reporting Council	UK	National Standard Setter	Standard Setters
GBIC – German Banking Industry Committee	Germany	Business Association	Banks and Conglomerates
GDV – German Insurance Association	Germany	Business Association	Insurances and Conglomerates
Helaba	Germany	Preparer	Insurances and Conglomerates
ICAC	Spain	National Standard Setter	Standard Setters

ICAEW – Institute of Chartered Accountants in England and Wales	UK	Professional Organisation	Audit and Accountancy
ICAS – Institute of Chartered Accountants of Scotland	UK	Professional Organisation	Audit and Accountancy
Insurance Europe	Europe	Business Association	Insurances and Conglomerates
Jed Wrigley	UK	User	Users
KBC	Belgium	Preparer	Insurances and Conglomerates
Kepler Cheuvreux	France	Preparer	Asset Management
Luca D Onofrio	Italy	Individual	Users
Martin R. Petrov	Bulgaria	Individual	Users
Ministry of Finance Slovakia	Slovakia	National Standard Setter	Standard Setters
Munich RE	Germany	Preparer	Insurances and Conglomerates
OIC – Organismo Italiano di Contabilita	Italy	National Standard Setter	Standard Setters
Orano Group	France	Preparer	Corporates - Others
Paris Marketplace LTI Task Force	France	Business Association	Long term and institutional investors
Peter Malmqvist	Sweden	User	Users
Serge Pattyn	Belgium	User	Users
Siemens	Germany	Preparer	Corporates - Others
Stephen Cooper	UK	User	Users
UKfinance	UK	Business Association	Banks and Conglomerates
Vera Palea	Italy	Academic	Academic
Anonymous	Europe	Preparer	Long term and institutional investors
Anonymous	Spain	Preparer	Insurances and Conglomerates

Table 8 - List of Respondents

Conventionally classified as Insurance and conglomerates those that are in the official list of financial conglomerates according to the supervisory authorities.