



**EFRAG – European Financial Reporting
Advisory Group**
35, Square de Meeûs
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Re: Comments on the *Equity Instruments
Questionnaire*

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**Comments by the European Federation of Financial Analysts' Societies (EFFAS)
Commission on Financial Reporting (CFR)**

Dear Sirs,

The Commission on Financial Reporting of the European Federation of Financial Analysts Societies (hereafter the "CFR") would like to comment and complement the key points of the Questionnaire *Equity Instruments – Research on Measurement*. The Questionnaire is also being forwarded to EFRAG.

Investors make investment decisions based on the expected risk-and-reward of a financial asset considering its holding period and capacity to generate positive cash-flows. Additionally, investors will be more inclined to direct capital flows towards assets in sustainable activities when they can obtain a reasonable return in the long-term.

The long-term holding period of an investment will primarily depend on the nature of the investment and the holding period of the liabilities that fund the asset. An investor or entity with a long-term business model approach is expected to hold the financial asset to collect the contractual cash-flows rather than to sell the asset prior to its maturity to realize its fair value changes.

Within this framework we would like to comment on the key aspects of questions 1 thru 13 of the *Questionnaire*.

- We believe that the relevance of the accounting treatment of an investment should not prevent an investor from making a decision to invest in sustainable activities. An investment decision is more a matter of the nature of the investment and, as noted, the long-term nature of the liabilities funding the asset than of the accounting treatment. Risk-and-reward will be the main consideration.

- An entity has the option to apply FVOCI to reflect the performance of an investment while avoiding reporting potential fluctuations in the income statement. This option, we believe,



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covers entities' needs to portray more stable results. Short-term fluctuations are not relevant to assess an entity's performance.

- IFRS-9 provides an entity several options to account for equity instruments. We consider appropriate the accounting treatment options portrayed in IFRS-9 and additional accounting treatments should not be necessarily introduced.

Regarding the illustrative examples A - E points 14 thru 19, we have considered the same answer for three same questions. We believe that the key considerations for an investor are essentially the same for the examples presented.

1.- An investment decision considering the UN Sustainable Development Goals (SDG) and the Paris Agreement Climate-change depends on the nature of the investment and the expected risk-and-reward rather than of its accounting treatment.

2.- The most relevant aspect of an investment is how the investment is managed. The proper management of the investment should generate adequate cash-flows and positive returns to support the investment in sustainable activities. The management of the financial asset is a determining factor for an investor.

3.- We consider adequate the existing accounting requirements contemplated in IFRS-9.

If you have any questions, please do not hesitate to contact me.

Yours faithfully,

Javier de Frutos
Chairman

EFFAS was established in 1962 as an association for nationally-based investment professionals in Europe. Headquartered in Frankfurt am Main, EFFAS comprises 22-member organizations representing more than 16,000 investment professionals. The Commission on Financial Reporting is a standing commission of EFFAS aiming at proposing and commenting on financial issues from an analyst and investors standpoint. CFR members are Javier de Frutos (Chairman, IEF-Spain), Jacques de Greling (Vice-Chairman, SFAF-France), Dr. Carsten Zielke (DVFA, Germany), Friedrich Spandl (ÖVFA, Austria), Henning Strom (NFF, Norway), Serge Pattyn (BVFA/ABAF, Belgium) and Luca D' Onofrio (AIAF, Italy).