

## Comments

### EFRAG Discussion Paper “Equity Instruments – Impairment and Recycling”

Register of Interest Representatives

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Our ref

Ref. DK: EFRAG

Ref. DSGVO: 8007

Contact: Eric Eispert

Telephone: +49 30 20225- 5782

Telefax: +49 30 20225- 5403

E-Mail: [eric.eispert@dsgv.de](mailto:eric.eispert@dsgv.de)

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The **German Banking Industry Committee** is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public-sector banks, the Deutscher Sparkassen- und Giroverband (DSGV), for the savings banks finance group, and the Verband deutscher Pfandbriefbanken (vdp), for the Pfandbrief banks. Collectively, they represent more than 1,700 banks.

Coordinator:

German Savings Banks Association

Charlottenstraße 47 | 10117 Berlin | Germany

Telephone: +49 30 20225-0

Telefax: +49 30 20225-250

[www.die-deutsche-kreditwirtschaft.de](http://www.die-deutsche-kreditwirtschaft.de)

**Q1.1 What are your views on the arguments presented in paragraphs 2.3 – 2.10? Do you consider that the reintroduction of recycling would improve the depiction of the financial performance of long-term investors?**

**Alternatively, do you consider that the existing requirements of IFRS 9 provide an adequate depiction? Please explain.**

From our point of view, this topic is not something that currently needs to be discussed. Possible adjustments and amendments to IFRS 9 should be discussed in due course as part of the forthcoming Post Implementation Review (PIR) of IFRS 9.

The introduction of a recycling model for equity instruments measured at FVOCI should be discussed and decided at IASB level. We reject an exclusively European amendment to IFRS 9, as this would constitute a 'carve-in' situation. Although a special European regulation may be necessary in individual cases, we see no general reason for this. Deviating from international standards also contradicts the objective of uniform international accounting.

The IASB deliberately decided against recycling because it feared a lack of comparability due to the possibility of applying discretion in the assessment of impairment. However, this decision has been criticized many times, so that this issue will certainly be discussed again in the context of the PIR.

From a conceptual point of view, recycling could be appropriate for long-term investments so that the financial result of such an investment can be made transparent in profit and loss. This very complex issue, however, cannot be solved by a short-term change. For a comprehensive discussion, additional experience with the application of IFRS 9 should first be collected and the PIR by the IASB should be awaited.

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

The introduction of an impairment model involves technical difficulties. A possible redesign of the recycling regulations for equity instruments measured at FVOCI should therefore not lead to complex or extensive requirements for an impairment test of equity instruments.

**Q3.1 What are your views on the arguments and analysis presented in Chapter 3 of the DP?**

**Q3.2 Are there other improvements in presentation and disclosure that you would support?**

n/a

**Q4.1 What should be, in your view, the general objective and main features of a robust model for equity instruments (relevance, reliability, comparability...)?**

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

The first model, according to which all changes in value below the original acquisition cost would be recognised in profit and loss, would be more practicable and less discretionary compared to IAS 39 for equity instruments classified as AFS. The second model, however, would be familiar in some areas. According to this model, equity instruments would have to be assessed for impairment if objective evidence indicates this – as is already the case under IAS 39 in the AFS category. This familiar impairment trigger would, however, be supplemented by threshold values in order to limit subjectivity. We are critical of the introduction of such thresholds (see answer to question Q5.1.).

**Q4.3 Do you have suggestions for a model other than those presented in the DP? If so, please describe it and explain why it would meet characteristics such as relevance, reliability and comparability.**

n/a

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

**Q5.2 If you do not support quantitative impairment triggers, how would you ensure comparability across entities and over time?**

It does not seem reasonable to us to specify threshold values as a criterion for assessing whether impairment exists. We are of the opinion that quantitative targets designed to restrict subjectivity produce what is only ostensible comparability. Many cases differ in terms of their design and are so specific that judgement must be exercised in order to convey the correct information.

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

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

n/a

**Q7.1 Do you consider that the same model should apply to all equity instruments carried under the FVOCI election?**

**If not, why not and how would you objectively identify different portfolios?**

**Q7.2 Do you have comments on these other considerations?**

**Q7.3 Are there other aspects that EFRAG should consider?**

n/a

**Q8.1 Are there other aspects of IFRS 9's requirements on accounting for holdings of equity instruments, in addition to those considered in the DP, which in your view are relevant to the depiction of the financial performance of long-term investors? Please explain.**

n/a