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Presentation and disclosure alternatives
Issues Paper

Objective

1 At the September 2017 meeting, EFRAG TEG discussed the significance of an impairment model to the re-introduction of recycling as part of the European Commission ('the EC') request for technical advice ('the RfA'). There was general agreement that an impairment model was a prerequisite for recycling. However, in its RfA, the EC requested EFRAG to consider possible presentation and disclosure alternatives in case a robust impairment model could not be developed. Given the tentative position expressed by EFRAG TEG, the EFRAG Secretariat acknowledges that these alternatives are not likely to be a preferred option.

2 The objective of this paper is to discuss these alternatives and ask EFRAG TEG if it would accept to include them for exposure in the consultation document to obtain constituents' views.

The alternatives

3 This paper considers if presentation and disclosure alternatives could provide relevant information on potential impairment and performance. The alternatives are:

(a) discuss whether fair value changes over time in other comprehensive income ('OCI') could be analysed between positive and negative changes on equity investments so that investors could form a view about the performance of the equity investments; and

(b) discuss whether fair value changes on equity instruments measured at fair value through profit or loss ('FVPL') could be disclosed with an analysis between realised and unrealised changes.

Disclosure requirements for equity instruments designated at FVOCI

4 Before discussing the presentation and disclosure alternatives, it is useful to remind what disclosure requirements apply to equity instruments designated at fair value through OCI ('FVOCI').

5 Paragraph 106 of IAS 1 *Presentation of Financial Statements* requires an entity to disclose for each component of equity a reconciliation between the carrying amount at the beginning and end of the period. Paragraph 108 specifies that the components of equity in paragraph 106 include, for example, each class of contributed equity, the accumulated balance of each class of OCI and retained earnings. However, the current requirements would not require to disclose separately the debit and credit balances or the balances related to items already disposed of.

6 IFRS 7 *Financial Instruments: Disclosures* requires certain disclosures for various categories of financial assets and liabilities. Investments in equity instruments designated to be measured at FVOCI are identified as a stand-alone category for the following disclosure requirements of IFRS 7:

(a) the carrying amount of each of the categories of financial assets and liabilities be disclosed in either the statement of financial position or in the notes (IFRS 7 paragraph 8); and

(b) the net gain or loss in either the statement of comprehensive income or in the notes (IFRS 7 paragraph 20).

7 IFRS 7 also includes disclosure requirements specifically for investments in equity instruments designated to be measured at FVOCI. Paragraph 11A requires further disclosure for these instruments including:

(a) which investments in equity instruments have been designated to be measured at FVOCI;

(b) the reasons for using this presentation;

(c) the fair value of each such investment at the end of the reporting period;

(d) dividends recognised during the period, showing separately those related to investments derecognised during the reporting period and those related to investments held at the end of the reporting period; and

(e) any transfers of the cumulative gain or loss within equity during the period including the reason for such transfers.

8 For investments in equity instruments measured at FVOCI that have been derecognised during the reporting period, paragraph 11B requires disclosure of:

(a) the reasons for disposing of the investments;

(b) the fair value of the investment at the date of derecognition; and

(c) the cumulative gain or loss on disposal.

Analysis of the alternatives

Example

9 Assume a reporting entity holds three investments in equity instruments designated at FVOCI, as follows:

	Original Cost	**FV at the beginning of the period**	**FV at the end of the period**
Investment X	50	60	75
Investment Y (disposed during the period)	50	80	-
Investment Z	50	50	32
Total	**150**	**190**	**107**

10 At the beginning of the reporting period the entity would have a cumulative gain in OCI of 40 for these three investments. During the current reporting period the entity sold investment Y for 85, so the cumulative gain on the disposal is 35 and the fair value change of the period for this investment is 5. At the end of the reporting period the entity continued to hold equity instruments with a fair value of 107 and a cumulative gain in OCI of 7 (10+15-18).

Current IFRS 9 requirements

11 Under current IFRS 9 requirements:

(a) entities carry their equity instruments at fair value;

(b) entities can elect to charge the fair value changes in profit or loss or OCI on an instrument-by-instrument basis;

(c) entities would not be required to assess impairment on the equity instruments; and

(d) entities are not allowed to recycle gains or losses on disposal.

12 The EFRAG Secretariat discusses which information would allow users to adjust the reported results in case the accounting requirements remained as they are currently in IFRS 9.

13 The IFRS 7 disclosure requirements described above would be applicable for the FVOCI category.

14 A user that holds the view that performance is better reflected with current changes in fair value recognised in OCI and later recognised in profit or loss upon impairment or disposal would need to make the following adjustments:

(a) add the cumulative gain on disposal for the equity instruments sold during the reporting period (Investment Y) in profit or loss for an amount of 35; and

(b) assess whether an impairment loss should be added in relation to Investment Z.

15 The information needed to make the first adjustment would be available under IFRS 7, paragraph 11B.

16 This user could use the OCI balance to assess a maximum loss exposure. However, the information would have to be specifically provided for those instruments that have a debit OCI balance and are still held at the reporting date

Alternative 1 - Analysis of fair value changes in OCI

Assumptions

This alternative assumes that:

- entities carry their equity instruments at fair value;
- entities can elect to charge the fair value changes in profit or loss or OCI on an instrument-by-instrument basis;
- entities would not be required to assess impairment on the equity instruments; and
- entities would be required to recycle gains or losses on disposal.

17 In the following paragraphs, the EFRAG Secretariat discusses which information would allow users to adjust the reported results in case the accounting requirements were amended as described in the assumption above.

18 The EFRAG Secretariat notes that some of the IFRS 7 disclosure requirements described above would not be applicable under the assumption that recycling is required. For example, transfers of cumulative gain or loss within equity would not occur.

19 A user that holds the view that performance is better reflected with current changes in fair value recognised in OCI and later recognised in profit or loss upon impairment or disposal would need to make only one adjustment, i.e. assessing if an impairment loss should be added in relation to Investment Z.

20 This user could use the OCI balance to assess a maximum loss exposure. However, the information would have to be specifically provided for those instruments that have a debit OCI balance. Under the assumptions above, OCI is recycled upon disposal. Therefore, contrary to IFRS 9, the OCI balance at the end of the period would refer only to instruments that the entity still holds.

Alternative 2 - Analysis of realised and unrealised fair value changes in profit or loss

> **Assumption**
>
> This alternative assumes that entities carry their equity instruments at fair value with the changes recognised in profit or loss.
>
> As a consequence, there is no use of OCI nor the need to determine an impairment loss.

21 A user that holds the view that performance is better reflected with current changes in fair value recognised in OCI and later recognised in profit or loss upon impairment or disposal, would need to make the following adjustments:

(a) adjust the realised disposal gain or loss of equity instruments held at FVOCI for the reporting period (Investment Y) for an amount of 30 to reflect prior period increases in fair value;

(b) remove the current period fair value change from profit or loss for equity instruments held at the end of the reporting period (Investment X and Z) for a negative amount of 3 (+15-18); and

(c) assess if an impairment loss should be added in relation to Investment Z.

22 The information needed to make the first adjustment would be available under IFRS 7 paragraph 11B (c). The information for the second adjustment would require an analysis of changes in fair value divided between realised and unrealised changes – 'realised changes' being changes in fair value of instruments that were disposed during the period.

23 While there is no specific disclosure requirement to provide such an analysis, reporting entities have the ability to include supplemental information. IAS 1 requires that for a fair presentation an entity '*provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.*'

24 An analysis could be either be presented in the statement of comprehensive income or disclosed in the notes. IAS 1 addresses the information included in OCI and paragraph 85 states:

'An entity shall present additional line items (including by disaggregating the line items listed in paragraph 82), headings and subtotals in the statement(s) presenting profit or loss and other comprehensive income when such presentation is relevant to an understanding of the entity's financial performance.'

25 Using the example above, the information could be provided as follows:

Net fair value change for the period (this amount would be in profit or loss in the assumptions)	**2**
Unrealised portion	(3)
Realised portion	5

Questions for EFRAG TEG

26 Does EFRAG TEG consider that there are other presentation and disclosure alternatives that the EFRAG Secretariat could analyse?

27 Does EFRAG TEG agree to include the alternatives discussed above in the consultation document to obtain constituents' views?