

EFRAG Research project Equity Instruments – Impairment and Recycling

Cover Note

Objective of the session

- 1 The objective of the session is to finalise the reply to the first request for technical advice from the European Commission.

Background

- 2 In May 2017 EFRAG received a request for technical advice from the European Commission in relation to the accounting treatment of equity instruments carried at fair value through OCI under IFRS 9 *Financial Instruments* ('first request').
- 3 The original deadline to submit the EFRAG's advice was the end of the second quarter 2018. EFRAG has agreed with the EC a further extension of the deadline until the end of March 2019.
- 4 In June 2018 EFRAG received another request for technical advice from the EC ('second request'). The second request asks EFRAG to consider alternative measurement bases for equity and equity-type instruments especially in the context of a long-term investment model.
- 5 At its 5 July meeting, EFRAG TEG voted on the advice in response to the first request. EFRAG TEG (by a vote of 10 votes in favour, 5 against and one abstention) not to recommend an immediate reintroduction of recycling for equity instruments designated in accordance with IFRS 9's FVOCI election. EFRAG TEG's draft technical advice also noted (among other things) that EFRAG will carry on investigating the accounting for long-term equity and equity-type investments in responding to the second request and that further experience with IFRS 9 and the IASB's Post-implementation Review will provide further insights and evidence
- 6 Considering that mixed views were expressed both by EFRAG TEG members and respondents to the Discussion Paper, it was agreed that the draft technical advice from TEG would:
 - (a) reflect also the concerns and arguments of those recommending an immediate reintroduction of recycling; and
 - (b) address the questions in the first request concerning the relevance of an impairment solution for the reintroduction of recycling and what characteristics an acceptable impairment solution would have.
- 7 In relation to (b) above, EFRAG TEG at its 25 July meeting decided that it would not express a preference on the impairment solution. Therefore, the draft technical advice described two solutions presented in the EFRAG DP and the comments from respondents but did include an EFRAG TEG recommendation.
- 8 At its 21-22 August meeting, the EFRAG Board considered the draft technical advice but took no decisions as to its finalisation. The EFRAG Board asked the EFRAG Secretariat to meet with the Commission and:
 - (a) clarify the scope of the second request and
 - (b) discuss the possibility to combine the two requests and provide a single reply.

- 9 In relation to the timing of EFRAG’s response to the first request, the EC noted that they are committed to report back on their action plan on financing sustainable growth by March 2019. They also noted that there is a clear interaction between this piece of advice and EFRAG’s ongoing analysis of the interrelation between IFRS 9 and IFRS 17. Therefore, the EC asked EFRAG to provide a separate reply to the first request for technical advice not later than March 2019.

Finalising EFRAG’s response to the first request

- 10 At its September and October meeting, the EFRAG Board discussed how to proceed to the finalisation of the reply to the first request.
- 11 The EFRAG Secretariat suggested two possible approaches to the finalisation of this advice, the selection of which depended in part of the EFRAG Board’s orientation as to the overall advice:
- (a) either to finalise the overall technical advice either in accordance with EFRAG TEG’s recommendation, or in another way, without amending the rest of the content; or
 - (b) to ask EFRAG TEG to provide more specific advice on an impairment solution.
- 12 The EFRAG Board agreed that it would not ask EFRAG TEG to re-open the discussions. EFRAG TEG will continue working on the topic in the context of the second request for technical advice.
- 13 The EFRAG Board decided to reconsider a revised text that would follow the suggestions expressed by the President of the EFRAG Board and include:
- (a) a brief introduction to
 - (i) provide background;
 - (ii) explain that while EFRAG provides answers to the questions in the European Commission’s (EC) request, during our due process EFRAG has also considered arguments provided by respondents on the merits of the reintroduction of recycling; and
 - (iii) note that the responses to the EC should be read in conjunction with the appendix.
 - (b) responses to the questions in the EC’s request:
 - (i) *Is an impairment model needed if recycling is reintroduced?* with a positive answer; and
 - (ii) *What impairment model would EFRAG support?* With support for a model based on the model in IAS 39 for AFS, but with improvements.
 - (c) an appendix that:
 - (i) summarises the arguments in favour and against the reintroduction of recycling; and
 - (ii) explains that at this stage EFRAG does not have sufficient evidence to recommend reintroduction of recycling.

Question for the EFRAG Board

- 14 Do you approve the revised text in paper 02-02?