EFRAG
European Financial Reporting Advisory Group

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of the EFRAG Board and EFRAG TEG. The paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

Financial Instruments with Characteristics of Equity
Summary of the comments and feedback received

Objective

1 The objective of this paper is to update the EFRAG Board and EFRAG TEG on feedback received during outreach activities as well as from comment letters on the EFRAG Draft Comment Letter ('DCL) on the Financial Instruments with Characteristics of Equity ('FICE') Discussion Paper ('DP') of the IASB.

2 The feedback received will be considered as a whole when finalising the EFRAG comment letter.

Summary of the feedback received from EFRAG Outreach Activities

3 During the autumn, EFRAG had several outreach activities on the Financial Instruments with Characteristics of Equity ('FICE') Discussion Paper ('DP') as well as the EFRAG draft comment letter ('DCL').

4 The following joint outreaches were held:

Location	Co-host(s)	Date
Milan	OIC, IASB	7 November 2018
Amsterdam	DASB, Eumedion, IASB	20 November 2018
Frankfurt	ASCG, IASB	21 November 2018
Copenhagen	FSR-Danish Auditors and Confederation of Danish Industry, IASB	23 November 2018
Brussels	EFFAS, ABAF-BVFA, IASB	26 November 2018
London	FRC	4 December 2018

5 EFRAG staff also presented at a further 15 events which included mostly meetings of accounting committees of industry groups, but also conferences and summits.

6 The feedback received as part of these activities is summarised below.

Objective, scope and challenges

7 In general, there are mixed views on whether IAS 32 *Financial Instruments: Presentation* needs to be updated. Some consider that the application problems as highlighted by the IASB necessitate changes, whilst others think that on the whole preparers, advisors and auditors can navigate the complexities.

8 Overall, there is support for the idea that the disclosures around equity instruments require improvement and that further disclosures around liabilities has merit.

9 No additional or further challenges were highlighted with general consensus that fixed-for-fixed requirements add significant complexity.

The IASB's preferred approach

10 There is support for the fundamental objective of not changing IAS 32 significantly. However, there is some debate about whether the preferred approach results in too little or too much change - some consider the limited changes indicate that no standard setting is required on classification whereas others consider the changes to be more significant than anticipated.

11 There appears to be agreement with the EFRAG DCL that whilst it would be good to have principles underpinning IAS 32, few seemed convinced that the new terminology would not create similar problems in future and that it warrants the upheaval of the change.

12 Many noted that the IASB's preferred approach would contradict both the recently updated conceptual framework as well as IFRS 2 *Share-based Payment*. Some were also asking whether the provisions of IAS 32 would be grandfathered to reduce the work required to comply with a new standard in the light of the expected limited changes in classification.

13 The timing feature did not elicit much comment, but the amount feature proved to be more controversial. Many participants did not query the fundamental question that a claim for an amount in the functional currency of the entity to be settled in variable number of own shares should be classified as a liability. It proved more difficult to provide succinct reasons for this. However, many questioned the requirement to analyse outcomes on liquidation in the light of the going concern assumption.

14 For those who issue or invest in hybrid instruments[1], the feature was more controversial on a practical level. There are significant concerns that issuer behaviour could change – either by not issuing these instruments or by exercising embedded calls in existing instruments – both of which could result in significant volatility in the secondary market.

15 Some acknowledged that these are debt in substance, with one participant saying that hybrids act as a liability while the entity is a going concern, but as debt on liquidation. There was little or no conceptual reasoning provided for why these should not be classified as a liability although some considered it to include economic compulsion by another name.

16 There was support for retaining the puttables exemption as well as IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments* although some were concerned whether IFRIC 2 would be updated to also accommodate the amount feature. Some questioned the use of exceptions when the topic has been newly reassessed.

17 The proposed accounting treatment for derivatives caused less controversy in general, but the requirements may not be relevant for the participants in our outreaches. It seemed that the foreign currency rights issue exception is not used currently, but representatives from the banking sector were very concerned about its proposed removal. Treasury functions in banking groups will consider where it is possible to raise the cheapest funding when required and the currency is irrelevant. The limited use of the exception during benign economic periods should not be taken as a sign of its unimportance to the industry over time.

[1] In this scenario referring to instruments classified as equity under IAS 32 as the issuer can defer any payment of coupon or principal amounts indefinitely.

18 There was little to no support for the suggestions to treat written puts over own equity including non-controlling interests the same as convertible bonds on the grounds of understandability.

19 There was support from preparers for the separate presentation proposal, although it was a concern that for non-listed entities, the proxies used for fair value are unlikely to qualify. Users thought that having the information is important, but not everyone agreed that this should be recognised in OCI rather than profit or loss. It was acknowledged that this represents a shortcoming of the revised Conceptual Framework rather than the DP.

20 On disclosure, there was a general concern about the potential for information overload and specifically how to provide information about terms and conditions of instruments in situations where several instruments have been issued by the group.

21 Preparers were concerned that it was not practical to provide priority on liquidation information on a group basis and that the assumptions required to provide such information would generally render it less useful. Also, the banking sector expressed concerns about the potential overlap with Basel requirements under consideration which may result in duplication of similar (but not identical) information to be provided.

22 The attribution proposals received no support even though it was acknowledged that information about equity instruments and equity components should be improved. Most participants seem to support improving the IAS 33 Earnings per share disclosures, but there were no conclusions as to which format this should take.

23 On contractual terms, the problems of the current position were acknowledged, but there did not appear broad support for wholesale changes in this regard.

Questions for EFRAG Board-TEG

24 Does EFRAG Board-TEG have comments on the above feedback received through outreaches?

Summary of the comment letters received

Section 1 - Objective, scope and challenges

25 In general, respondents acknowledged the challenges arising with IAS 32 and appreciated the IASB's efforts to address the existing challenges and diversity in practice by attempting to better articulate the principles in IAS 32. These respondents acknowledged that there is room to improve IAS 32, particularly on the accounting for new complex instruments such as contingent convertible bonds (CoCos).

26 However, as described below, there is less support for the IASB's preferred approach (i.e. comprehensive specification of the principles underpinning classification) to address the challenges that currently arise in practice. Most concerns were related to the lack of clarity of the new terminology, the use of the amount feature and the cost-benefit trade-off of implementing new principles intended to result in (mostly) the same outcome.

27 Nonetheless, there was more support for target improvements to current requirements in IAS 32, particularly for the classification of new complex instruments (e.g. CoCos) and improvements to current presentation and disclosure requirements. Some of these respondents considered the DP already identified some solutions to issues that arise in practice which could be a good basis for further discussions.

28 Finally, one respondent considered that currently IAS 32 does not raise significant application issues for the majority of financial instruments. This respondent is not convinced that there is an immediate need for change.

<u>Question to constituents on additional challenges with IAS 32</u>

29 Most respondents did not identify additional challenges with IAS 32 other than those already identified by the IASB and EFRAG. Yet, some respondents considered that:

(a) the IASB needed to further discuss the classification of instruments settled with own shares and take into account whether an entity has shares available or right to issue shares to settle a contract to determine whether there is an obligation to deliver economic resources;

(b) the IASB should consider defining equity positively and not as a residual;

(c) whether symmetry of classification of equity instruments held as assets by other entities would be appropriate (i.e. symmetry of IAS 32 and IFRS 9 *Financial Instruments*);

(d) the IASB should provide guidance on when contingencies should be considered as within the control of the entity or not, which is an issue that is frequently raised in practice;

(e) the IASB should provide more guidance on when an instrument is under the scope of IAS 32 or IFRS 2;

(f) further discussion is needed on whether a party is acting as the entity or as an instrument's holder/investor; and

(g) further discussion is needed on reclassifications when features lapse or conditions change.

Section 2 - The IASB's preferred approach

30 The majority of respondents were not convinced that the IASB's preferred approach was a significant improvement when compared to IAS 32. Some of these respondents noted that currently the application of IAS 32 does not raise significant classification challenges for the majority of financial instruments and acknowledged that some of the existing issues could be solved with the new detailed guidance included in the IASB's preferred approach.

31 These respondents were particularly concerned that the IASB's preferred approach:

(a) is not always clear when applied to some instruments and did not identify solutions to a number of current issues in IAS 32 (more details below in section on classification outcomes);

(b) does not remove the need for exceptions; and

(c) does not remove the current discrepancy in the definition of liabilities between IAS 32 and the Conceptual Framework and contradicts fundamental principles such as the going concern assumption.

32 Many respondents also considered that implementation costs were likely to exceed any benefit, particularly when considering that the classification outcomes would be similar to IAS 32.

33 When referring to next steps, many respondents did not support at this stage a comprehensive review of IAS 32 and would prefer to have targeted amendments to address the challenges that arise in practice, particularly for the classification of new complex instruments (CoCos) and improvements to current presentation and disclosure requirements. One other respondent suggested that the IASB could review the principles in IAS 32 in a future review of the Conceptual Framework.

34 Finally, some respondents noticed that the DP already identified some solutions to a number of current issues with IAS 32 which could be helpfully developed. For example, one respondent recommended the IASB to assess whether information about solvency and liquidity could be addressed by improving presentation and disclosure requirements.

35 In contrast, a few respondents provided some support to the IASB's preferred approach, particularly the new guidance that would replace the fixed-for-fixed condition. Nonetheless, they raised a number of concerns and called for an impact assessment to avoid any unintended consequences. One respondent called for the IASB to consider an approach focused on the timing feature (alpha approach).

<u>The use of new terminology</u>

36 Many respondents raised concerns about the use of new and unclear terminology. In particular, respondents highlighted that the new terminology:

(a) is a significant change from current IAS 32 and Conceptual Framework terminology; and

(b) may produce unintended consequences, new issues and raises uncertainties around the real impact to entities. For example, the IASB has not clearly articulated the concept of an 'amount independent of the entity's available economic resources' and the DP has not explained how it should be applied in practice (issues with amount feature described below).

<u>Question to constituents on the use of the amount and timing feature</u>

37 Most respondents, including those that supported the IASB's approach, expressed concerns about the use of the amount feature, particularly on liquidation. Respondents argued that:

(a) the notion of "an amount independent of the entity's available economic resources" is difficult to apply, very judgemental and not intuitive;

(b) considering claims that arise only on liquidation is unhelpful in trying to assess whether the entity has sufficient funds to meet current obligations. As a result some instruments would be classified as a liabilities even though there is no amount payable other than at liquidation;

(c) if liquidation became likely, the measurement of claims on liquidation could be affected;

(d) using the amount feature on liquidation is inconsistent with the Conceptual Framework and its going concern principle;

(e) the amount feature is already raising issues in IAS 32; and

(f) claims indexed to EBITDA are considered to be of an amount independent of the entity's available economic resources while EBITDA is often the only relevant parameter for non-listed entities to make an assessment of an entity's economic resources.

38 In addition, a number of respondents highlighted that the IASB's had not taken into account the business model of co-operative entities and that the "amount feature" could be problematic for those currently applying IFRIC 2. These respondents considered that use of the "amount feature" would place a large question mark upon the equity classification of cooperative member shares and member certificates. This is because the "amount feature" does not take into account the way in which members participate in the capital of the cooperative. Some of these respondents welcomed EFRAG suggestion that IASB should take the opportunity to integrate IFRIC 2 in IAS 32 and considered that the IASB should clearly state that current application of IFRIC 2 would override the IASB new approach. The IASB has already

addressed these concerns to some extent by proposing that the conclusions in IFRIC 2 should be carried forward.

39 Finally, respondents provided some suggestions related to the amount feature:

(a) instead of referring to an ‘unavoidable obligation to transfer economic resources’, the IASB could refer to ‘no practical ability to avoid a transfer of economic resource’ which would bring in the concept of economic compulsion;

(b) the IASB could make some targeted improvements in IAS 33 *Earnings per Share* to tackle issues related to the ‘amount’ feature;

(c) the IASB’s definition of a liability could be amended to only refer to a “specified time other than at liquidation”;

(d) the amount criteria may be more relevant for presentation purposes; and

(e) only use the timing feature for classification and not use the amount feature.

40 On the timing feature, some respondents also highlighted some concerns:

(a) the DP does not define or clarify the term “liquidation”; and

(b) the IASB does not explain how the liquidation scenario should be understood under a resolution mechanism.

41 Finally, some respondents considered that the IASB needed to make a comprehensive analysis of the impact of its proposals before deciding whether to make such fundamental changes to avoid any unintended consequences, in particular for capital instruments issued by European banks according to requirements in CRR1 (e.g. additional tier 1 capital instruments).

Sections 3 to 5 – Classification of derivatives and non-derivatives

<u>Question to constituents on classification changes</u>

42 Many respondents highlighted that the IASB’s preferred approach introduced significant classification changes and questioned their relevance. For example, respondents:

(a) noted that the IASB’s preferred approach puts into question undisputed classifications with potentially detrimental effects on regulatory capital;

(b) questioned the relevance of classifying claims with cumulative features as financial liabilities as an entity does not have to pay other than at liquidation and users have not called for such a classification;

(c) noted that some hybrid instruments would be reclassified from equity to financial liabilities with knock-on consequences such as measuring those instruments at fair value through profit or loss;

(d) considered that the classification outcomes and the accounting for financial instruments under the IASB’s preferred approach were more complex and difficult to understand when compared to IAS 32, particularly for derivatives on own equity;

(e) questioned whether the removal of the foreign exchange rights issue exception would result in more useful information and suggested that the IASB should either consider keeping the exception or rework its preferred approach; and

(f) questioned the classification of claims that have cumulative features as a financial liability as an entity does not have to pay other than at liquidation and users have not called for such a classification.

43 Some respondents expressed significant concerns about the impact of the classification changes proposed by the IASB. For example, respondents highlighted that with the IASB approach:

(a) entities would no longer be able to account for billions of hybrid capital as equity. This would significantly reduce company's solvency ratio and could trigger the accounting call feature that exists in many hybrids. In addition, the opportunity to redeem outstanding hybrid capital could potentially inflict losses to investors. Finally, it could also lead to higher cost of capital either due to higher interest rates on debt in general or due to higher coupon on the hybrids when refinanced into hybrid structures to make it compliant with the new equity classification requirements. This respondent believed that the challenges identified by the IASB could be resolved with more informative disclosures without creating unnecessary costs and complexity; and

(b) analyses of data extracted from Bloomberg showing that perpetual subordinated bonds that allow issuers to defer coupon payments indefinitely (as a part of such hybrid capital claims) with a minimum notional amount of 120 billion euros outstanding in total are expected to change their classification. These claims are currently classified as equity under IAS 32 and have been issued in European and Non-European countries by entities with equity and/or debt instruments listed on a regulated market. This respondent expected that the total amount of claims that will change their classification to be significantly higher as, for example, comparable bonds issued via local or private placements are not considered in the numbers above.

44 Respondents also mentioned other classification changes not included in the DP:

(a) a preference share that is callable by the issuer would have similar treatment to an irredeemable non-cumulative preference share that requires a fixed amount to be paid at liquidation i.e. the classification outcome would change from equity to a liability under the preferred approach; and

(b) the classification of "savings shares" would change as these type of shares generally grant a higher dividend and have a lower seniority on liquidation than ordinary shares. Under the IASB's preferred approach, saving shares may be compound instruments, because these instruments may require a fixed amount to be paid on liquidation, even though the present value of this liability would be not material. It is possible that the value of the liability would change if a going concern issue arises.

45 Finally, there were mixed views on whether accounting within equity for a written put option on own shares that is issued together with ordinary shares is the same as accounting for a convertible bond. Some supported the IASB's proposals, others were against them arguing that to account for put options on own shares and convertible bonds identically appears more arbitrary and less relevant than current accounting.

Question to constituents on most common FICE instruments

46 Many respondents referred to instruments with contingent settlement options such as financial instruments that are mandatorily convertible into a variable number of shares or written down upon a contingent 'non-viability' event (e.g. additional Tier 1 instruments). Respondents also referred to non-cumulative perpetual bonds, convertible bonds and NCI puts.

47 Some these respondents indicated that currently there is uncertainty and diversity in practice on the classification of such instruments and considered that with the IASB's preferred approach, uncertainty would continue to exist. These respondents recommended clearer guidance for such instruments.

48 Some respondents also considered that the IASB would need to provide additional guidance for compound instruments and NCI puts, including the recognition and measurement in separate financial statements. In particular, these respondents considered that the IASB needed to further discuss the application issues that arise in the consolidated financial statements, such as the profit allocation to NCI once the NCI has been derecognised and the impact on earnings per share.

<u>Question to constituents on derivatives on own equity under IFRS 9</u>

49 In general, respondents did not support EFRAG's suggestion to account for all derivatives on own equity under IFRS 9. In contrast, one respondent considered that derivatives on own shares which were not used for issuing or repurchasing equity from a long-term perspective would warrant a standard derivative rather than equity treatment.

50 Some respondents acknowledged that accounting for all derivatives on own equity under IFRS 9 would result in simpler accounting and reduce structuring opportunities. However, some noted that such an approach:

(a) would be consistent with the proprietary perspective, rather than the entity perspective;

(b) the consequences for put options over own shares are not clear; and

(c) is inconsistent with the requirements of IFRS 2.

<u>Question to constituents on the Puttable exception</u>

51 Most respondents did not provide data as to whether the 'puttable instruments' exception and the 'obligations arising on liquidation' exception are used in their jurisdiction. Nonetheless, some respondents noted that:

(a) in Norway the exemption was mainly used by various investment trusts in standalone financial statements; and

(b) in Germany there were more than 390 000 entities with the legal form of a partnership where the shares are redeemable.

52 When referring to the relevance of the exception, many respondents were in favour of retaining the exceptions in paragraphs 16A–16B or 16C–16D of IAS 32. One respondent suggested that the IASB may wish to consider a more consistent and principles-based solution in the future. Another respondent noticed that in Germany the puttable exception is highly relevant and appears to be working as intended. However, many partnerships are failing to meet some of the criteria necessary to qualify for the exception and are either trying to tap the unregulated market instead of the regulated market (in order to avoid having to prepare IFRS financial statements) or seeking to a qualified audit opinion (i.e. they do not apply IAS 32).

53 In contrast, one respondent disagreed with the decision to retain the existing exceptions to the main principles in the standard as such exceptions would increase the complexity and reduce the usefulness of a revised IAS 32. For the same reason, this respondent agreed with the proposal to remove the foreign currency rights issue exception.

Section 6 - Presentation

54 As mentioned above, many respondents were more supportive of targeted improvements to current requirements in IAS 32, including presentation requirements. Some of these respondents considered the DP already identified some solutions which could be a good basis for further discussions.

<u>Presentation of financial liabilities</u>

55 When referring explicitly to the IASB's proposals to separately present liabilities with equity-like returns, respondents provided mixed views. Some respondents were

supportive of the IASB's suggestions to separately present financial liabilities with equity-like return. These respondents argued that:

(a) such an approach would be consistent with the presentation of gains and losses arising from changes in own credit risk of financial liabilities designated as measured at fair value through profit or loss under IFRS 9; and

(b) separate presentation of liabilities that behave like ordinary shares in OCI (without recycling) appears appropriate as these effects are not indicators of the entity's performance.

56 However, some of these respondents suggested that the IASB should:

(a) clearly identify all the financial instruments, which currently lead to counter-intuitive accounting under IFRS Standards;

(b) further investigate the scope of the separate presentation requirements for financial liabilities;

(c) present liabilities in order of priority within subtotals;

(d) not proceed with the disaggregation approach nor the separation of all embedded derivatives from their host contracts;

(e) recycle gains or losses from OCI to profit or loss; and

(f) separately present information about financial liabilities with equity-like return in the disclosures rather than on the face of primary financial statements.

57 In contrast, a number of respondents did not support of the IASB's proposal. These respondents argued that:

(a) separate presentation requirements for liabilities with equity-like returns may seem appealing from a user perspective, but in practice this will often be very difficult and judgemental and is not likely to provide useful information;

(b) there were conceptual concerns around the use of OCI but also practical concerns such as the fact that users do not often look at OCI and OCI is usually full of items that are difficult to understand;

(c) there are also concerns around the concept of recyclability of OCI reserves; and

(d) the IASB was not striking the right balance between what is useful for users and the workload for the preparers.

<u>Presentation of equity</u>

58 The majority of the respondents did not support the IASB suggestion of attributing comprehensive income to different types of equity and updating their carrying amounts. Respondents argued that the attribution approach:

(a) would introduce a new, complex, costly and judgemental reporting mechanism involving fair value of equity items with a questionable added value;

(b) would not necessarily reflect the entire effect of the transfer of wealth between existing shareholders and potential shareholders as there are financial instruments that are settled with own equity but are accounted for as liabilities in their entirety; and

(c) introduces a complicated analysis of reserves for all entities based on IAS 33, which currently only applies to listed entities.

59 Some of these respondents suggested that the IASB should review IAS 33 and provide information about dilution through disclosures, rather than introducing specific presentation requirements in equity.

60 In contrast, one respondent supported considering the attribution mechanism and encouraged EFRAG to support such a development even though it is experimental thinking at this stage.

Section 7 - Disclosures

61 As mentioned above, many respondents were more supportive of targeted improvements to current requirements in IAS 32, including disclosure requirements. Some of these respondents considered the DP already identified some solutions which could be a good basis for further discussions.

62 When referring explicitly to the IASB proposals on disclosures, respondents provided mixed views. Many respondents were supportive of some or all of the proposed disclosures. These respondents considered that:

(a) the suggestion of additional disclosures on the terms and conditions of financial instruments has some merit;

(b) improved disclosure on areas of significant judgement could be explored further;

(c) additional guidance on how to deal with contingent settlement options and the order in which to analyse components could represent an improvement to IAS 32;

(d) issues with financial instruments with alternative settlement outcomes that are controlled by the entity could be resolved by disclosures; and

(e) entities should be required to distinguish between options that may currently be exercised and those that can only be exercised at a future date.

63 Nonetheless, some of these respondents considered that providing information about priority of claims on liquidation for consolidated financial statements can be a challenging exercise, or even misleading, as typically it is the legal entity that is responsible for enter into agreements or contracts, assuming obligations. One respondent suggested the IASB to consider strengthening the disclosure requirements around terms and conditions for equity instruments in IFRS 7 to address the users' information needs.

64 In contrast, a number of respondents were not supportive of the IASB's proposals for additional disclosures. These respondents were concerned:

(a) about the incremental costs for preparers;

(b) that an entity would have to provide disclosures on priority on liquidation while reporting on a going concern basis and at a group level;

(c) that resolution may trigger conversions to equity and this can increase the complexity of such disclosures significantly;

(d) the elements requested by the IASB, such as the terms and conditions, seem to be too ambitious, especially for financial institutions that have a variety of debt and equity instruments with different levels of seniority and subordination. This may result in either reporting a too high a summary level to be useful to users or adding considerably to the length and complexity of financial statements;

(e) that any effects of potential dilution are relevant for IAS 33 requirements, thus any additional disclosure should be addressed under IAS 33.

Section 8 - Contractual terms

Economic incentives

65 A number of respondents accepted the IASB's preliminary decision to clarify that economic incentives should not be considered for classification purposes as it would raise several questions and uncertainties.

66 However, some of these respondents suggested that improving indirect obligations requirements in IAS 32, as suggested by EFRAG, could help addressing some of the issues around economic incentives. One respondent considered that the IASB should discuss whether a constructive obligation, which leads to a provision according to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, should lead to a financial liability.

The effects of law

67 Some respondents supported the IASB's preliminary view to retain the IAS 32 requirement to only consider the contractual terms of a financial instrument in the assessment of its classification. However, respondents highlighted that:

(a) there are significant practical challenges in distinguishing between rights and obligations that arise from contractual terms and those that arise from law, particularly with bail-in instruments; and

(b) IFRS 17 *Insurance Contracts* refers to specific legal issues.

68 However, some respondents were not in favour of completely ignoring the effects of the law. One other respondent considered the legal framework is particularly relevant for the classification of financial instruments settled with own equity and financial liabilities arising from agreements with governments. One of these respondents also noted that purely focusing on contractual obligations would make IAS 32 inconsistent with other standards such as IAS 37 and IFRS 15 *Revenue from Contracts with Customers*. Another respondent suggested that the IASB should clarify that the notion "contractual rights and obligations" refers to rights and obligations that arise from the existence of a contract, regardless of these rights or obligations being worded in the contract itself.

Question to constituents on IFRIC 2

69 One respondent noted that the most relevant group of entities using IFRIC 2 are financial institutions operating in the legal form of a cooperative. Although most of them are not entities with debt securities admitted to trading on a regulated market, they are under the supervision of the Banking Authority and are required to calculate their equity according to IFRS Standards. The total assets of these banking co-operatives in Germany were approximately 900 billion euros in 2017. All these entities are applying IFRIC 2.

Questions for EFRAG Board-TEG

70 Does EFRAG Board-TEG have comments on the feedback received through the comment letters?