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EFRAG Research on Equity Instruments – Research on Measurement

Measurement of Equity Instruments in some local GAAP

Objective

1 In the context of the EFRAG Research on alternative measurement bases for equity instruments, the EFRAG Secretariat has deemed that EFRAG TEG would benefit from a high-level summary of the accounting requirements in different jurisdictions.

2 The EFRAG Secretariat has therefore collected information from some European countries, the US and Japan. It should be noted that the information included in the following table is not meant to provide the full details of the requirements. In particular, local GAAP may include detailed requirements about how to determine current values, recoverable amounts or realisable value that has not been reported. We have also not specifically addressed the accounting for acquisition costs or costs for disposal.

3 We have also tried to use language similar to the one used in IFRS. However, in certain cases local GAAP use specific configurations of historical cost or current values that do not fit exactly in the IFRS definitions.

Country	**Description of the requirements of measurement and impairment.**	
European Union	*Classification*	There is a distinction between long-term and short-term investment based on the expected holding period.
	Measurement basis	The measurement basis is cost less impairment. However, Member States shall permit or require the measurement of financial instruments at fair value (FV), for those instruments where the FV can be reliably measured. Changes in FV are recognised in profit or loss, unless Member States permit or require it to be included directly in FV reserves.
	Factors	N/A
	Impairment	For long-term assets an impairment is recognised when the reduction in value is considered to be permanent.
Denmark[1]	*Classification*	There is a distinction between long-term and short-term investment based on the expected holding period in relation to impairment.
	Measurement basis	Instruments traded on an active market are measured at fair value through profit or loss (FVPL). Other instruments can be carried either at cost less impairment or FV, assuming this can be measured reliably.
	Factors	When instruments are not traded in an active market an entity can choose to measure at FV or cost
	Impairment	Long-term financial assets that are measured at cost should be written down to the recoverable amount. Short-term financial assets that are measured at cost should be written down to the net realisable value.
France	*Classification*	There is a distinction between long-term and short-term investment based on the expected holding period and purpose of the portfolio. Long-term investments can be classified as: (a) Investments held for strategic reasons (any holding exceeding 10% is presumed to qualify).

[1] The Danish Act does not operate with the term “Other Comprehensive Income” (OCI), but such value adjustments would be directly recognized in equity and positive value adjustments would be taken to a special reserve.

The Danish Act does not contain possibilities of performing FV adjustments of financial assets, including equity instruments.

		(b) Investments held to earn returns or for capital appreciation; and (c) Other investments.
	Measurement basis	Investments held for strategic reasons are carried at the lower of cost or a current value similar to an entry price; Investments held for returns or capital appreciation are carried at the lower of cost or a current value similar to a value in use; Others listed are carried at the lower of cost or the average FV of the last month. If the decrease in the market price is deemed to be unusual and temporary, the entity can offset losses with the normal unrealised gains; Others unlisted are carried at lower of cost of cost or realisable value. Short term investments are valued using the same principles as investments held for returns or capital appreciation or other investments.
	Factors	For 'Others' category measurement may be different if the investee is listed or unlisted.
	Impairment	See above.
Germany[2]	*Classification*	There is a distinction between long-term and short-term investment based on the expected holding period and the purpose in the portfolio.
	Measurement basis	Long-term assets are at the lower of cost or market value. Short-term assets can be divided in two categories: a) Held for trading (HFT) which are measured at FV less a deduction for risk; and b) Held as liquidity which are measured at the lower of cost or market value.
	Factors	For long-term assets an impairment may not be recognised when the reduction in value is considered to be temporary.
	Impairment	N/A

[2] This classification and measurement basis just apply for the Banking Industry.

Italy	*Classification*	There is a distinction between long-term and short-term investment based on the expected holding period.
	Measurement basis	Long term investments are carried at cost less impairment. Short-term investments are carried at the lower of cost or recoverable amount.
	Factors	N/A
	Impairment	For long-term assets, impairment is recognised when a loss in value is considered to be permanent. For short-term assets that are listed, the market price is the recoverable amount. Reference can be made to the year-end price or an average over a period[3]. An average over a period is preferable.
Japan	*Classification*	The distinction between long-term and short-term investment depends on the purpose in the portfolio (HFT or a category similar to available for sale (AFS).
	Measurement basis	Instruments classified as HFT are carried at FVPL. Instruments classified similar to AFS are carried at fair value through other comprehensive income (FVOCI) with recycling. If the FV is extremely difficult to obtain, the instruments are carried at cost.
	Factors	N/A
	Impairment	For AFS instruments, an entity uses judgement to recognise an impairment loss when the FV has declined significantly, unless the FV is expected to recover. However, the standard indicates that: (a) if the FV has declined more than 30% but less than 50%, the entity shall assess the recoverability; and (b) if the FV has declined more than 50%, the investment is presumed to be impaired, unless the entity can prove otherwise. If the entity assesses that the FV is expected to recover close to the original value within a year, it does not recognise an impairment loss. However, the entity cannot conclude that the value is expected to recover if any of the following has occurred:

[3] The Italian Standard mentions 'last month' average

		(a) the FV has declined significantly in the past two years, (b) the net assets of the investee are negative, and (c) the investee has incurred losses for the past two years and is expecting a loss in the next year. For instruments carried at cost, an entity shall recognise an impairment loss when the value has declined significantly, unless it can demonstrate that the decline is recoverable.
The Netherlands	*Classification*	There is a distinction between trading and strategic instruments based on the purpose in the portfolio.
	Measurement basis	Instruments held for trading are carried at FVPL. Strategic instruments in listed entities are carried either at (a) FVPL (b) FV with positive changes recognised in equity (and recycling) and negative changes recognised in PL. Strategic instruments in unlisted entities are carried at: (a) cost less impairment; (b) FVPL; (c) FV with positive changes recognised in equity (and recycling) and negative changes recognised in PL.
	Factors	There could be a different measurement when the investee is listed or unlisted.
	Impairment	
Norway	*Classification*	There is a distinction between long-term and short-term investment according to the holding period.
	Measurement basis	Instruments traded on an active market are measured at FVPL. Other long-term instruments at cost less impairment. Short-term investments are recognized at the lower of cost or FV.
	Factors	There would be a difference in measurement when the investee is listed or unlisted.

	Impairment	For long-term instruments, an impairment is recognised when the loss in value is considered to be permanent, There is guidance in accounting standard on dividends received exceeding the net result in an entity after acquisition. When receiving such dividends, and entity is required to reduce the carrying value (cost), rather than recognizing the dividend in the PL and subsequently writing down the equity interest as impaired.
Poland	*Classification*	There is a distinction between long-term and short-term investment based on the expected holding period.
	Measurement basis	The entity should choose a specific method among the ones mentioned below. For long-term investments: (a) cost less impairment loss; (b) FV with positive changes recognised in equity with recycling and negative changes recognised as financial cost. For short-term investments: (a) FV; (b) lower of purchase price and market price.
	Factors	The entity can choose and document the method in its accounting policy.
	Impairment	An impairment loss is recognised when the loss in value is determined to be permanent.
Portugal	*Classification*	N/A
	Measurement basis	Instruments where the FV can be reliably determined are carried at FVPL. Other instruments are carried at cost less impairment.
	Factors	There would be a difference in measurement when the investee is listed or unlisted.
	Impairment	Impairment should be accounted when there is an objective evidence.

Spain	*Classification*	There is a distinction between long-term and short-term investment based on the purpose of the portfolio (HFT or AFS).
	Measurement basis	Instruments classified as HFT are carried at FVPL. Instruments classified as AFS are carried at FVOCI with recycling and impairment losses recognised in PL.
	Factors	N/A
	Impairment	For instruments classified as AFS, impairment losses are recognised when there is objective evidence. The following threshold are used to assess 'significant' and 'prolonged' losses in value: (a) after a decline of a year and a half; and (b) 40% of its quoted price with no recovery in value.
Sweden	*Classification*	There is a distinction between long-term and short-term investment based on the expected holding period.
	Measurement basis	Long-term investments may be carried at: (a) cost less impairment losses; (b) FVPL; (c) FV with positive changes recognised in equity with recycling and negative changes recognised as financial cost. Short-term investments may be carried either at the lower of net realisable value or cost or FV, if this can be done reliably.
	Factors	N/A
	Impairment	For long-term assets, an impairment is recognised when the loss in value is considered to be permanent.
United Kingdom and Republic of	*Classification*	N/A

Ireland	*Measurement basis*	Instruments where the FV can be measured reliably are carried at FVPL. All other instruments are carried at cost less impairment.
	Factors	N/A
	Impairment	For instruments carried at cost, an impairment loss is recognised when there is objective evidence.
US	*Classification*	N/A
	Measurement basis	Instruments where the FV is readily determinable are carried at FVPL. Other instruments may be carried at cost less impairment. An entity may claim that the fair value is not readily determinable only for instruments at Level 3. Cost needs to be adjusted for observable price changes in orderly transactions for the identical or a similar investment of the same issuer, and the entity should make a reasonable effort to identify any observable transactions.
	Factors	N/A
	Impairment	For instruments carried at cost, an impairment loss should be recognised where there is objective evidence.