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Equity Instruments: research on measurement Issues Paper

Objective

- 1 The objective of this agenda paper is to inform EFRAG TEG on the structure and key elements of the proposed EFRAG advice to the European Commission (the 'EC') request.

Introduction

- 2 EFRAG's reply to the EC will include a comparative assessment of alternative accounting treatments to fair value measurement for long-term investment portfolios of equity and equity-type instruments and appendices related to EFRAG work on the topic (e.g. EFRAG feedback statement).

Structure and key elements of EFRAG's reply to the European Commission

- 3 EFRAG's reply to the EC is expected to have 8 Chapters that address different topics.

Section	Description
Executive Summary	
Chapter 1 – Introduction	<p>This chapter summarises:</p> <ul style="list-style-type: none"> • the accounting treatment requirements for equity instruments in IFRS Standards; • EFRAG's endorsement advice on IFRS 9 <i>Financial Instruments</i>; • the request from the EC in 2017 and EFRAG's reply to the EC in 2018; • the request from the EC in 2018; • the objective of EFRAG's advice.
Chapter 2 – Summary of survey's results	This chapter includes the executive summary of EFRAG's feedback Statement that is going to be published separately (agenda paper 10.02).

<p>Chapter 3 – Base Case: IFRS 9 <i>Financial Instruments</i></p>	<p>This chapter discusses the approach followed in IFRS 9</p> <ul style="list-style-type: none"> • the use of fair value in the statement of financial position; • the recognition of fair value changes in the statement of financial performance, including the pros and cons of: <ul style="list-style-type: none"> ○ the FVPL approach; ○ the FVOCI approach (without recycling) and • a comparison of IFRS with US GAAP
<p>Chapter 4 – Possible Alternatives</p>	<p>This chapter considers some alternative models to fair value. These include models that have been applied in practice and theoretical models. Alternative accounting treatments include:</p> <ul style="list-style-type: none"> • Historical cost less impairment; • Dual measurement model: FVOCI with recycling; • Fair value moving average: the use of a moving average of fair value to reduce market volatility; • Fair value excluding average industry volatility: account for the changes of the yield industry average in OCI and the remaining in PL; • Value in Use: Entity specific discounted cash flow model; • Modified historical cost: a model similar to the equity method or a model where historical cost is adjusted for observable market conditions; and • Revaluation model: all declines in fair value below the acquisition cost would be recognised PL and changes in fair value above the acquisition cost would be recognised in OCI (recycled on disposal). <p>In addition, this chapter considers alternative impairment approaches including those based on IFRS 9, IAS 39 and IAS 36.</p>
<p>Chapter 5 – Alternatives suggested by survey respondents</p>	<p>As referred to in summary in chapter 2, respondents were also given the opportunity to suggest new alternatives apart from the ones mentioned in the survey. This chapter considers such alternatives.</p>
<p>Chapter 6 – Equity-Type Instruments</p>	<p>If an alternative accounting treatment was also to be applied to ‘equity-type’ instruments, then ‘equity-type’ would need to be defined. This chapter considers possible definitions of ‘equity-type’ and whether the models identified in the report could be applied to such instruments.</p>
<p>Chapter 8 - Conclusion</p>	<p>This chapter includes a summary of the key characteristics of the different approaches identified in the report. The alternative accounting treatments are compared against</p>

	some factors and criteria such as relevance, reliability and operability.
Appendix 1 – Summary of Previous Research	This appendix provides a detailed summary of EFRAG's previous research on the classification of equity instruments.
Appendix 2 – Feedback Statement on EFRAG's public Consultation	This chapter will include EFRAG's feedback Statement that is going to be published separately.

Questions for EFRAG TEG

- 4 Do EFRAG TEG members have comments on the structure and key elements of EFRAG reply to the European Commission request?