

25 May 2018

EFRAG
35 Square de Meeûs
B-1000 Brussels
Belgium

Dear Sirs

EFRAG Discussion Paper on Equity Instruments - Impairment and Recycling

We appreciate the opportunity to comment on the Discussion Paper ("DP") on Equity Instruments - Impairment and Recycling issued by EFRAG in March 2018.

1. Existing FVPL and FVOCI measurement categories for equity instruments under IFRS 9 does not reflect the business model of a long term investor

We are a long term investment company that aims to deliver sustainable shareholder value over the long term. Our investments are primarily in equity instruments and we take a long term view of our investments based on their underlying fundamentals. While mark-to-market ("MTM") value gives an indication of realisable value at each reporting date, the actual performance of each investment is determined when a disposal occurs. Hence, it is important that preparers of financial statements provide relevant information that distinguishes unrealised MTM fair value movements as well as the crystallised gains/loss of investments in profit and loss statement to reflect faithfully their financial performance.

We are of the view that the current 2 measurement categories (FVPL and FVOCI) for equity instruments under IFRS 9 do not reflect the business models of long term investors. The current measurement model of FVPL creates significant profit and loss volatility and makes no distinction between unrealised MTM and realised performance. The alternative measurement option to FVOCI equity instruments with no recycling to profit and loss upon disposal also significantly distorts the financial performance of a long term investor. Both measurement category does not reflect business model of a long term investor and does not provide useful information to users of financial statements.

2. FVOCI with recycling to profit and loss for equity instruments is a relevant measure for long term investor

For equity investments that are not held for trading but to maximize returns from a combination of collecting cash flows (dividend income) and realising value appreciation through sale, FVOCI measurement category with recycling to profit or loss upon disposal would be appropriate for the following reasons:-

- the balance sheet reflects a snapshot of the fair value of the underlying financial assets;
- OCI reflects the unrealised fair value gains/losses at the date of each reporting period; and
- profit or loss account reflects the crystallised profit or loss at the point of realisation.

3. Our view on IASB's decision to prohibit FVOCI with recycling to profit and loss for equity instruments under IFRS 9

We noted that the IASB's decision to prohibit FVOCI with recycling to profit or loss for equity investments was mainly due to 2 reasons:

(1) Gain or loss should only be recognised once

The IASB believed that a gain or loss should be recognised only once; therefore recognising a gain or loss in OCI and subsequently transferring it to profit or loss is inappropriate.

We believe there is no merit to the IASB's argument as it is inconsistent with

- the FVOCI measurement for qualifying debt instruments under IFRS 9 *Financial Instruments*; and
- the treatment of foreign currency translation reserves under IAS 21 *The Effects of Changes in Foreign Exchange Rates*,

both of which require gains and losses recognised in OCI to be recycled to profit or loss upon disposal.

(2) Impairment application problems under IAS 39

We are of the view that one of the causes of the impairment application problems under IAS 39 was the subjectivity in applying the "significant or prolonged" criteria.

We welcome EFRAG efforts to address the thresholds used for "significant or prolonged" to make the impairment model under IAS 39 less subjective. In this respect, we are of the view that the IFRS Standard should remain principles-based and not prescribe specific quantitative thresholds for "significant" and "prolonged". There could be genuine reasons for divergence in thresholds used, for example, different characteristics of the equity investments and different holding periods of the investors. Allowing the reporting entity to make a judgement as to the appropriate threshold, even within a pre-determined range, may improve relevance.

We believe that improving the impairment model under IAS 39 to accompany the measurement of equity instruments at FVOCI with recycling would result in a conceptually superior measurement model compared to one that neither requires impairment nor permit recycling upon disposal.

Conclusion

In summary, we are of the view that the current 2 measurement categories (FVPL and FVOCI) for equity instruments under IFRS 9 do not reflect the business models of long term investors.

We propose to:

- (1) Reintroduce the recycling of cumulative fair value gains/losses into profit or loss on disposal of equity instruments carried at FVOCI; and
- (2) Modify the impairment model under IAS 39 to accompany the measurement of equity instruments at FVOCI with recycling.

TEMASEK

The distinction between unrealised and realised fair value gains/losses of financial assets is a very important one in the context of a long term investor and the usefulness of the financial statements to its users.

The above proposals provide a measurement category that better reflect the business model and financial performance for a long term investment company.

Should you have any questions concerning our comments, please contact undersigned at 65-68286533 or Grace Goh at 65-68286768 and we would be pleased to discuss further.

Yours faithfully



LEONG WAI LENG
Chief Financial Officer