DANSKE
REVISORER
FSR*

EFRAG – European Financial Reporting Advisory Group
35 Square de Meeûs
B-1000 Brussels
Belgium
Att.: Mr. Jean-Paul Gauzes, President of EFRAG, and
Mr. Filippo Poli, Research Director

Submitted through the EFRAG website

25 May 2018

FSR – danske **revisorer**
Kronprinsessegade 8
DK - 1306 København K

Telefon +45 3393 9191
fsr@fsr.dk
www.fsr.dk

CVR. 55 09 72 16
Danske Bank
Reg. 4183
Konto nr. 2500102295

Dear Sirs,

EFRAG Discussion Paper: Equity Instruments – Impairment Recycling

The Danish Accounting Standards Committee (DASC) set up by FSR – Danish Auditors has considered EFRAG's Discussion Paper in its May meeting.

Our comments comprise this cover letter setting out our overall comments and observations setting the direction for our responses to the detailed questions. Therefore, our comments in this cover letter convey just as important messages as do our responses to the specific questions in the Discussion Paper.

Generally, we support the use of IFRS for the consolidated financial statements of European listed companies. We firmly believe IFRS must remain the financial reporting language for listed companies in Europe without any modifications. To us, IFRS mean IFRS as issued by IASB and endorsed by EU with no modification (carve-ins or carve-outs).

Therefore if, as a result of this discussion, it is concluded that modification to the present version of IFRS 9 is warranted, we only support such modifications if initiated by the IASB.

Before any potential modifications are made, we note that we have not seen any convincing evidence that IFRS 9 will affect long-term investors' behavior concerning the holding of long-term equity instruments. In DASC's view, any modification of IFRS 9 should be supported by convincing evidence that IFRS 9 does in fact change the long-term behavior of investors.

It should also be considered that many entities have only started applying IFRS 9 in their 2018 financial statements including interims. It is still early days for IFRS 9 and in our view much too early to make any assumptions about how practice with IFRS 9 will evolve. We, therefore, recommend that it is observed how practice with IFRS 9 evolves and that any potential issues identified, including impairment and recycling, are considered as part of the IFRS 9 Post-Implementation Review.

Generally, we support to measure equity instruments under IFRS 9 at fair value with all movements recognised in profit and loss (FVPL), and we do so for conceptual reasons. We also hold the view that if one measurement method is preferred for the Statement of Financial Position (SOFP), it should be the same measurement method in the Profit and Loss (PL). Therefore, in the context of the latest update of the Conceptual Framework, DASC also raised questions about the technical legitimacy of the OCI concept. DASC has requested further guidelines in the Conceptual Framework for the identification of OCI transactions, and furthermore what criteria to be met for a later recycling from OCI to PL.
We acknowledge that the model fair value through other comprehensive income (FVOCI) was inserted into IFRS 9 by the IASB to cater for strategic investments as it was not possible to agree on a sufficiently robust definition following discussions with particularly one industry, being insurance.

It strikes us as very peculiar if all other IFRS companies across all other industries should accept potentially more burdensome requirements as a result of a potential change. To illustrate: If the outcome would be introduction of a model similar to IAS 39 available-for-sale model, it would reintroduce the defects of this model, especially the interpretation of the "significant" and "prolonged" criteria.

If the insurance industry finds the FVOCI model problematic to their business model, we suggest that it be dealt with in IFRS 17, a standard specifically directed towards insurance industry so that all other industries remain unaffected.

Even if it might be politically difficult to get into IFRS 9, our preference for measurement of all equity instruments is at fair value through profit and loss (FVPL). We accepted FVOCI because it was inserted by IASB.

Having said this, we find it important to contribute to the discussion which has been initiated by the European Commission. Therefore, explaining how we see the best solution as long as the FVPL is not achievable is our contribution to the debate and not arguing for a change per se.

If you have any questions and comments, please do not hesitate to contact the undersigned.

Kind regards

Jan Peter Larsen

Member of the Danish Accounting Standards Committee

Ole Steen Jørgensen

Chief Consultant

Q1.1 What are your views on the arguments presented in paragraphs 2.3 – 2.10? Do you consider that the reintroduction of recycling would improve the depiction of the financial performance of long-term investors? Alternatively, do you consider that the existing requirements of IFRS 9 provide an adequate depiction? Please explain.

The arguments presented in paragraphs 2.3 – 2.10 capture well some pros and cons of fair value measurement.

At the outset, the Danish Accounting Standards Committee holds the view that if fair value measurement is perceived relevant/appropriate for the Statement of Financial Position, then the same must apply for the Statement of Comprehensive Income. Hence, in the view of DASC, the model with all financial instruments at fair value through profit and loss is the best model seen from a conceptual point of view. However, we acknowledge that it might be politically difficult to get this into IFRS 9.

With this in mind, we also recognise that there is continuously debate and concern over fair value measurements in the income statement and, therefore, the concept of OCI was introduced. We accepted this insertion because it was made by the IASB. We believe that IFRS should remain the reporting language in Europe and that IFRS mean IFRS as issued by IASB and endorsed by EU with no modification (carve-ins or carve-outs).

We support the present IFRS 9 requirements with an option to use fair value through profit and loss or fair value through other comprehensive income (without recycling).

Having said that in general, there can be arguments for recycling or not based on a view of what performance means and how best to reflect it. Should IFRS 9 be reopened by the IASB, we have sympathy for recycling, because performance in our view consists of unrealised fair value movements during the ownership period and realised gain or loss on disposal.

Q2.1 What are your views on the arguments presented in paragraphs 2.11 – 2.17? Do you consider that, from a conceptual standpoint, recycling should be accompanied by some form of impairment model? Please explain*.*

First, we observe that the concept of recycling has - in our view - never been explained and how it fits conceptually in IFRS. A clear evidence that the concept is not well explained within IFRS is that movements in fair value of financial instruments are recycled and movements in pension liabilities actuarial assumptions are not. Conceptually, this is difficult to understand and justify.

The Danish Accounting Standards Committee holds the general view from a conceptual viewpoint that recycling should be accompanied by some form of impairment model. In respect of equity instruments this view is based on our presumption that for the time being, it does not appear possible to introduce a fair value through profit and loss requirement for all financial instruments. In such a situation, the Danish Accounting Standards Committee finds it important to arrive at a model as close to fair value through profit and loss as possible.

While FVPL is our preferred model, we may under the circumstances be persuaded to support a model of fair value through other comprehensive income with recycling, but no impairment if a justification and the technical rationale can be found. We reiterate, however, that we can only accept a change to the model if inserted by the IASB.

Q3.1 What are your views on the arguments and analysis presented in Chapter 3 of the DP?
Q3.2 Are there other improvements in presentation and disclosure that you would support?
The Danish Accounting Standards Committee believes that information which can be determined reliably and therefore recognised in the financial statements is more useful to investors than the situation of not recognising the information because of disagreement as to where it should be recognised.

We do not think that disclosure should be a substitute for not recognising reliable information or explaining why the information is recognised in another statement than where similar transactions, instruments etc. are recognised.

Disclosure is appropriate to explain things such as measurement uncertainty or the like in connection with the recognition of items in either Income Statement or in Statement of Other Comprehensive Income.

Q4.1 What should be, in your view, the general objective and main features of a robust model for equity instruments (relevance, reliability, comparability...)?
Q4.2 Which, if either, of the two models do you prefer? Please explain.
Q4.3 Do you have suggestions for a model other than those presented in the DP? If so, please describe it and explain why it would meet characteristics such as relevance, reliability and comparability.
The Danish Accounting Standards Committee believes that a robust model for equity instruments requires the main features to be those mentioned i.e.

- Relevance – reflecting the accounting outcome of investments in equity instruments.
- Reliability – impairment calculated on a reliable basis.
- Comparability – that it is clear across entities when to recognize impairment charges.

We reiterate that the Danish Accounting Standards Committee does not see a need for changes to the FVOCI model currently in IFRS 9. However, to contribute to the debate we think that in case of a change to the FVOCI model in IFRS 9 it must be inserted by the IASB and be in the direction of a model that has fair value through other comprehensive income with impairment in the income statement and recycling of cumulated gains and losses at disposal.

An impairment model similar to that of IAS 39 needs to have less subjectivity and may be with quantitative triggers. We, therefore, believe the term "significant or prolonged" should be deleted and impairment to be evaluated regardless of size and time.

Q5.1 Do you support the inclusion of quantitative impairment triggers in an impairment model? If so, should an IFRS Standard specify the triggers, or should management determine them?
Q5.2 If you do not support quantitative impairment triggers, how would you ensure comparability across entities and over time?
We reiterate that the Danish Accounting Standards Committee does not see the need for changes to the FVOCI model currently in IFRS 9. However, to contribute to the debate we think that history has proven that qualitative impairment triggers such as "significant or prolonged" are difficult. Therefore, an impairment model inserted by the IASB needs to be refined by the IASB and we will be willing support some sort of quantitative triggers introduced by IASB based on the right arguments and technical justification.

Q6.1 How should subsequent recoveries in fair values be accounted for? Please explain.
Q6.2 If subsequent recoveries in fair values are recognised in profit or loss, which of the approaches in paragraphs 5.2 – 5.10 do you support and why?
In our view, these should be reflected as closely as possible to the way impairment losses on other assets are accounted for. We do not see the need for changes to IFRS 9. However, to contribute to the debate we prefer a model where all reversals of impairments are recognised in the income statement.

The objective of an impairment model would be to capture significant downwards movements in the value of an entity's equity investments. If the conditions for an impairment loss change at a later stage because conditions for the impairment loss no longer apply, we think recognising subsequent recoveries in profit and loss is conceptually acceptable and consistent with the principles of other IFRS (goodwill excluded).

Q7.1 Do you consider that the same model should apply to all equity instruments carried under the fair value through other comprehensive income election? If not, why not and how would you objectively identify different portfolios?
Q7.2 Do you have comments on these other considerations?
Q7.3 Are there other aspects that EFRAG should consider?
Yes, we consider that the same model should apply to all equity instruments carried at the fair value through other comprehensive income election and that clear explanation of the business model in the notes is a way to explain to users of the financial statements what impact and consequences the accounting requirements have on the business.

Q8.1 Are there other aspects of IFRS 9's requirements on accounting for holdings of equity instruments, in addition to those considered in the DP, which in your view are relevant to the depiction of the financial performance of long-term investors? Please explain.

We do not have any other accounting issues concerning equity instruments to bring to your attention at this stage.