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EFRAG Board
Jean-Paul Gauzès
35 Square de Meeûs
B-1 000 Bruxelles
Belgium

La Défense, May 30, 2018

Re: EFRAG's discussion paper on "*Equity instrument – Impairment and recycling*"

Dear Mr Gauzès,

MAZARS is pleased to comment on the EFRAG Discussion Paper "*Equity instrument – Impairment and recycling*".

Mazars welcomes the European Commission's request and supports EFRAG's approach and the work performed. Indeed, long term investment is a critical matter for the sustainable development of Europe's economy. IFRS 9 introduced major changes to the accounting treatment of Equity instruments that could have significant impacts on investors' behavior.

EFRAG's quantitative study was performed in 2017 before the mandatory application of IFRS 9. The new requirements will even be deferred by most insurance companies to 2021. Whilst we welcome the European initiative we consider that it occurred too early for sufficiently relevant data to be obtained in order to be able to reach any conclusive analysis.

We recommend that this topic be followed up upon once IFRS 9 has been applied, for example during the Post Implementation Review of IFRS 9.

Our recommendation above is explained by the fact that the opportunity to re-introduce a recycling mechanism for equity instruments measured at FV-OCI is a non-consensual issue.

Some consider that the reintroduction of a recycling mechanism upon the realisation of a gain or loss provides a better depiction of the actual performance of management and is therefore useful to the users of financial statements. Indeed unrealised gains or losses based on an IFRS 13 fair value measurement may provide different information than the actual selling price of an asset. This is particularly true for non-listed or illiquid instruments. The sale of an asset is an actual management decision that has actual impacts on the performance of the investment portfolio which need to be reflected in the P&L. Proponents of this view do not consider that recycling triggers complexity as users have been familiar with the IAS 39 Available for sale category for 13 years in Europe so that its mechanism is now well

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understood. Moreover, they do not see any conceptual reason for having an OCI recycling mechanism for debt instruments and not for equity instruments.

Others consider that information about realised vs unrealised gains or losses could be usefully provided in the notes, but that the change in value of an equity instrument is to be recorded in comprehensive income only once. Proponents of this view also have concerns as regards the opportunities of P&L monitoring that a recycling approach would reintroduce in IFRS 9.

However, should the recycling mechanism be reintroduced, we consider that it needs to be accompanied by an impairment model. Most IFRS measurement methods that lead to an impact in P&L upon de-recognition of an asset are accompanied by an impairment mechanism and we see no conceptual reason to not do so for equity instruments.

We consider that relevance is the main feature of a robust model for equity instruments together with reliability. Theoretically this assumption should lead us to favour the IAS 39 impairment model to the re-evaluation approach. However experience has proven that the IAS 39 "significant or prolonged" approach failed to be effective due to the wide range of thresholds retained. We therefore consider the re-evaluation model as an interesting alternative approach as it is not only simple to implement and easy to understand, but is also affords comparability across entities.

A complementary approach could be to investigate the need for a dedicated standard if specific business models can be identified. Indeed, the IFRS 9 framework comes with specific constraints such as the unit of account that may not be easy to match with the diversity of long term investment strategies. It may be easier to depict the actual performance of specific long term business models under a specific standard. This could be solution, for example, to try to better depict the link between assets and liabilities, or a performance assessment at a portfolio level rather than at an asset by asset level.

Our detailed comments on the questions raised by the DP are set out in the Appendix.

Should you have any questions regarding our comments, please do not hesitate to contact Michel Barbet-Massin (+33 1 49 97 62 27) or Edouard Fossat (+33 1 49 97 65 92).

Yours faithfully

Michel Barbet-Massin **Edouard Fossat**

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Appendix – EFRAG's questions to constituents

Q1.1. What are your view on the arguments presented in paragraph 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 opportunity to re-introduce a recycling mechanism for equity instruments measured at FV-OCI is a non-consensual issue.

Some consider that the reintroduction of a recycling mechanism upon the realisation of a gain or loss provides a better depiction of the actual performance of management and is therefore useful to the users of financial statements. Indeed unrealised gains or losses based on an IFRS 13 fair value measurement may provide different information than the actual selling price of an asset. This is particularly true for non-listed or illiquid instruments. The sale of an asset is an actual management decision that has actual impacts on the performance of the investment portfolio which need to be reflected in the P&L. Proponents of this view do not consider that recycling triggers complexity as users have been familiar with the IAS 39 Available for sale category for 13 years in Europe so that its mechanism is now well understood. Moreover, they do not see any conceptual reason for having an OCI recycling mechanism for debt instruments and not for equity instruments.

Others consider that information about realised vs unrealised gains or losses could be usefully provided in the notes, but that the change in value of an equity instrument is to be recorded in comprehensive income only once. Proponents of this view also have concerns as regards the opportunities of P&L monitoring that a recycling approach would reintroduce in IFRS 9.

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

From a conceptual point of view we support the proposal that recycling needs to be accompanied by a strong impairment model in order to reach consistent application of such a proposal. Most IFRS measurement methods that lead to an impact in P&L upon de-recognition of an asset are accompanied by an impairment mechanism, and we see no conceptual reason for creating an exception for equity instruments.

Impairment would also be a way to address, at least partially, the concerns raised on the potential P&L monitoring opportunity that the recycling approach introduces. Indeed, thanks to a robust impairment mechanism, an entity could not avoid the recognition of a loss simply by avoiding the derecognition of the asset.

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?

We are convinced that, whatever the model retained, it needs to be accompanied by relevant information in the Notes as a complement. However, in our view, critical information about performance should be presented in the P&L. Therefore if the distinction between realised and unrealised gains and losses is considered to be useful to users, it would not be sufficient to simply provide a mention in the notes. We consider it should be recorded in the P&L of the period.

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.

Q5.1. Do you support the inclusion of quantitative 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 consider that relevance is the main feature of a robust model for equity instruments together with reliability.

Theoretically this assumption should lead us to favour the IAS 39 impairment model to the re-evaluation approach. However experience has proven that the IAS 39 "significant or prolonged" approach failed to be effective due to the wide range of thresholds retained.

If it were retained, such an approach would have to be accompanied by the use of a backstop trigger together with the introduction of an impairment reversal process. These mechanisms would probably help minimise implementation diversity but it would reduce the relevance benefit of the approach as well.

We therefore consider that the re-evaluation model is an interesting alternative approach as it is not only simple to implement and easy to understand but it also affords comparability across entities.

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?

Whatever the model, we would recommend to account for any subsequent increase in value as an impairment reversal. This accounting treatment would be conceptually sound and consistent with the principles of most other IFRS standards.

In our view, the non-reversal feature of the IAS 39 impairment model for equity instruments was one of the factors that led the entities to define such a wide range of thresholds.

Q7.1. Do you consider that the same model should apply to all equity instruments carried under the FVOCI 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?

We would favour having one single approach for impairment of FV-OCI equity instruments within IFRS 9. However, the diversity of long-term investments may trigger the necessity to investigate the need for a dedicated standard if specific business models can be identified. Indeed, the IFRS 9 framework comes with specific constraints such as the unit of account. It may be easier to depict the actual performance of specific long term business models under a specific standard. This could be solution to try to better depict the link between assets and liabilities, or a performance assessment at a portfolio level rather than at an asset by asset level.

Q8.1. Are there other aspects of IFRS9'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.

Long term investments in equity exposure can be made either directly or indirectly through UCITS or Alternative investment funds. A global assessment of the impact of IFRS 9 on equity investments should probably take into consideration the impact on indirect equity investments as well.

Indeed, usually UCITS shares do not meet the IAS 32 definition of equity instrument and therefore cannot benefit from the same accounting treatment as direct investment in equity instrument. This issue is in close interaction with the current IASB FICE project.