European Financial Reporting Advisory Group
35 Square de Meeûs B-1000
Brussels Belgium

12th June 2018

Dear members of EFRAG

Discussion paper: Equity Instruments – Impairment and recycling

The Corporate Reporting Users' Forum welcomes the opportunity to comment on the Discussion Paper, *Equity Instruments – Impairment and recycling* (the "DP"), issued by the European Financial Reporting Advisory Group (EFRAG) in March 2018. As always, this letter represents the views of the signatories; the CRUF generally does not seek to form a consensus. All signatories are signing in a personal capacity.

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 majority of CRUF Europe participants believe that the act of realisation of a gain or a loss does not change the economic reality of the performance of the business. The gain or loss has accrued over the holding period and if the fair value movement has been recognised through OCI, as a result of an election by management, then there is no need to recycle the movement through P&L in order to correctly reflect performance in the financial year when realisation took place. We tend to agree with the article written by Sue Lloyd of the IASB in which she explained that the intent for the FVOCI election was to reflect holdings for strategic investments and concur that this would be the best reason for election for FVOCI. We believe that management of long term investment businesses and investors in long term investment businesses fully appreciate that volatility in fair values is a "normal" reality over accounting periods and there is no need to "smooth earnings" to depict performance. Management should instead be focused on communicating the reasons for movement in shareholder equity linking performance back to underlying movements in fair value.

Based on the above, we see little reason to believe that recycling would allow a better depiction of the financial performance of long term investors. IFRS 9 is perfectly adequate if it is complemented by well written commentary from management which explains any volatility which is a true reflection of the business model.

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.

This topic opens up the whole issue of the use of OCI and whether all gains and losses should flow through P&L at some point. It is CRUF's view that OCI has been arrived at as a compromise to allow the P&L to reflect performance within a single accounting period and, except for short term cash flow hedges, we have never been convinced of the need for recycling as items passing through OCI tend to be volatile and not descriptive of the earnings power of a business measured over an individual year. If realised gains and losses are to be recycled then inevitably we believe impairment should also qualify for recycling to ensure a prudent display of performance. Many CRUF participants queried whether EFRAG should evaluate whether pension deficits which have arisen as a result of actuarial differences charged directly through OCI should, at some stage, be recycled as the economic cost is real and as schemes tend to convert to defined contribution then those losses will ultimately be realised.

Q3.2 Are there other improvements in presentation and disclosure that you would support?

The answer to Question 1 above references the need for management to improve disclosure and commentary about the performance of equity fair values from one period to the next. One could imagine disclosures for listed equities which split out equity portfolios by benchmark cohort so that users could understand relative performance of the portfolio with a clear explanation about why performance was above or below benchmark. Where holdings are material on their own then a discussion about the reason for the increase or fall in the share price would also be instructive. Private equity holdings can also have much better disclosure with focus on performance by portfolio type and basis for valuation assessment. There are many private equity groups which produce commentary and analysis of their portfolio valuations and, where material, similar disclosures could be adopted by insurers, banks or other entities with unlisted holdings.

In addition to above, some CRUF participants have argued the post implementation review of the standard should examine in particular whether information value would be improved if full reconciliation (similar to level 3 disclosure) is extended to level 2 categories. This would provide a consistent place for management to communicate “realised” and “unrealised” movement in reporting periods; and enhance transparency and comparability for users.

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.

We do not support a recycling and impairment model and generally prefer FVPL for all equity investments as the default. We see little merit to either model to determine how to account for falls in fair value.

Q5.2 If you do not support quantitative impairment triggers, how would you ensure comparability across entities and over time?

We do not support a recycling and impairment model and therefore triggers are not relevant to our preferred form of accounting. As a general observation, we prefer principles rather than numerical triggers for any accounting.

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?

We do not support a recycling and impairment model and therefore considerations of what happens in a recovery are not relevant to our preferred form of accounting.

Q7.3 Are there other aspects that EFRAG should consider?

We have not considered these questions as we do not consider changes to be desirable in this area.

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 would encourage management of businesses with long term investments to improve disclosures about the total return achieved on their whole investment portfolio in a manner which is consistent with how other long-term investors (mutual funds, private equity portfolios, endowments etc.) report to their investors.

About the Corporate Reporting Users' Forum (CRUF)

The CRUF was set up in 2005 by users of financial reports to be an open forum for learning about and responding to the many accounting and regulatory changes that affect corporate reporting. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters and regulators. CRUF participants include buy and sell-side analysts, credit ratings analysts, fund managers and corporate governance professionals. Participants focus on equity and fixed income markets. The Forum includes individuals with global or regional responsibilities and from around the world, including Australia, Canada, France, Germany, Hong Kong, India, Japan, New Zealand, South Africa, UK and USA.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations. In our meetings around the world, we seek to explore and understand the differences in opinions of participants. The CRUF does not seek to achieve consensus views, but instead we focus on why reasonable participants can have different positions. Furthermore, it would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative. This response is a summary of the range of opinions discussed at the CRUF meetings held globally. Local country differences of opinion are noted where applicable.

Participants take part in CRUF discussions and joint representations as individuals, not as representatives of their employer organisations. Accordingly, we sign this letter in our individual capacity as participants of the Corporate Reporting Users' Forum and not as representatives of our respective organisations. The participants in the Forum that have specifically endorsed this response are listed below.

(Signatures)

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