EFRAG
European Financial Reporting Advisory Group

Olivier Guersent
Director General, Financial Stability, Financial Services and Capital Markets Union
European Commission
1049 Brussels

17 January 2018

Dear Mr Guersent,

Request for technical advice on the accounting treatment of equity instruments under IFRS 9 from a long term investment perspective (assessment phase)

On 29 May 2017, the European Commission requested EFRAG to investigate the potential effects of the requirements of IFRS 9 *Financial Instruments* on accounting for investments in equity instruments on long-term investment. In the first phase of the project ('the assessment phase'), EFRAG was asked to collect quantitative data on the current holdings of equity instruments and their accounting treatment and investigate whether, and to what extent, entities expect that the new accounting requirements will affect their decisions in relation to investment in equity instruments.

The objective of this report is to present EFRAG's findings in relation to the assessment phase of the European Commission's request. The findings are mostly based on a public consultation with European constituents and a review of a sample of annual financial statements.

If you would like to discuss our comments further, please do not hesitate to contact Filippo Poli, Ioanna Chatzieffraimidou or me.

Yours sincerely,

Jean-Paul Gauzès
President of the EFRAG Board

Contents

Chapter 1 – Background and objective of this report ... 3
The accounting requirements in IFRS 9 for equity instruments ... 3
EFRAG's endorsement advice on IFRS 9 ... 3
Request from the European Commission ... 4
Objective of this report ... 5
Executive summary ... 6
Chapter 2 – How the data can contribute to the debate ... 9
Chapter 3 – Sources of information ... 9
Public consultation ... 10
Review of annual financial statements ... 11
Chapter 4 – Findings: current holdings of equity instruments and accounting treatment ... 11
Long-term investing ... 11
Amount and classification of equity instruments ... 12
OCI balances and changes in the period ... 15
Impairment losses on equity instruments classified as AFS ... 17
Assessment of impairment losses ... 18
Disposal of equity instruments classified as AFS ... 21
Chapter 5 – Findings: anticipated effects of the requirements in IFRS 9 ... 22
What factors affect the decisions to invest in equity instruments or other classes of assets? ... 22
What factors affect the average holding period and disposal decisions? ... 23
Expected use of IFRS 9's FVOCI election ... 24
Possible effects on holding period of equity investments ... 25
Possible effects on asset allocation decisions ... 25
Other concerns ... 27
Chapter 6 – Implications for the next phase ... 27

Chapter 1 – Background and objective of this report

The accounting requirements in IFRS 9 for equity instruments

1 IFRS 9 *Financial Instruments* was issued by the International Accounting Standards Board ('IASB') in July 2014 and is effective for annual periods beginning on or after 1 January 2018. In accordance with IFRS 9, equity instruments are measured at fair value with changes in fair value recognised in profit or loss ('FVPL'). At initial recognition, an entity may make an irrevocable election to present changes in the fair value in other comprehensive income ('FVOCI election'). This FVOCI election is not available for equity instruments that are held for trading. The entity may apply the FVOCI election on an instrument-by-instrument basis.

2 If the entity applies the FVOCI election, changes in fair value are presented in other comprehensive income ('OCI'). These changes are not reclassified into profit or loss ('recycled') on disposal and there is no requirement to assess these instruments for impairment. Dividends from the instruments are, however, recognised directly in profit or loss.

3 Under IAS 39 *Financial Instruments: Recognition and Measurement*, equity instruments, other than those held-for-trading, were classified as Available-for-Sale ('AFS'). These instruments were measured at fair value and changes in fair value were presented in OCI. However, AFS accounting under IAS 39 differs from the accounting under IFRS 9's FVOCI election in the following two ways:

(a) under IAS 39, an entity was required to assess at the end of each reporting period whether there is any objective evidence that an equity instrument classified as AFS was impaired. When an entity assessed that an instrument was impaired, the decrease in value below the original historical cost was reclassified to profit or loss as an impairment loss. Impairment losses should not be subsequently reversed; and

(b) on disposal the cumulative gain or loss in OCI was recycled to profit or loss.

4 Accordingly, entities that classified some or all of their equity instruments as AFS under IAS 39 will need to modify their accounting treatment in one of the following ways:

(a) if these instruments will be carried at FVPL, under IFRS 9's default accounting requirement, changes in fair value will immediately be recognised in profit or loss; or

(b) if the entity will use the FVOCI election, changes in fair value are never recognised in profit or loss.

5 In the Basis for Conclusions on IFRS 9, the IASB noted that one of the primary reasons for not allowing recycling is that it would create the need to assess these equity instruments for impairment. The IASB also observed that the impairment requirements for equity instruments classified as AFS under IAS 39 were considered to be very subjective.

EFRAG's endorsement advice on IFRS 9

6 In its Endorsement Advice on IFRS 9, EFRAG noted that the default requirement to measure all equity investments at FVPL may not reflect the business model of long-term investors, including entities undertaking insurance activities and entities in the energy and mining industries. EFRAG also noted that the FVOCI election was not likely to be attractive to long-term investors because the prohibition on recycling gains and losses may not properly reflect their performance.

7 If neither of the available accounting options in IFRS 9 is attractive to some long-term investors, this may create an incentive for those investors to reduce their holdings of equity instruments in favour of other asset classes. In its endorsement advice, EFRAG assessed that it was unlikely that long-term investors would change their investment strategy as a result of the implementation of IFRS 9. EFRAG noted that broader economic considerations, such as the need for entities undertaking insurance activities to obtain a yield on their asset portfolio sufficient to meet their obligations to policy holders, are likely to outweigh any accounting concerns in deciding whether or not to invest in equity investments. However, EFRAG acknowledged that its assessment was based on the limited evidence available at that time.

Request from the European Commission

8 The European Commission ('EC') completed the endorsement process of IFRS 9 with the adoption of Commission Regulation No 2016/2067 on 22 November 2016. During the endorsement process, the European Parliament and some Member States called for close monitoring of the impact of IFRS 9 to ensure that it serves the European Union's ('EU') long-term investment strategy.

9 In May 2017, EFRAG received a request from EC for technical advice. The request has two distinct phases: an assessment phase and a possible solutions phase.

Assessment phase

10 In the assessment phase, which is addressed in this report, the EC asked EFRAG to collect quantitative information about current holdings of equity instruments and their accounting treatment. In particular, the EC referred to the following information:

(a) the total amount of equity instruments held by insurance entities and other long-term investors and what proportion was deemed to be long-term;

(b) the criteria used to classify their equity portfolios as long-term and what information is disclosed about their long-term business model and the long-term portfolios in the financial statements;

(c) the accounting classification of the equity instruments (held for trading or AFS) and the amount of fair value changes recognised in OCI in relation to the equity instruments considered to be held for the long-term;

(d) the gross and net amounts of disposal gains and losses recycled through the profit and loss and the amount of equity instruments portfolio disposed of in the period, as well as the factors leading to dispose equity instruments held for the long-term;

(e) the relative size of the fair value changes, and disposal gains and losses to the annual profit or loss; and

(f) the amount of impairment losses on the equity instruments in the AFS category and the criteria applied to assess impairment.

11 The EC also requested EFRAG to obtain information of the entities' expectations in relation to:

(a) the extent to which they plan to use the FVOCI election and the factors that will influence their choices; and

(b) the anticipated effects of the new requirements in IFRS 9 on their decisions to invest in equity instruments or other categories of financial assets and their holding periods (including quantification where possible).

Possible solutions phase

12 In the possible solutions phase, on which EFRAG aims to report by the end of the first half of 2018, EFRAG is asked to assess, from a conceptual perspective, the significance of an impairment model to the re-introduction of recycling. If EFRAG concludes that an impairment model is a precondition to re-introduce recycling, then EFRAG is asked to consider how the existing impairment model under IAS 39 for equity instruments could be improved or propose other impairment approaches, possibly by looking at other national or third-country Generally Accepted Accounting Principles.

13 EFRAG is also asked to consider if, in the absence of a robust impairment model, alternative presentation or disclosure requirements could be used to provide users with the necessary information to make the adjustments deemed necessary to the reported profit or loss.

Objective of this report

14 The objective of this report is to present EFRAG's findings in relation to the assessment phase of the EC's request.

Executive summary

Background and objective

16 EFRAG's findings in relation to the assessment phase are mostly based on:

(a) a public consultation conducted in 2017, which resulted in 26 respondents in total, including respondents from the insurance, the financial services and non-financial sectors, and covered the years 2014-2016; and

(b) a review of samples of 2016 and 2015 annual financial statements. The samples included 30 and 38 entities respectively.

17 More details on the methodology for the public consultation and review of samples are given below in paragraphs 53 to 61. When using the data, it should be considered that the samples are not statistically representative, consistent with any other EFRAG public consultation.

Findings: current holdings of equity instruments and accounting treatment

Long-term investing and amount and classification of equity instruments

18 Most respondents to the public consultation view themselves as long-term investors in equity instruments. Ten respondents indicated that all their equity instruments classified as AFS under IAS 39 are held for the long term.

19 The total amount of equity instruments held on average for years 2014-2016 by respondents is 753 billion Euros. 166 billion Euros are classified as AFS and therefore carried at fair value with the changes recognised in OCI. The rest is carried at FVPL, either because the instruments are held for trading or because the entities used the fair value option under IAS 39. While the overall ratio of 166 billion of equity instruments classified as AFS over the total equity instruments of 753 billion for the sample equals to 22%, at the individual level the ratio for most respondents is 60% or higher. Holdings of equity instruments are highly concentrated in a small number of the respondents.

20 The total amount of equity instruments held by the entities in the sample of the review of 2016 financial statements was 315 billion Euros, of which 57 billion Euros was classified as AFS. The rest is carried at FVPL. While the overall ratio of 57 billion of equity instruments classified as AFS over the total equity instruments of 315 billion for the sample equals to 18%, at the individual level the ratio for most respondents is 55% or higher.

21 The entities from the non-financials industry (both in consultation and the sample of financial statements) have higher percentage of equity instruments classified as AFS over total equity instruments.

22 EFRAG received data for a sample of credit institutions by the European Banking Authority, where equity instruments classified as AFS represent 19% of total equity instruments in 2014, 2015 and the period ended 30 September 2016.

23 Most of the equity instruments of the respondents from the insurance and the financial services industries are direct equity holdings. The non-financials hold the majority of their equity holdings classified as AFS indirectly, i.e. through a collective investment vehicle. As a consequence, these instruments may not be eligible for the FVOCI election.

OCI balances and changes in the period on equity instruments classified as AFS

24 Respondents reported a net accumulated OCI balance related to equity instruments classified as AFS amounting to 8% of the carrying amount of those instruments. The respective percentage was 11% for the sample of the 2016 annual financial statements. Four respondents and two entities in the sample had a net debit accumulated OCI balance.

25 Respondents reported a net change for the period of the accumulated OCI balance related to equity instruments classified as AFS amounting to 7% of earnings before tax (in absolute terms).

<u>Impairment losses and assessment of impairment losses on equity instruments classified as AFS</u>

26 12 respondents recognised impairment losses on equity instruments classified as AFS during the period amounting to 3 billion Euros, which ranged from 1% to 24% of those respondents' earnings before tax. Insurance entities reported higher impairment losses.

27 19 entities in the sample of 2016 financial statements recognised impairment losses amounting to 1,6 billion Euros or 3% of earnings before tax (in absolute terms).

28 Most respondents to the public consultation and entities in the sample use a criterion of 'significant' or 'prolonged' decline in fair value (as required by IAS 39) to assess impairment of equity instruments. The range of quantitative thresholds varies across industries.

<u>Disposal of equity instruments classified as AFS</u>

29 Respondents that provided information on the net gain on disposal on equity instruments classified as AFS during the period, reported a total of 5 billion Euros which represents 19% of earnings before tax (in absolute terms).

30 Entities in the 2016 sample of financial statements recognised a total net gain from disposal of equity instruments classified as AFS of 0,6 billion Euros, which represents 3% of earnings before tax.

Anticipated behavioural effects of the new accounting requirements

31 Most respondents indicated that a variety of factors, including business, economic and regulatory factors, affect their decisions to invest and hold equity instruments or other classes of assets.

32 Most respondents, across all industries covered, expect to use the election in IFRS 9 to designate investments in equity instruments for measurement at fair value through other comprehensive income ('FVOCI') to some extent. The choice to use the election depends on different factors, including the business purpose of the investment, the expected volatility of the equity instrument and the economic linkage to other items.

33 The majority of respondents do not expect to modify their holding period for equities following the introduction of IFRS 9.

34 Respondents reported mixed views about the impact of the requirements on their asset allocation decisions. 12 entities (mainly insurance entities) expect to modify such decisions, although most did not specify to what extent. Some respondents indicated that they might shift some of their investment into different asset classes, including unquoted equities, as possible alternatives to quoted equities. They observed that returns from non-listed investments are mostly collected as dividends - which are recognised in profit or loss - and also that unlisted investments are less volatile

35 Some respondents that expect to modify their asset allocation decisions explained that they view disposal gains as part of their performance and that IFRS 9's prohibition to recycle when using the FVOCI election results in accounting mismatches in profit or loss.

Implications for the next phase

36 In its endorsement advice on IFRS 9, based on the limited evidence available at the time EFRAG assessed that it was unlikely that long-term investors would change their investment strategy as a result of the implementation of IFRS 9. The assessment phase has confirmed that some entities expect to modify their asset allocation decisions, while others do not.

37 It should be noted that insurance entities are still at an early stage of assessment since they will apply IFRS 9 only in 2021.

38 In EFRAG's view, these are some of the key messages from the evidence gathered in the assessment phase:

(a) the aggregate amount/value of equity instruments classified as AFS under IAS 39 by entities that consider themselves long-term investors is substantial. Our findings indicated a high level of concentration of holdings of equity instruments classified as AFS in a relatively small number of entities;

(b) the importance of AFS accounting varies among entities that consider themselves long-term investors. For some, recycled gains and losses represent a significant proportion of net profits in the years examined. However, some make little or no use of the AFS classification and classify most or all of their equity instruments at FVPL: such entities should not be affected by IFRS 9's requirements;

(c) asset allocation decisions of long-term investors are driven by a plurality of factors;

(d) entities that are concerned about the IFRS 9's requirements often point out to a form of 'economic linkage' between their holdings of equity investments and some of their liabilities; and

(e) entities in practice use different criteria to assess impairment of equity instruments.

39 EFRAG will continue its work in accordance with the request for technical advice and will investigate if and how the new requirements may be improved.

Chapter 2 – How the data can contribute to the debate

41 Quantitative data provide a useful background to the discussion and allow a better assessment of the topic. During EFRAG's consultation on its research agenda, constituents indicated that accounting research should be evidence-based at each step: identification of the issue, analysis and discussion of possible solutions.

42 Quantitative data may be used to assess the accounting impact of the change in the accounting requirements. For equity instruments classified as held for trading, there is no change. For equity instruments classified as AFS, the impact on profit or loss will depend on the accounting election made by the entity.

43 The following are examples of how quantitative data could be useful:

(a) the size of the equity investment portfolio may give an indication of the potential impact of a change in asset allocation;

(b) profit or loss will be impacted by the prohibition to recycle disposal gains and losses and the lack of recognition of impairment losses. The size of these amounts could be used to assess the future impacts;

(c) profit or loss will also be impacted if investments currently in the AFS category under IAS 39 will in future be carried at FVPL, especially if these investments are subject to significant fair value changes. The amount of equity instruments classified as AFS, the yearly change in the related OCI balance and the expectation on the use of the FVOCI election may give an indication of how profit or loss under IFRS 9 may differ from profit or loss under IAS 39.

44 Note that all the data included in the report refer to annual periods for which IFRS 9 is not yet effective. IFRS 9 will be effective for annual periods beginning on or after 1 January 2018. Insurance entities are allowed to defer the application of IFRS 9 until 1 January 2021.

Chapter 3 – Sources of information

45 It is difficult to find comprehensive data for equity holdings by IFRS preparers in Europe. The main sources for this report are a public consultation with European constituents and the review of a sample of annual financial statements. The total equity holdings from these two sources are indicated in paragraphs 64 and 71 below. When using the data, it should be considered that the samples are not statistically representative, consistent with any other EFRAG public consultation.

46 To provide a context for this data, the next paragraphs provide quantitative information from other public sources. The European Central Bank ('ECB') statistics bulletin includes information on balance sheets of credit institutions and other financial corporations (including investment funds, insurance corporations and pension funds).

47 The ECB data is aggregated and not consolidated. They do not include entities outside Eurozone or non-financial institutions. Some of the largest European equity investors are pension funds located in countries outside the Eurozone, such as Norway, Sweden and Denmark. A breakdown of the total equity holdings between IFRS and non-IFRS preparers is not available.

48 As of 31 December 2016, credit institutions and other financial institutions held 1,2 trillion Euros and 4,4 trillion Euros in equity instruments respectively. These entities also held 4,7 trillion Euros of investment fund shares. These amounts include holdings of entities that do not apply IFRS Standards and both long- and short-term holdings. Accordingly, these amounts provide some context on the overall levels of equity holdings by European credit and other financial institutions in Europe but are not indicative of the potential effects of changes introduced by IFRS 9.

49 The European Insurance and Occupational Pensions Authority ('EIOPA') provided aggregated data on 629 individual insurance undertakings of the EU and the European Economic Area ('EEA') using IFRS Standards based on their 2016 accounts. The data provided are included in the following table:

	2016 year end			
In billion Euros (year 2016)	**Life**	**Non-life**	**Both life and non-life**	**Total**
Equities	41	36	10	**87**
Number of individual undertakings	*145*	*375*	*109*	***629***

50 It is notable that the total 87 billion Euros in the above table for equity holdings is considerably less than the 490 billion Euros reported by respondents from the insurance sector to EFRAG's public consultation (see paragraph 64 below). One of the reasons for this difference is that the amount in the above table excludes equity instruments held to back index-linked and unit-linked contracts. The reason for this exclusion in the EIOPA statistics is that the policy holder, and not the entity, bears the risk for these assets. Participants to the public consultation were not asked to exclude equity instruments held to back unit-linked contracts, therefore the figures are not comparable.

51 The European Banking Authority ('EBA') provided aggregated data on financial assets held by approximately 150 financial institutions from 28 member states of the EU and one EEA country for the period 30 September 2014 to 30 September 2016.

52 The data provided by the EBA are included in the following table:

In billion Euros	**2014**	**2015**	**30.09.2016**
Equity instruments	699	668	603
AFS equity instruments	130	124	116
Total AFS instruments	2.681	2.807	2.732

Public consultation

53 In July 2017, EFRAG launched a public consultation via a web-based questionnaire with an invitation to respond no later than 30 September. The consultation was open to all constituents.

54 In the absence of a definition of 'long-term investors' or 'long-term investments' in IFRS Standards, participants were asked to indicate whether they consider themselves as long-term investors. Most of the respondents indicated that they view themselves as such.

55 EFRAG received 19 responses with quantitative information for years 2014-2016 and seven responses with general information only. Respondents came from the following industries and countries:

Industry	**Number of respondents**	**Number of respondents with quantitative data**
Insurance	11	9
Financial Institutions	10	6
Non-financials	5	4
Total	***26***	***19***

Country	Number of respondents	Number of respondents with quantitative data
France	8	7
Germany	7	6
Belgium	4	1
Other	7	5
Total	***26***	***19***

56 EFRAG also received two responses from individuals outside Europe, which did not provide quantitative information and were not considered in the analysis.

Review of annual financial statements

57 EFRAG also reviewed two samples of annual financial statements. The first review was conducted at an early stage and included the 2015 annual financial statements of 38 European listed entities. The entities were identified by using a data aggregator and sorting the entities by market capitalisation.

58 The first sample included 12 entities from the insurance industry, 12 banks and 14 non-financials. The 38 entities in the sample had a total market capitalisation of approximately 2,7 trillion Euros. The review focused on the significance of the equity instruments classified as AFS and how entities apply the IAS 39 impairment requirements.

59 The second sample included the 2016 annual financial statements of 30 European listed entities. The entities were identified by using a data aggregator and sorting the entities by total assets.

60 The sample included 19 entities from the insurance industry and 11 entities from the mining, oil and gas and utilities industry. Both industries are generally considered to hold equities for the long term. The 30 entities in the sample had total assets of approximately 4,7 trillion Euros and market capitalisation of approximately 1 trillion Euros. EFRAG focused on the same reporting items for which information was requested in the public consultation.

61 The two samples do not include entities that have responded to the public consultation.

Chapter 4 – Findings: current holdings of equity instruments and accounting treatment

Long-term investing

Findings from the public consultation

62 22 of the 26 respondents (11 insurance entities, nine financial institutions and two non-financials) explained that they view themselves as long-term investors in equities. These respondents provided the following explanations:

(a) they hold equity instruments for the long term to match the duration of long-term liabilities/commitments, such as insurance or decommissioning liabilities. These entities maintain part of their portfolio continually invested in equity instruments;

(b) they view some of their investments as strategic in nature. For example, they hold investments to develop relationships in local communities, to access specific markets or to provide access to services that support their business;

(c) some of their equity investments are not immediately liquid due to shareholders' agreements and lock-up periods; and

(d) only a long-term investment strategy allows to capture the equity risk premium and achieve higher returns than investing in fixed income. This applies even more when investing in private equity.

63 Ten respondents indicated that all their equity instruments classified as AFS under IAS 39 are held for the long term.

Amount and classification of equity instruments

Findings from the public consultation

64 The following table presents total equity instruments classified as AFS and total equity instruments by industry:

	Average years 2014-2016			
In billion Euros** (**average years 2014-2016)	**Insurance**	**Financial institutions**	**Non-financials**	**Total**
AFS equity instruments	111	38	17	**166**
Equity instruments	490	246	17	**753**
% of AFS equity instruments / equity instruments	*23%*	*15%*	*100%*	***22%***
Number of entities	*9*	*6*	*4*	***19***

65 The above amounts of AFS and non-AFS equity instruments may include indirect holdings (i.e. financial assets in the form of units in equity funds and other holdings in collective investment vehicles) for some respondents. EFRAG asked respondents to provide the analysis of their AFS equity instruments into direct and indirect holdings and this analysis is provided in aggregate in the table below paragraph 69.

66 The findings indicated a high concentration of equity instruments classified as AFS in a small number of respondents. The following table illustrates the level of concentration of equity instruments in each group of entities.

67 The two entities from each group with the largest portfolio of equity instruments classified as AFS hold 59%, 77% and 90% of the total equity instruments classified as AFS for their group. These entities hold 51%, 63% and 89% of the total equity instruments.

68 Entities in each group were sorted by the size of their portfolio of equity instruments classified as AFS and added starting from the largest. The first three entities held 70% or more of the total for the insurance group, the first two for the financials group and one entity in the non-financials group.

	Average years 2014-2016		
In billion Euros** (**average years 2014-2016)	**Insurance**	**Financial institutions**	**Non-financials**
Share of AFS equity instruments held by the entities with the two biggest portfolios	59%	77%	90%
Share of total equity instruments held by the entities with the two biggest portfolios	51%	63%	89%

70% of AFS equity instruments are held by (number of entities)	3	2	1
Portion of total equity instruments held by entities in the line above	55%	63%	75%

69 The following table presents the split of the total equity instruments classified as AFS between direct and indirect holdings.

	Average years 2014-2016			
In billion Euros **(average years 2014-2016)**	**Insurance**	**Financial institutions**	**Non-financials**	**Total**
Direct equity holdings	86	18	4	**108**
Indirect equity holdings	25	1	13	**39**
AFS equity instruments (of those who provided the breakdown)	**111**	**19**	**17**	**147**
% of direct AFS equity instruments / AFS equity instruments	*77%*	*95%*	*24%*	***73%***
% of indirect AFS equity instruments / AFS equity instruments	*23%*	*5%*	*76%*	***27%***

70 The following table ranks respondents by the ratio of 'equity instruments classified as AFS/ total equity instruments'. Most respondents classify 60% or more of their equity instruments as AFS; the 22% overall ratio is much lower, due to entities with large portfolios of equity instruments that are carried at FVPL.

	Number of entities			
% of AFS equity instruments over total equity instruments **(average years 2014-2016)**	**Insurance**	**Financial institutions**	**Non-financials**	**Total**
Less than 5%	1	1	-	**2**
10%-20%	1	1	-	**2**
30%-40%	-	-	1	**1**
60%-85%	1	4	-	**5**
90%-100%	6	-	3	**9**
Not provided	2	4	1	**7**
Total	**11**	**10**	**5**	**26**

Findings from the review of annual financial statements

71 The following tables refer to the 2016 sample and summarise total equity instruments, the portion classified as AFS and the distribution of the proportion, by group:

	Year 2016		
***In billion Euros (year* 2016)**	**Insurance**	**Non-financials**	**Total**
AFS equity instruments	49	8	**57**
Equity instruments	306	9	**315**
% of AFS equity instruments / equity instruments	*16%*	*89%*	***18%***
Number of entities	*19*	*11*	***30***

	Number of entities		
***% of AFS equity instruments over total equity instruments* (year 2016)**	**Insurance**	**Non-financials**	**Total**
Less than 5%	3	1	**4**
10%-25%	1	1	**2**
30%-45%	3	1	**4**
55%-85%	5	1	**6**
86%-100%	5	6	**11**
Not provided	2	1	**3**
Total	**19**	**11**	**30**

72 The two insurance entities with the largest portfolio of equity instruments classified as AFS hold 43% of the total equity instruments classified as AFS for their group. The percentage is 74% for the non-financials.

73 The following table refers to the 2015 sample and presents the total equity instruments classified as AFS, by group:

	Year 2015			
***In billion Euros (year* 2015)**	**Insurance**	**Financials**	**Non-financials**	**Total**
AFS equity instruments	59	74	7	**140**
Number of entities with AFS equity instruments	*9*	*11*	*11*	***32***

74 The two entities from each group with the highest amount of equity instruments classified as AFS, account for 50%, 62% and 40% of the total equity instruments classified as AFS for their group.

Findings from other sources

75 Based on the data provided by the EBA for financial institutions, equity instruments classified as AFS represent 19% of the total equity instruments as of 31 December 2014, 31 December 2015 and 30 September 2016.

76 Based on the reports on the EBA impact assessment on IFRS 9, equity instruments classified as AFS represent on average 2% of the total financial assets for the 75th percentile of the sample.

OCI balances and changes in the period

Findings from the public consultation

77 16 respondents provided data on the accumulated (debit)/credit OCI balance for equity instruments classified as AFS. Respondents generally did not provide separately the gross debit and credit balance:

	Average years 2014-2016			
***In billion Euros (*average years 2014-2016)**	**Insurance**	**Financial institutions**	**Non-financials**	**Total**
Net accumulated OCI balance (debit)/credit	7	7	(1)	**13**
AFS equity instruments (of those disclosed)	111	37	14	**162**
% Net accumulated (debit)/credit OCI balance / AFS equity instruments	*6%*	*19%*	*(7%)*	***8%***
Number of entities	*9*	*5*	*2*	***16***

78 The two entities in each group with the largest portfolio of equity instruments classified as AFS account for 56%, 86% and 75% of the total net accumulated OCI balance (in absolute terms) of their group.

	Average years 2014-2016		
***In billion Euros (*average years 2014-2016)**	**Insurance**	**Financial institutions**	**Non-financials**
Net accumulated OCI balance (in absolute terms) for the entities with the two biggest portfolios	16	6	2
% of net accumulated OCI balance (in absolute terms) represented by the entities in the above line	56%	86%	75%

79 The following table presents the distribution of the ratio of 'net accumulated OCI balance/ equity instruments classified as AFS'. Three insurance entities and one non-financial entity had a net debit accumulated OCI balance amounting in total to 13 billion Euros.

	Number of entities			
***% of Accumulated (debit)/credit OCI balance over AFS equity instruments* (average years 2014-2016)**	**Insurance**	**Financial institutions**	**Non-financials**	**Total**
Debit OCI balance	3	-	1	**4**
0%-20%	3	1	-	**4**
21%-30%	3	3	-	**6**
More than 30%	-	1	1	**2**
Not provided	2	5	3	**10**
Total	**11**	**10**	**5**	**26**

80 Ten respondents to the public consultation did not mention the net change for the period in accumulated OCI balance related to equity instruments classified as AFS. The remaining 16 entities reported the following (respondents generally provided the net balance):

	Average years 2014-2016			
***In billion Euros (*average years 2014-2016)**	**Insurance**	**Financial institutions**	**Non-financials**	**Total**
Net change in accumulated OCI balance (debit)/credit	(0,1)	0,3	0,1	**0,3**
Profit / (loss) before tax (of those disclosed)	28	12	7	**47**
Number of entities	*9*	*5*	*2*	***16***

81 If all equity instruments currently classified as AFS were to be carried at FVPL, all changes for the period in the accumulated OCI balance would affect profit or loss in the period. The following table illustrates the impact in absolute terms (i.e. by aggregating the changes in absolute terms):

Net change in accumulated OCI balance in absolute terms	3	0,3	0,1	**3,4**
Earnings before tax in absolute terms (of those disclosed)	28	15	7	**50**
% Net change in accumulated OCI balance / Earnings before tax (both in absolute terms)	11%	2%	1%	**7%**

82 Four out of 16 respondents had a net debit change for the period of the accumulated OCI balance.

Findings from the review of annual financial statements

83 14 entities in the 2016 sample (eight insurance and six non-financial entities) disclosed the net accumulated OCI balance in relation to equity instruments classified as AFS:

	Year 2016		
In billion Euros **(year 2016)**	**Insurance**	**Non-financials**	**Total**
Net accumulated OCI balance (debit)/credit	4	(0,2)	**4**
AFS equity instruments (of those disclosed)	35	2	**37**
% Net accumulated (debit)/credit OCI balance / AFS equity instruments	*11%*	*(10%)*	***11%***
Number of entities	*8*	*6*	***14***

84 Two entities had a net debit accumulated OCI balance.

Impairment losses on equity instruments classified as AFS

Findings from the public consultation

85 As a reminder, there will no longer be impairment losses recognised when IFRS 9's FVOCI election for equity instruments is applied.

86 Nine respondents did not provide information on the amount of impairment losses on equity instruments classified as AFS. Five respondents did not recognise any loss during that period; the remaining 12 recognised losses of 3 billion Euros, which ranged from 1% to 24% over the earnings before tax.

87 The following table illustrates the distribution of the ratio of 'impairment losses/ earnings before tax'. Insurance entities reported higher impairment losses.

	Number of entities			
% of impairment loss over profit / (loss) before tax **(average years 2014-2016)**	**Insurance**	**Financial institutions**	**Non-financials**	**Total**
0%-9%	4	5	4	**13**
10%-24%	4	-	-	**4**
Not provided	3	5	1	**9**
Total	**11**	**10**	**5**	**26**

Findings from the review of annual financial statements

88 19 entities (12 insurance and seven non-financial entities) in the 2016 sample disclosed the amount of impairment losses on equity instruments classified as AFS. Two insurance entities and six non-financial entities in the group did not recognise any impairment.

	Year 2016		
***In billion Euros** (year 2016)*	**Insurance**	**Non-financials**	**Total**
Impairment loss on AFS equity instruments	1	0,6	**1,6**
AFS equity instruments (entities that provided the information)	33	3	**36**
% impairment loss over AFS equity instruments (entities that provided the information)	*3%*	*20%*	***4%***
Profit / (loss) before tax (entities that provided the information)	(1)	0,9	**(0,1)**
Earnings before tax in absolute terms (entities that provided the information)	32	20	**52**
% impairment loss over earnings before tax in absolute terms (entities that provided the information)	*3%*	*3%*	***3%***
Number of entities	*12*	*7*	***19***

Assessment of impairment losses

Findings from the public consultation

89 IAS 39 requires entities to assess equity instruments classified as AFS for impairment. A decline in fair value that is deemed to be 'significant' or 'prolonged' needs to be recognised as an impairment loss. The Standard does not include quantitative thresholds for 'significant' or 'prolonged'.

90 While IAS 39 does not include quantitative thresholds, most respondents referred to using quantitative thresholds for their assessment. Some also apply the other indicators mentioned in IAS 39 that relate to financial condition of the issuer of the equity instruments.

91 Two respondents also use a third impairment threshold – a combination of 'significant' and 'prolonged' decline based on lower thresholds than when each of them is used in isolation.

92 The following tables summarise the range of thresholds used:

	Number of entities			
Significant criterion (% decrease of the fair value below cost)	**Insurance**	**Financial institutions**	**Non-financials**	**Total**
20%-30%	4	3	-	**7**
40%-50%	1	2	1	**4**
80%	2	1	-	**3**
Not responded	4	4	4	**12**

Total	11	10	5	26

Prolonged criterion (in months)	**Number of entities**			
	Insurance	**Financial institutions**	**Non-financials**	**Total**
6-12[1]	5	2	-	**7**
18	-	1	-	**1**
24-36	2	3	-	**5**
>36	-	-	1	**1**
Not responded	4	4	4	**12**
Total	**11**	**10**	**5**	**26**

Findings from the review of annual financial statements

93 None of the non-financial entities in the 2016 sample disclosed quantitative thresholds. Nine out of 19 insurance entities indicated ranges between 25%-30% for the 'significant' criterion and 6-12 months for the 'prolonged'.

94 The following tables summarise the range of thresholds of insurance entities:

Significant criterion (% decrease of the fair value below cost)	**Number of entities**
	Insurance
25%-30%	5
40%-50%	2
80%	1
Not disclosed	10
Determined quarterly	1
Total	**19**

Prolonged criterion (in months)	**Number of entities**
	Insurance
6-12[2]	7
18	1
24-36	2
>36	-
Not disclosed	9
Total	**19**

95 The insurance entities in the 2015 sample disclosed thresholds with a range between 20%-30% (significant) or 6-24 months (prolonged). Banks disclosed a range between 20%-50% (significant) or 6-36 months (prolonged) decline in the fair value.

[1] One of the entities stated that an equity instrument was considered impaired, if the fair value of equity instruments has been below the carrying amount for four consecutive quarters on the date of the statement of financial position.
[2] One of the entities stated that an equity instrument was considered impaired, if the fair value of equity instruments has been below the carrying amount for four consecutive quarters on the date of the statement of financial position.

96 The following tables summarise the range of thresholds:

Significant criterion (% of decrease of the fair value below cost)	**Number of entities**		
	Insurance	**Financial institutions**	**Non-financials**
No AFS equity instruments or not specified	3	1	3
Not disclosed	4	4	9
20%	3	1	1
25%-30%	2	1	1
40%-50%	-	5	-
Total	**12**	**12**	**14**

Prolonged criterion (in months)	**Number of entities**		
	Insurance	**Financial institutions**	**Non-financials**
No AFS equity instruments or not specified	3	1	3
Not disclosed	3	4	9
6	3	2	1
9-12	2	-	1
18-20	-	3	-
24-36	1	2	-
Total	**12**	**12**	**14**

Disposal of equity instruments classified as AFS

Findings from the public consultation

97 As a reminder, disposal gains and losses will no longer be recognised in profit or loss when IFRS 9's FVOCI election for equity instruments is applied.

98 12 respondents did not provide information on the net gain on disposal, and three reported that they had no net gains over the period. The remaining 11 entities reported the following:

	Average years 2014-2016			
In billion Euros **(average years 2014-2016)**	**Insurance**	**Financial institutions**	**Non-financials**	**Total**
Net gain on disposal	4	0,8	0,1	**5**
Profit/(loss) before tax (of those that provided the information)	20	3	0,3	**23**
% of Net gain on disposal / Profit/(Loss) before tax	*20%*	*27%*	*33%*	***22%***
Earnings before tax in absolute terms (of those that provided the information)	20	6	0,3	**26**
% of Net gain on disposal / Earnings before tax (in absolute terms)	*20%*	*13%*	*33%*	***19%***
Number of entities	*7*	*3*	*1*	***11***

99 The following table illustrates the distribution of the ratio of 'net gain/(loss) on disposal of equity instruments classified as AFS/ earnings before tax' in absolute terms:

	Number of entities			
% of net gain on disposal over profit / (loss) before tax (in absolute terms) **(average years 2014-2016)**	**Insurance**	**Financial institutions**	**Non-financials**	**Total**
0%	-	1	2	**3**
2%-15%	4	1	-	**5**
20%-30%	2	1	-	**3**
31%-45%	1	1	1	**3**
Not provided	4	6	2	**12**
Total	**11**	**10**	**5**	**26**

Findings from the review of annual financial statements

100 Four insurance and six non-financial entities in the 2016 sample disclosed separately the net gain on disposal of equity instruments classified as AFS. The four insurance entities reported a cumulative net gain of 0,5 billion Euros. Five of the six non-financial entities had no gains and one had a gain of 0,1 billion Euros. The following table illustrates the ratio of the 'net gain on disposal/ earnings before tax':

	Year 2016		
In billion Euros **(year 2016)**	**Insurance**	**Non-financials**	**Total**
Net gain on disposal	0,5	0,1	**0,6**
Profit / (loss) before tax (entities that disclosed the net gain on disposal)	8	(4)	**4**
Earnings before tax in absolute terms (entities that disclosed the net gain on disposal)	8	15	**23**
% net gain on disposal over earnings before tax in absolute terms (entities that disclosed gain/loss on disposal)	*6%*	*0,8%*	***3%***
Number of entities	*4*	*6*	***10***

Findings from other sources

101 Based on the data provided by the EBA for credit and financial institutions, gains on disposal of equity instruments classified as AFS amount to 5 billion Euros, 6 billion Euros and 11 billion Euros as at 31 December 2014, 31 December 2015 and 30 September 2016 respectively.

Chapter 5 – Findings: anticipated effects of the requirements in IFRS 9

102 This section is based on the public consultation and the follow-up interviews with respondents. Other sources are mentioned where relevant. Respondents were asked a number of questions on their current asset allocation process and how this could be impacted by the new requirements.

What factors affect the decisions to invest in equity instruments or other classes of assets?

103 Insurance entities mainly referred to the following factors:

(a) ten respondents mentioned the strategic asset mix/allocation and economic return/risk expectation;

(b) nine respondents mentioned the asset liability management (mainly duration and liquidity but also currency and inflation); and

(c) seven respondents mentioned Solvency II capital requirements and accounting rules.

104 Other factors mentioned by individual insurance entities were:

(a) capital protection and limiting volatility;

(b) financial environment;

(c) tax treatment;

(d) market liquidity transaction costs; and

(e) balanced utilisation of risk capital (mid- to long-term focus).

105 Financial institutions mainly referred to the following factors:

(a) three respondents mentioned the (long-term) return on investments (both direct and indirect);

(b) three respondents mentioned the entity's strategy, business needs and plans; and

(c) two respondents mentioned the capital requirement, legal, regulatory aspects and other trends in the financial sector.

106 Other factors mentioned by individual financial institutions were:

(a) strategic activities for the respective jurisdiction's economy (e.g. start-ups);

(b) financial structure of the investee and its ability to generate cash flows and create value (especially for SMEs); and

(c) stabilisation of investment income.

107 Non-financial entities mainly referred to the following factors:

(a) two respondents mentioned the asset liability management/matching (duration and liquidity); and

(b) two respondents mentioned the long-term return/risk expectation.

108 Other factors mentioned by individual non-financial entities were:

(a) discount rate of decommissioning liabilities: the annual performance of the asset portfolio should at least be equivalent to the prevailing discount rate applied to compute the decommissioning provision; and

(b) accounting considerations.

What factors affect the average holding period and disposal decisions?

109 Insurance entities mainly referred to the following factors:

(a) six respondents mentioned the asset liability management/matching (duration, currency and sensitivity to inflation): As far as possible, changes in the value of investments should cover changes in technical liabilities, as this stabilises the entities' positions in fluctuating capital markets. Disposals are typically needed in order to rebalance the portfolio, not only realise gains, but also to safeguard the long-term asset liability management strategy (e.g. interest rebalancing);

(b) five respondents mentioned asset manager's rebalancing needs for investment strategies (for tactical reasons or passive benchmark tracking);

(c) three respondents mentioned the strategy (business support);

(d) three respondents mentioned shortage of available risk capital;

(e) two respondents mentioned liquidity and transaction costs;

(f) two respondents mentioned the economic environment and regulation, including changes in Solvency II capital requirements; and

(g) two respondents mentioned the stabilisation or steering of investment result via unrealised gain reserves.

110 Other factors mentioned by individual insurance entities were:

(a) long-term economic return expectations and actual performance (e.g. in the case of long-term underperformance shift to other investment strategies);

(b) major changes in risk appetite; and

(c) accounting impact.

111 Financial institutions mainly referred to the following factors:

(a) eight respondents mentioned the strategy and business plan of the entity, including changes in business model/ business activities or investee no longer needs financial support;

(b) three respondents mentioned the investment performance and liquidity;

(c) two respondents mentioned the opportunities to make profits; and

(d) two respondents mentioned the capital requirements, legal and regulatory aspects.

112 Other factors mentioned by individual financial institutions were:

(a) qualitative characteristics of the investment (instrumental or institutional, listed or not, life cycle of the entity and relative strength vis a vis other shareholders);

(b) permanent losses or low profit with high capital costs; and

(c) political environment.

113 Two non-financial entities referred to the strategy and business objective as a factor affecting the average holding period and disposal decisions.

114 Other factors mentioned by individual non-financial entities were:

(a) asset liability management/matching (duration and liquidity) and discount rate of decommissioning liabilities;

(b) changes in expected short term performance;

(c) stabilisation of gains/losses under the current IAS 39 requirements. One entity will seek to compensate losses by gains in order to limit the impact on the profit or loss or crystallise gains rather than losses, by selling equity instruments with an underlying unrealised gain. This way the effect of the accrual of the decommissioning provision (recorded in profit or loss) could be partly offset by the financial income resulting from the portfolio (dividends on equity instruments, bond coupons and selective capital gains); and

(d) rebalancing discipline, adjustment of investment strategy to economic and market cycles, plus-value taking discipline.

Expected use of IFRS 9's FVOCI election

Findings from the public consultation

115 18 respondents (seven insurance entities, eight financial entities and three non-financials) expect to use the FVOCI election. The following table summarises the replies:

% of equity instruments for which the FVOCI election is expected to be used	Nr. of respondents	Industry
Less than 1%	1	Insurance
5%-10%	3	Two financial institutions and one insurance
25%-35%	3	Financial institutions
60%-80%	4	Two non-financials, one insurance and one financial institution
100%	3	Insurance

Not specified percentage	4	Three financial institutions, two insurance, one non-financial
Total	***18***	

116 Seven of 11 insurance entities expect to use the FVOCI election mainly for strategic or long-term investments. One stated that it will use the election for financial investments that are intended to back its own funds and some type of long-term insurance products (for example, annuities). Another noted that their choice will be based on the dividend yield of the equity investment.

117 Another insurer that currently carries all its investments in equity instruments as FVPL noted that the choice of the election will probably be affected by the type of insurance products. The entity indicated that its own products have participation features where the benefits to the policyholders is linked to the fair value changes of the equity portfolio. For investments backing these products, the FVOCI election is not likely to be used.

118 Eight of ten financial institutions expect to use the FVOCI election mostly for strategic investments or investments providing services for their business. Two of them also indicated that they will not use the election for equity investments within their insurance business.

119 One financial institution stated that they will use the election for those investments for which dividends provide the bigger portion of total returns. Another stated that the choice will be based on the expected volatility.

120 Three of five non-financials expect to use the FVOCI election. The choice will be made based on the following factors:

(a) expected volatility and earnings potential;

(b) economic linkage to other items;

(c) the business purpose for holding the investment; and

(d) the expected holding period.

Other sources of information

121 The first EBA *Report on the results of the EBA impact assessment of IFRS 9* indicates that 19% of participants expect to move equity instruments classified as AFS category to FVPL and some respondents mentioned that this was because of the prohibition on recycling.

Possible effects on holding period of equity investments

122 The majority of respondents (18 entities) do not expect to modify their holding period for equities following the introduction of IFRS 9. Only four entities (three insurance entities and one financial institution) expect to shorten their holding period to avoid the potential volatility.

Possible effects on asset allocation decisions

Findings from the public consultation

123 There were mixed views about the impact of the requirements on the respondents' asset allocation decisions. 12 entities (eight insurance entities, three financial institutions and one non-financial) expect to modify their asset allocation decisions, although most did not specify to what extent.

124 Insurance entities provided various reasons for a potential change in asset allocation decisions. They referred mainly to contracts with participation features, where there is a clear link between realised profits and the amount promised to the policy holder. One respondent mentioned that in the case of contracts with

participation features, the share of profit of the shareholder is recognised in profit or loss over the total contract term, while for equity instruments at FVOCI the investment income will never be recognised in profit or loss. The lack of recycling is therefore perceived to create an accounting mismatch with the measurement of insurance liabilities.

125 Some insurance entities indicated that they are considering shifting significant parts of their equity portfolio from listed to non-listed/private equity entities. Some observed that returns from non-listed investments are mostly collected as dividends. One insurance entity suggested that unlisted investments are less volatile. One respondent noted that it will invest less in small caps/growth stocks.

126 Other classes of alternative assets mentioned were real estate, infrastructure and entities in the renewables industry, as less volatile than other equities.

127 Some insurance entities also expect to replace part of their investments in equity instruments with credit investments, loans or bonds.

128 One insurance entity reported that its asset allocation decisions are not affected by accounting requirements.

129 One financial institution explained that the FVPL category is not favoured, due to the short-term volatility. Its analysis is still ongoing, but it might consider changing its asset allocation. Moreover, it is considering the introduction of a non-GAAP measure that would include disposal gains and losses in the reported performance.

130 Another financial institution responded that it expects to reduce by half its exposure in equity instruments and invest more in investments such as private equity, real estate or infrastructure.

131 When referring to the insurance part of its business, another financial institution responded that it may invest more in real estate or debt instruments.

132 One financial institution reported that its asset allocation decisions are not affected by accounting requirements.

133 One non-financial entity expects to gradually reduce the weight of equity instruments in its overall portfolio over the next few years. Alternatively, it will consider turning to instruments issued in the United States, as it considers them as less volatile; or to unlisted investments, such as real estate, private equities or infrastructure.

Other sources of information

134 Other available sources indicate that asset allocation is changing for a variety of reasons that do not relate to accounting, notably the search for yield in the prevailing economic environment.

135 The *2017 European Asset Allocation Survey* published by Mercer includes data from 1,240 institutional investors across 13 countries in Europe. The survey indicates that the weight of equity instruments decreased marginally to 30% of the total assets (representing approximately 330 billion Euros), with domestic equity representing 11%. The decrease was mostly driven by the reduction of the exposure by UK defined-benefit plans. From 2007, the weight of equities for UK plans in the survey decreased from 61% to 29% in line with a strategy of de-risking. Bonds have stayed relatively stable at 51%. The figures therefore do not seem to support the shift from bonds to shares that some predicted due to the persistent low yields. However, this may have driven the increase in other investments that now represent 15% of the total allocation. Their increase reflects a more dynamic asset allocation, with almost 60% of the surveyed plans engaging in a strategic review once a year.

136 EIOPA published an *Investment Behaviour Report* in November 2017, which analyses the investment behaviour of European insurers over the past five years based on the submissions of supervisory data from 87 large insurance groups and

four solo undertakings across 16 EU Member States. These groups are not necessarily reporting under IFRS Standards. The report identifies the following trends in Europe:

(a) a trend towards lower credit rating quality fixed income bonds with lower credit rating quality, while at the same time, there were many sovereign and corporate downgrades during the period;

(b) a trend towards more illiquid investments such as non-listed equity and loans excluding mortgages and a decrease in (the value of) property investments;

(c) an increase of the average maturity of the bond portfolio;

(d) an increase of the weight of new asset classes, such as infrastructure, mortgages, loans, real estate;

(e) a small decrease in the debt portfolio and a small increase in 'other investments' between 2015 and 2016. Equity allocation has remained unchanged. Changes in all three main investment categories from 2011 to 2016 have only been marginal; and

(f) the volume of non-unit linked and non-index linked assets has significantly increased in the last years. The majority of the insurers mentioned the intention to further extend the product range and the selling of more such products in the next three years.

137 PensionsEurope published *2015 Pension Fund Statistics* that refers to pension funds in the private sector from 21 European countries. These pension funds are not necessarily reporting under IFRS Standards. The report indicates that the investment in equity instruments of the member organisations amount to 1.137 billion Euros, approximately 31% of total assets. The largest asset class is bonds with 48%.

138 The explanatory note to the PensionsEurope statistical data indicates that the search of yield has resulted in a shift from traditional asset classes towards riskier investments. Tax incentives are deemed essential to encourage pension funds to make investments in alternative assets such as infrastructure. Finally, the environment of low interest rates influences asset allocation as the duration gap increases when long-term rates fall.

Other concerns

139 Some respondents raised concerns about the treatment of mutual funds or Undertakings for the Collective Investment of Transferable Securities ('UCITS'). It is currently understood that these instruments do not qualify as 'equity instruments' for the purpose of the FVOCI election. In addition, such instruments do not meet the 'solely payments of principal and interest' criterion in IFRS 9 for amortised cost classification of non-equity financial assets. As a consequence, these assets would need to be carried at FVPL under IFRS 9.

140 One respondent noted that UCITS would be placed at a clear disadvantage compared to direct holdings and this could go against the objective to reduce market fragmentation. The respondent noted that it will consider switching from UCITS to mandates (direct investments) or dedicated funds that it will control.

Chapter 6 – Implications for the next phase

141 The assessment phase provides useful insights into the anticipated effects of the new requirements in IFRS 9, including the significance of AFS equity instruments and possible effects on asset allocation decisions. However, it would be inappropriate to make predictions or draw firm conclusions on the basis of the evidence available. In particular, it should be noted that insurance entities will apply

IFRS 9 only in 2021 and are therefore remain at an early stage of their implementation activities.

142 In EFRAG's view, these are some of the key messages from the evidence obtained in the assessment phase:

(a) the aggregate amount/value of equity instruments classified as AFS under IAS 39 by entities that consider themselves long-term investors is substantial. Our findings indicated a high level of concentration of holdings of equity instruments classified as AFS in a relatively small number of entities;

(b) the importance of AFS accounting varies among entities that consider themselves long-term investors. For some, recycled gains and losses represent a significant proportion of net profits in the years examined. However, some make little or no use of the AFS classification and classify most or all of their equity instruments at FVPL: such entities should not be affected by IFRS 9's requirements;

(c) asset allocation decisions are driven by a plurality of factors. It is difficult to assess the relative importance of accounting requirements;

(d) entities that are concerned about the new requirements often point out to a form of 'economic linkage' between their holdings of equity investments and some of their liabilities, and consider that IFRS 9 does not portray this perceived linkage; and

(e) it is confirmed that in practice entities use different criteria to assess impairment of equity instruments. These are not indicative only of divergent application; they could also reflect different characteristics of the equity instruments (listed or unlisted shares, volatility, etc.) and different business purposes.

143 The assessment phase has confirmed that some entities expect to modify their asset allocation decisions, while others do not.

144 EFRAG will continue its work in accordance with the request for technical advice and will investigate if and how the new requirements may be improved.