REQUEST FOR FEEDBACK – QUESTIONNAIRE

EQUITY INSTRUMENTS – RESEARCH ON MEASUREMENT

Why is EFRAG consulting?

As part of its Action Plan on Sustainable Finance, the European Commission ("EC") announced it would ask EFRAG to explore potential alternative accounting treatments to ("FV") measurement for long- term investment portfolios of equity and equity-type instruments.

In June 2018, EFRAG received a request for advice from the EC in relation to the accounting requirements for investments in equity instruments.

The request for advice is part of the EC's initiatives to orient capital flows towards investment in sustainable activities.

The request for advice asks EFRAG to consider alternative accounting treatments to measurement at fair value through profit or loss (FVPL) for equity instruments.

According to the request for advice, such possible alternative accounting treatments should serve the following objectives:

- properly portray the performance and risks of long-term investment business models, in particular for those equity and equity-type investments that are much needed for achieving the UN Sustainable Development Goals and the goals of the Paris Agreement on Climate Change;
- preferably enhance investors' insight in the long-term performance of investments, as opposed to recognising point-in-time market-based value changes in reported profit or loss during the duration of the equity investment.

The questionnaire

EFRAG has developed this questionnaire in order to gather views from constituents on alternative accounting treatments to IFRS 9 *Financial Instruments* requirements for equity and equity-type instruments held in a long-term investment business model. Such alternative treatments should serve the objectives mentioned above. Respondents are encouraged to read the EFRAG Secretariat background paper available here.

The EFRAG Secretariat background paper provides background information on the request for advice. It explains how the consultation relates to the EC's initiatives on sustainable growth, illustrates the accounting requirements in IFRS 9 and explores some possible alternative measurement approaches.

The possible alternatives in the background paper are to be considered as examples; respondents may suggest other measurement approaches that they consider appropriate.

Additionally, the background paper provides indications of how the concepts of 'long-term investment business model' and "equity-type instrument" may be considered in the context of the questionnaire.

In addition to submitting replies to the questionnaire, constituents can provide their input on the topic and ask questions about the survey by writing to:

Fredre Ferreira (*fredre.ferreira@efrag.org*), or Isabel Batista (*isabel.batista@efrag.org*).

Respondents are encouraged to respond to all questions but are not required to do so. EFRAG will still consider their answers.

EFRAG will disclose the responses, unless a respondent asks for confidentiality.

Please complete this survey by 5 July 2019

General information about the respondent

1) Name of the individual/ organisation

Ageas

2) Country of operation

Europe and Asia

3) Job title

Group Director Finance

4) E-mail address

ineke.boelen@ageas.com

5) Are you currently engaging in a long-term investment business model?

(X) Yes

( ) No

6) How do you define long-term investment business model?

A long-term investment business model is a model in which the company acquires assets in order to match long-term insurance or savings related liabilities and to obtain revenues from these investments and often holds these assets, irrespective of short term market volatility.

Through its operating activities, Ageas plays a significant role in financing the real economy.

7) Are you currently engaging in investment of sustainable activities?

(X) Yes

( ) No

8) How do you define sustainable activities?

Sustainable activities are those that target specifically and centrally one or more of the following aspects:

Environmental: factors that contribute to an environmental objective. Such objectives include, but are not limited to, climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, waste prevention and recycling, pollution prevention and control and protection of healthy ecosystems

Social: factors that contribute to a social objective, in particular to tackling inequality, fostering social cohesion, social integration and labour relations, human capital and economically or socially disadvantaged communities

Governance: factors that contribute to good governance practices, in particular companies with sound management structures, good employee relations, fair remuneration and tax compliancy

Question 1

9. IFRS 9 allows an entity to account equity instruments either at FVPL or, if applicable, at fair value through other comprehensive income (FVOCI) without impairment and without reclassification ("recycling") to P&L upon disposal of valuation gains or losses previously recognized through OCI ("IFRS 9 requirements" for equity instruments). When defining an accounting treatment alternative to IFRS 9 requirements for equity instruments held in a long term investment business model, which characteristics would you require to identify a *long-term investment business model*?

[ ] The characteristics/ business model of the investor

[ ] The expected holding period

[ ] The actual holding period

[ ] The long-term nature of the liabilities that fund the assets

[X] Other

If you have indicated "Other" please provide details

Ageas supports the fact that IFRS 9 classification rules are based on our business model but wants to stress that investments held for trading only represent a small portion of our portfolio. This would lead us to classify the majority of our equity instruments under the FVOCI method.

FVOCI classification is suitable for both shorter term and long term, life and non-life activities aligned with our insurance and reinsurance activities. As such, there is no real need to make a distinction between a short term and a long-term investment business model for equity instruments. However, the current IFRS 9 treatment of equity under the FVOCI method (without "recycling") is making this type of equity investments unattractive to insurance entities.

Question 2

10. In your view, is an alternative accounting treatment to IFRS 9 requirements needed to properly portray the performance and risks of equity instruments held in a long-term investment business model?

(X) Yes

( ) No

Question 3

11. Explain the reasons for your reply to question 2, including the key operational challenges in developing a different accounting treatment to IFRS 9 requirements

From the point of view of Ageas, there is no need to introduce a new accounting treatment. The fundamental rules for FVOCI instruments could be extended to equity investment. Naturally, this requires the reintroduction of "recycling", which would significantly increase the attractiveness of equity investments to insurance companies. Dividends, gains and losses realised on disposal of equity instruments measured at FVOCI are an integral part of the entities performance and should be included in the income statement.

Many users of financial statements are interested in additional information that distinguishes between realised and unrealised gains and losses. Recognising realised gains and losses on derecognised equity instruments at FVOCI in profit and loss would provide clear information about the contribution of disinvestment decisions. As such, users will be in a better position to assess the performance of the entity.

Additionally, Ageas would very much support the extension of the proposed approach to equity-like instruments, such as undertakings for collective investments in transferable securities (UCITS).

Question 4

12. With reference to equity instruments held in a long-term investment business model, if you support measurement at FV through other comprehensive income with reclassification to P&L upon disposal of the valuation gains or losses previously recognized through OCI (so called "recycling"), which impairment model would you suggest and how it would work in practice?

Ageas fully supports measurement at FVOCI with reclassification to profit and loss upon disposal of the valuation gains or losses previously recognised through OCI (i.e. recycling) for all equity instruments that are not held for trading. However, Ageas recognises the need for an impairment model if equity instruments were to be accounted for at FVOCI with recycling.

Ageas acknowledges that some of the negative fair value changes can have a permanent nature and that it would be appropriate and in line with the principle of prudence of the Conceptual Framework for Financial Reporting to reflect such fair value changes in profit or loss. A robust impairment model also increases the relevance of the profit or loss statement as primary source of information of a company's performance.

The new model should include quantitative and rebuttable triggers. These triggers should be defined by the entity, as is the case with the significant increase in credit risk, but within a general framework. For example, IFRS 9 could however provide additional guidance on the meaning of "significant" or "prolonged".

Additionally, it is important to have clear rules regarding the conditions that allow an impaired instrument to be considered 'normal' again. Ageas believes that the current rule under IAS 39.69, prohibiting the reversal of impairment losses in P&L for equity instruments classified as available for sale, does not reflect the true nature of most financial performances.

Ageas would suggest the introduction of an impairment model under IFRS 9 for FVOCI equity instruments with clear criteria such as, for instance:

- A 'significant' decline in fair value could be defined as being a decline of more than 25 % in fair value.
- A 'prolonged decline in fair value' could be defined as being a decline in fair value during at least 365 consecutive days.
- The same quantitative triggers could be used in order to consider reversal of impairments.

Such a model increases the relevance of the profit or loss statement as primary source of information of a company's performance.

Question 5

13. Should the different accounting treatment be restricted to equity instruments held in a long term investment business model?

For more detail, please refer to paragraphs 4.3 to 4.29 of the Background paper.

[ ] Yes

[X] No

14. Please explain your answer

As stated in question 1, the current FVOCI is suitable for short and long term investments. An additional treatment will diminish the transparency of the rules and could create arbitrage opportunities.

Question 6

15. As per IFRS 9, equity-type of instruments, such as units of investment funds, do not meet the definition of equity instrument of IAS 32 Financial Instruments: Presentation, therefore are not eligible for the option to measure them at fair value through comprehensive income ("FVOCI"). At the same time, they are not eligible for measurement at amortised cost (as they have contractual cash flows that are not Solely Payments of Principal and Interest, “SPPI” instruments). As such, IFRS 9 requires to account for them at FVPL; no FVOCI option is granted ("IFRS 9 requirements for equity-type instruments").

Should the different accounting treatment referred to in the previous questions be extended to instruments that are "equity-type"?

For more detail please refer to paragraph 4.30 to 4.39 of the Background paper.

[X] Yes

[ ] No

16. Please explain your answer

As commented in question 3, Ageas believes the extension proposed in question 4 should also apply to equity-like instruments. The accounting treatment of equity instruments should be irrespective of whether the entity invests directly or indirectly in equity instruments.

Under the current treatment, those investments are held as available for sale with changes in fair value going through other comprehensive income (OCI). The transition to IFRS 9, if no changes are made, will move these positions to FVPL (since those do not fulfil the solely payments of principal and interest -test). This will not only increase volatility in the profit and loss statement but also generate a mismatch with the liabilities funding these assets since these liabilities are not accounted for as FVPL.

Insurers do not only directly invest in equity instruments; they also invest indirectly in equity instruments, for example through units or notes in investment funds. It is important not to create a difference in treatment if and when the same assets are held in a different form. Therefore, to provide relevant information for the performance of insurers, we believe that the accounting treatment of “equity-type” instruments such as UCITs should also be eligible to the FVOCI category under IFRS 9.

Question 7

17. If so, which characteristics would you require to define the "equity-type" instruments?

[X] Units of funds and other instruments that meet the 'puttable exception' in IAS 32

[ ] The nature of the assets invested in

[ ] Mutual funds

[ ] Other

18. If you have indicated "Other" please provide details

Question 8

19. With reference to equity and equity-type instruments held in a long term investment business model, please rate how relevant a different accounting treatment is to the objective of reducing or preventing detrimental effects on investment in sustainable activities in Europe.

0 ______________________________________[_75%_]_______________ 100

Question 9

20. Are there other characteristics that would justify an accounting treatment different than IFRS 9 requirements for equity instruments and equity-type instruments held in a long-term investment business model? Please provide examples.

Ageas is convinced that an adaptation of the accounting treatment under IFRS 9 for equity and equity-type instruments is necessary. As proposed in the previous questions, Ageas does not propose a different accounting treatment but an enhancement of the proposed FVOCI classification and measurement for equity instruments.

There is no need to try to differentiate long-term investments from shorter-term investments as companies already distinguish investments by accounting for them at FVOCI instead of FVPL. This choice is made based on the nature of the underlying liabilities, as part of the ALM strategy.

The following pages include 7 illustrative examples of long term investment. For each scenario, you are invited to answer the questions on the page which follows.

Please consider that for Scenario A, B, C and D IFRS 9 requires to either measure the investment at FVTPL or to elect the option for measurement at FV through other comprehensive income, without reclassification to P&L, upon disposal, of the valuation gains or losses previously recognized through OCI, and without impairment.

Illustrative example A - Wind farm with predetermined useful life

21. For scenario A - In your view, is a different accounting treatment needed in order to meet the following two objectives? (i) properly portray the performance and risks of long-term investment business models, in particular for those equity and equity-type investments that are needed for achieving the UN Sustainable Development Goals and the goals of the Paris Agreement on Climate Change; and (ii) preferably enhance investors' insight in the long-term performance of investments, as opposed to recognising point-in-time market-based value changes in reported profit or loss during the duration of the equity investment.

( ) Yes

(X) No

If yes, please explain why.

22. Which element in the scenario is more relevant for your reply?

________The sustainable nature of the investee's operation

________The definite useful life of the investee's operation

________The investor's inability to dispose of the shares

23. Which accounting treatments do you support?

( ) Historical cost

( ) Average fair value

( ) Adjusted cost

( ) Adjusted fair value

( ) Allocation-based approaches

( ) Existing requirements are appropriate

(X) Other

In case you would support an Accounting treatment other than the examples explored in the EFRAG Secretariat Background paper and/or you have selected “Other”, please illustrate the accounting treatment you would support and why.

No alternative accounting treatment for the long-term investment business model is needed to properly portray the performance and risks of equity instruments.

The reintroduction of recycling is however necessary for equities measured at FVOCI since it would significantly improve the true and fair view of our financial performance. Gains and losses on derecognised instruments are as essential to performance as are dividends. For that reason, Ageas sees no rationale to present them differently.

Illustrative example B - Unlisted single equity instrument

24. For scenario B - In your view, is a different accounting treatment needed in order to meet the following two objectives? (i) properly portray the performance and risks of long-term investment business models, in particular for those equity and equity-type investments that are needed for achieving the UN Sustainable Development Goals and the goals of the Paris Agreement on Climate Change; and (ii) preferably enhance investors' insight in the long-term performance of investments, as opposed to recognising point-in-time market-based value changes in reported profit or loss during the duration of the equity investment.

( ) Yes

(X) No

If yes, please explain why.

25. Which element in the scenario is more relevant for your reply?

________The fact that the shares are unlisted

________The fact that the investor does not have a put option

________The sustainable nature of the investee's operation

26. Which accounting treatments do you support?

( ) Historical cost

( ) Average fair value

( ) Adjusted cost

( ) Adjusted fair value

( ) Allocation-based approaches

( ) Existing requirements are appropriate

(X) Other

If you would support an Accounting treatment other than the examples explored in the EFRAG Secretariat Background paper and/or you have indicated "other", please illustrate the accounting treatment you would support and why.

No alternative accounting treatment for the long-term investment business model is needed to properly portray the performance and risks of equity instruments.

The reintroduction of recycling is however necessary for equities measured at FVOCI since it would significantly improve the true and fair view of our financial performance. Gains and losses on derecognised instruments are as essential to performance as are dividends. For that reason, Ageas sees no rationale to present them differently.

Illustrative Example C - Open portfolio of equity instruments held with a view to service a long-term insurance liability

27. For scenario C - In your view, is a different accounting treatment needed in order to meet the following two objectives? (i) properly portray the performance and risks of long-term investment business models, in particular for those equity and equity-type investments that are needed for achieving the UN Sustainable Development Goals and the goals of the Paris Agreement on Climate Change; and (ii) preferably enhance investors' insight in the long-term performance of investments, as opposed to recognising point-in-time market-based value changes in reported profit or loss during the duration of the equity investment.

( ) Yes

(X) No

If yes, please explain why.

28. Which element in the scenario is more relevant for your reply?

_____X___The link to a long-term obligation (insurance contracts)

________The fact that the entity holds a portfolio of equity instruments

________The fact that the shares are unlisted

29. Which accounting treatments do you support?

( ) Historical cost

( ) Average fair value

( ) Adjusted cost

( ) Adjusted fair value

( ) Allocation-based approaches

( ) Existing requirements are appropriate

(X) Other

If you would support an Accounting treatment other than the examples explored in the EFRAG Secretariat Background paper and/or you have indicated "other", please illustrate the accounting treatment you would support and why.

No alternative accounting treatment for the long-term investment business model is needed to properly portray the performance and risks of equity instruments.

The reintroduction of recycling is however necessary for equities measured at FVOCI since it would significantly improve the true and fair view of our financial performance. Gains and losses on derecognised instruments are as essential to performance as are dividends. For that reason, Ageas sees no rationale to present them differently.

Illustrative Example D - Open portfolio of equity instruments held with a view to service a long-term liability

30. For scenario D - In your view, is a different accounting treatment needed in order to meet the following two objectives? (i) properly portray the performance and risks of long-term investment business models, in particular for those equity and equity-type investments that are needed for achieving the UN Sustainable Development Goals and the goals of the Paris Agreement on Climate Change; and (ii) preferably enhance investors' insight in the long-term performance of investments, as opposed to recognising point-in-time market-based value changes in reported profit or loss during the duration of the equity investment.

( ) Yes

(X) No

If yes, please explain why.

31. Which element in the scenario is more relevant for your reply?

____X__The link to a long-term obligation

________The fact that the entity holds a portfolio of equity instruments

________The fact that the shares are unlisted

32. Which accounting treatments do you support?

( ) Historical cost

( ) Average fair value

( ) Adjusted cost

( ) Adjusted fair value

( ) Allocation-based approaches

( ) Existing requirements are appropriate

(X) Other

If you would support an Accounting treatment other than the examples explored in the EFRAG Secretariat Background paper and/or you have indicated "other", please illustrate the accounting treatment you would support and why.

No alternative accounting treatment for the long-term investment business model is needed to properly portray the performance and risks of equity instruments.

The reintroduction of recycling is however necessary for equities measured at FVOCI since it would significantly improve the true and fair view of our financial performance. Gains and losses on derecognised instruments are as essential to performance as are dividends. For that reason, Ageas sees no rationale to present them differently.

Illustrative example E - Long-term investment held indirectly through a unit fund - listed

33. For scenario E - In your view, is a different accounting treatment needed in order to meet the following two objectives? (i) properly portray the performance and risks of long-term investment business models, in particular for those equity and equity-type investments that are needed for achieving the UN Sustainable Development Goals and the goals of the Paris Agreement on Climate Change; and (ii) preferably enhance investors' insight in the long-term performance of investments, as opposed to recognising point-in-time market-based value changes in reported profit or loss during the duration of the equity investment.

( ) Yes

(X) No

If yes, please explain why.

34. Which element in the scenario is more relevant for your reply?

____X___The investor's assessment of the long-term nature of its investment

________The listed feature of the fund

________The investor's ability to redeem or sell

35. Which accounting treatments do you support?

( ) Historical cost

( ) Average fair value

( ) Adjusted cost

( ) Adjusted fair value

( ) Allocation-based approaches

( ) Existing requirements are appropriate

(X) Other

If you would support an Accounting treatment other than the examples explored in the EFRAG Secretariat Background paper and/or you have indicated "other", please illustrate the accounting treatment you would support and why.

No alternative accounting treatment for the long-term investment business model is needed to properly portray the performance and risks of equity instruments.

The reintroduction of recycling is however necessary for equities measured at FVOCI since it would significantly improve the true and fair view of our financial performance. Gains and losses on derecognised instruments are as essential to performance as are dividends. For that reason, Ageas sees no rationale to present them differently.

Illustrative example F - Long-term investment held indirectly through a unit fund – non listed

36. For scenario F - In your view, is a different accounting treatment needed in order to meet the following two objectives? (i) properly portray the performance and risks of long-term investment business models, in particular for those equity and equity-type investments that are needed for achieving the UN Sustainable Development Goals and the goals of the Paris Agreement on Climate Change; and (ii) preferably enhance investors' insight in the long-term performance of investments, as opposed to recognising point-in-time market-based value changes in reported profit or loss during the duration of the equity investment.

( ) Yes

(X) No

If yes, please explain why.

37. Which element in the scenario is more relevant for your reply?

___X___The investor's assessment of the long-term nature of its investment

________The unlisted feature of the fund

________The investor's ability to redeem or sell

38. Which accounting treatments do you support?

( ) Historical cost

( ) Average fair value

( ) Adjusted cost

( ) Adjusted fair value

( ) Allocation-based approaches

( ) Existing requirements are appropriate

(X) Other

If you would support an Accounting treatment other than the examples explored in the EFRAG Secretariat Background paper and/or you have indicated "other", please illustrate the accounting treatment you would support and why.

No alternative accounting treatment for the long-term investment business model is needed to properly portray the performance and risks of equity instruments.

The reintroduction of recycling is however necessary for equities measured at FVOCI since it would significantly improve the true and fair view of our financial performance. Gains and losses on derecognised instruments are as essential to performance as are dividends. For that reason, Ageas sees no rationale to present them differently.

Thank You!

Thank you for taking our survey. Your response is very important to us.
