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/ organization

AXA

2) Country of operation

Worldwide

3) Job title

Head of group accounting policies / Group accounting policies expert

4) E-mail address

Sophie.massol@axa.com / mathieu.trioux@axa.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 should be considered in relation with the nature of the liabilities.
Insurers have structurally long-term liabilities. Long term liabilities are a requirement to long-term investing and should be including life business as well as non-life

businesses and own funds.

AXA equity portfolio is mostly comprised of growth stocks where investment decisions are primarily based on long term growth and dividends perspectives and not with an objective of generating short term realized gains and losses.

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

(X) Yes

( ) No

8) How do you define sustainable activities?

We view sustainable activities as any activity providing financing to innovative businesses involved in reducing pressure on the environment

AXA is already engaged in green business initiatives but doesn't support the insertion of sustainable definition in the application of an alternative measurement model for equity and equity-like instruments.

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*?

[X] The characteristics/ business model of the investor

[ ] The expected holding period

[ ] The actual holding period

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

[ ] Other

If you have indicated "Other" please provide details

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

AXA strongly supports the reintroduction of the fair value through OCI with recycling to P&L model combined with a more market-consistent and homogeneous impairment model.

We believe this measurement is the most appropriate to portray the performance of equities held with an objective of long-term investing.

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?

AXA supports the reintroduction of an impairment model based on IAS 39 rules with additional quantitative rules on the definition of "significant and prolonged" criterion for example recognizing impairments when <u>unrealized losses are greater than 20%</u> of the historical cost OR <u>for more than 6 months</u>. Having such clear limited and prudent bright-lines would be a guarantee of a robust impairment model.

AXA also supports the inclusion of a reversal mechanism based on symmetrical rules to the impairment rules.

We believe this should address the prior weaknesses due to the diversity in the application of IAS 39.

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

AXA doesn't support the restriction on specific business models or type of equity securities as it would bring more diversity and lack or comparability.

We believe the FV OCI with recycling and impairment model should be applied as default and as an alternative to the existing FVPL business model.

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 mesure 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

AXA supports the FV OCI treatment to equities and equity like instruments. As a key IFRS principle of substance over the form, the fact equity securities are held via an investment fund should not have an influence on the measurement method.

We think the scope should include all puttable instruments as defined in IAS 32

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____[100] (very relevant)

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.

AXA doesn't support the inclusion of additional characteristics to justify an accounting treatment other than the one outlined in the questionnaire (FVOCI + recycling + impairments)

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

( ) 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

( ) 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.

Not relevant for AXA

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.

(**X**) Yes

( ) 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.

AXA would apply the alternative treatment at fair value through OCI with recycling and impairment. None of the elements listed in #25 seems relevant in the choice of the measurement method

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.

(**X**) Yes

( ) 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)

X______ 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.

AXA would apply the alternative treatment at fair value through OCI with recycling and impairment.

IFRS 17 already addresses the link between insurance contracts and underlying invested assets and offers a way to mitigate P&L volatility for insurance contracts measured under the VFA model. However, it does not address P&L volatility concerns for equity

instruments backing insurance contracts measured under the general model or PAA model and for equity portfolios backing own funds. As mentioned in paragraph #6, we believe the alternative treatment at FVOCI shouldn't be limited to certain activities.

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.

(**X**) Yes

( ) 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

X______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.

AXA would apply the alternative treatment at fair value through OCI with recycling and impairment.

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.

(**X**) Yes

( ) 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.

AXA would apply the alternative treatment at fair value through OCI with recycling and impairment. The fact equities are in a fund should not direct the measurement model in virtue of the substance over the form IFRS principle.

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.

(**X**) Yes

( ) 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.

AXA would apply the alternative treatment at fair value through OCI with recycling and impairment. See previous answer

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Thank You!

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