Administration, Finance and Control
Administration

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REQUEST FOR FEEDBACK – QUESTIONNAIRE EQUITY INSTRUMENTS – RESEARCH ON MEASUREMENT

General information about the respondent

1. Name of the individual/ organization

Enel SpA

2. Country of operation

Enel Group is a multinational corporation mainly operating in Italy, Spain, USA and South America.

3. Job title

Head of Group Accounting Advisory and Compliance

4. E-mail address

francesca.flamini2@enel.com

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

YES.

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

In our opinion, the long-term definition for the business model is mainly related to the expected holding period of the instruments.

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

YES.

8. How do you define sustainable activities?

Enel is actively engaged in creating sustainable long-term value for all stakeholders every day, thinking globally and acting locally, respecting and enhancing diversity. For us, sustainability is a key value and represents, together with innovation, the engine of inclusive growth in conditions of dynamic balance. It is increasingly integrated into our industrial and financial strategies, creating value and synergies with the external world and accelerating the achievement of the United Nations Sustainable Development

Goals (SDGs). A commitment that Enel has strengthened and expanded, revitalizing the targets for reducing specific CO_2 emissions (SDG 13), increasing interaction with communities, facilitating their access to education, energy and employment as well as inclusive and sustainable economic growth (SDG 4, 7, 8) and introducing specific additional targets for SDG 9 (industry, innovation and infrastructure) and SDG 11 (sustainable cities and communities).

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 expected holding period.

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?

NO.

We agree that an accounting treatment different from FVOCI for equity instruments held in a long-term investment business model is not needed, but we support the reintroduction of the recycling on disposal that would provide more useful information about the return of the investment including both dividends and gain or losses on disposal. In fact, it could seem misleading that the same instrument measured at FVPL has the effect that such returns are included in profit or loss, while the FVOCI election has the effect that only dividends are included.

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

Please see answer above.

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 OIC (so called "recycling"), which impairment model would you suggest and how it would work in practice?

With reference to impairment model in case of measurement at FV through other comprehensive income with reclassification to P&L upon disposal of the valuation gains or losses previously recognized through OIC, we suggest IAS 39 model with reversal of impairment losses.

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

YES.

14. Please explain your answer

At this stage, it is not clear for what type of instruments the FVOCI option could be extended.

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"?

NO.

16. Please explain your answer

We consider FVOCI option only if the nature of the underlying asset invested is in line with the FVOCI requirements. Anyway, in our opinion, it could be useful to better clarify equity-type instrument definition.

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

In our opinion, it could be useful to better clarify equity-type instrument definition.

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

Please, see answer above.

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.

We believe that potential alternative accounting treatment to ("FV") measurement for long-term investment portfolios of equity and equity-type instruments would not significantly affect, by itself, investment choices in sustainable activities.
Anyway, we would really appreciate the promotion by EFRAG and Local Standard Setters of a wider project aimed to assess the impact of the UN Sustainable Development Goals and the goals of the Paris Agreement on Climate Change on IFRS in terms of presentation, disclosures and measurement requirements.
Considering Enel commitment in the achievement of such goals, we are available to support EFRAG in any eventual project in this scope.

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.

NA.