# 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: Fredré 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*

**Organismo Italiano di Contabilità (OIC)**

2. Country of operation

**Italy**

3. Job title

**National Standard Setter**

4. E-mail address*

**presidenza@fondazioneoic.it**

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

( ) Yes

(**X**) No

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

**Not Applicable**

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

( ) Yes

(**X**) No

8. How do you define sustainable activities?

**Not Applicable**

## 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

[**X**] The expected holding period

[**X**] The actual holding period

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

[ ] Other

If you have indicated "Other" please provide details

**In our view, the expected or actual holding period would be more practical and would enhance comparability among 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?

( ) Yes

(**X**)No

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**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.

**In our view, it is not necessary to develop an alternative accounting treatment for equity instruments held in a long-term investment. We think that would be sufficient to amend IFRS 9 to reintroduce the recycling to profit or loss of cumulative gains or losses recognised in OCI. IFRS 9 already permits the recycling for debt instruments and we think that equity instruments should be accounted for in the same way.**
**Both dividends receipts (which are included in profit or loss) and gains on disposal from the sale of equity instruments represent a form of realisation of the fair value of the instruments. Therefore, in our view, both events should be presented in the same way.**

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

**We think that a robust impairment model would be appropriate, because it would reduce any accounting incentive to maintain for a long period of time loss-making investments in equity instruments.**
**In our view, the IAS 39 impairment model for AFS is a good starting point. We think that the main disadvantage of the IAS 39 impairment model is that IAS 39 does not allow the reversal of impairment losses. For this reason, we think that this "new" impairment model should:**

- **allow the reversal of impairment losses for equity instruments;**
- **provide application guidance on the terms "significant" and "prolonged" to reduce the subjectivity around the interpretation of these terms. Quantitative thresholds might be included in this guidance.**

## 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

**We think that equity instruments could be accounted for similarly regardless the 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 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

**We think that defining the term "equity-type investments" would be difficult, because does not exist a specific definition neither in IFRS Standards nor in other documents.**
**In our view a possible solution could be the introduction of the "IAS 32 puttable exception" for these assets. Thus, an instrument that meets the definition of liability for the issuer, but it is classified as equity according to the puttable exception, may be measured at FVOCI by the holder.**

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**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

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**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.

Not relevant at all [0]____________________[__]______________Most Relevant [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.

**We do not have any other comments.**