Brussels, 1th July 2019
VH/AP

# EACB Comments on

# EFRAG consultation about possible alternative approaches to IFRS 9 on reporting of equity instruments for long-term investing

The European Association of Cooperative Banks (EACB) gladly takes the opportunity to comment on the EFRAG's consultation about possible alternative approaches to IFRS 9 on reporting of equity instruments for long-term investing issued by the EFRAG Secretariat on 6th May 2019.

The EACB welcomes the EFRAG's efforts to complement previous EFRAG discussions and consultations on the accounting treatment for equity and equity-type instruments for long-term investing. The current consultation tries to address the IFRS 9 changes compared to IAS 39 for some of these long-term financing instruments.

We appreciate that EFRAG points out that given the nature of the business model of long-term investors, their reported performance should include both returns from dividends and gains or losses on disposal. In this respect, Fair Value through Profit Loss (FVPL) treatment has the effect that all such returns are included in profit or loss, while the Fair Value through Other Comprehensive Income (FVOCI) treatment has the effect that only dividends are included. As a result, some long-term investors may indeed be reluctant to hold equity instruments on a long term base under such approaches.

## The suggested approaches

The EFRAG suggests three alternative accounting treatments for promoting long term investments (Approaches based on adjusted cost, Approaches based on adjusted fair value, Allocation-based approaches).

EACB notes that these approaches introduce new measurements that there were not in the IAS 39. Such new measurements may create an extra danger to add a much higher degree of complexity to preparers and auditors compared to the old accounting measurements, thus questioning the need for a revision.

It is possible that the new measurements may require high effort and much time in order to be explained in the financial statements. Some members of the EACB have doubts regarding the advantages of a move to new approaches. They are not fully convinced that the new measurements will necessarily have a positive impact on promoting long-term investments.

Some EACB's members believe that the new approaches lead to completely altering the accounting for equity instruments. Members have just started to implement the new IFRS 9. For this reason, they would prefer a period of stability for them in order to identify how IFRS 9 will work and affect their accounting practices. Any effort to alter the accounting measurement at this stage may create extra complexity and disturbance in the accounting process.

**Former IAS 39 FEATURES**

Instead, we would like to reiterate as in prior consultations on the accounting for equity instruments that we see a necessity to introduce two elements of the former IAS 39 into IFRS 9:

- We consider that measurement at cost rather than at fair value might be the most appropriate measurement basis for unlisted equity instruments. The reason for this approach is the fact that it is of high cost and it requires much effort for an entity to determine the fair value of an unlisted equity instrument. IFRS 9 does not retain the cost exception for unquoted equity instruments. [IFRS 9, Paragraph 5.17]
- Under IAS 39, equity investments were reported at fair value with fair value changes included in profit & loss. Recycling occurs when past unrealised fair value changes are ‘realised’ due to the sale of the investment or, alternatively, where there is no sale but the value of the investment has declined and is assessed to be ‘impaired’. On the contrary, the new IFRS standard on accounting for financial instruments applies a different approach [IFRS 9, paragraphs 5.7.7-5.7.8]. Companies may elect to report fair value changes of particular equity investments through other comprehensive income (FVOCI). However, unlike IAS 39, if reported in OCI then there is no recycling either on sale or if the asset is ‘impaired’. We support the maintenance of the old accounting treatment as an option.

**Contact:**

For further information or questions on this paper, please contact:

- Mr. Volker Heegemann, Head of Department (volker.heegemann@eacb.coop )

- Mr. Anastasios Pavlos, Adviser (Anastasios.Pavlos@eacb.coop)