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Amendments to the Classification and Measurement of Financial Instruments – Equity Instruments and OCI

Objective

1 The objective of this paper is to provide the EFRAG FR TEG with a summary of the IASB staff feedback analysis and recommendations on the proposed on the proposed disclosure requirements for investments in equity instruments designated at fair value through other comprehensive income ('OCI') (Question 5 of the ED).

Detailed feedback analysis

Paragraph 11A(c) of IFRS 7 - Disclosure of an aggregate fair value

2 Most respondents welcomed the proposed amendment to paragraph 11A(c) of IFRS 7 to not require the disclosure of the fair value of each equity investment at the end of the reporting period.

3 However, a few respondents noted that the proposed requirement does not explicitly require the disclosure of the aggregate (i.e., total) fair value of these equity investments at the reporting date and suggested the IASB to be explicit in this respect.

4 A few respondents suggested clarifying that an entity is required to determine an appropriate level of aggregation and disaggregation of equity investments to provide useful information to users.

5 A few respondents also suggested adding cross-references to paragraphs 34(c) and B8 of IFRS 7, which require disclosures about concentrations of risk, because this information will not be available if only total fair value is disclosed.

6 One respondent suggested to remove the proposed requirements because it duplicates the existing requirement in paragraph 8(h)(ii) of IFRS 7[1].

7 A few other respondents disagreed with the proposed amendment because in their view, aggregation of the equity investments may obscure useful information in the financial statements.

Paragraph 11A(f) of IFRS 7 - Disclosure of changes in fair value, including those related to equity investments derecognised during the reporting period

8 Many respondents supported the proposed requirement to disclose the changes in fair value presented in OCI during the reporting period, showing separately the

[1] Paragraph 8(h) of IFRS 7 *Financial Instruments: Disclosures* requires equity investments to which the OCI presentation option is applied to be disclosed separately, either in the statement of financial position or in the notes, from financial assets that are classified and measured at FVOCI in accordance with the business model (and characteristics of contractual cash flows) requirements.

amount of that change related to equity investments derecognised during the reporting period and the amount of that change related to equity investments held at the end of the reporting period.

9 Some respondents reiterated their disappointment that IFRS 9 is not permitting the recycling of fair value gains or losses accumulated in OCI to profit or loss. These respondents appreciated that the IASB will continue to monitor new information and further evidence especially from the implementation of IFRS 9 by insurance industry.

10 Some of the respondents who support recycling, suggested that disclosure of realised and unrealised accumulated fair value gains and losses in the OCI would be more useful than the proposed requirements in paragraph 11A(f).

11 A few respondents suggested that required information may not be readily available to the preparers and will result in additional costs.

Paragraphs IG11A and IG11B - Illustrative example accompanying IFRS 7

12 Some of the respondents that commented on these proposals, found the illustrative example useful, but suggested cross-referencing the line items in the illustrative example to the applicable sub-sections in paragraphs 11A and 11B of IFRS 7.

13 Of those who found the IE useful, many found the disclosure of the transfer of any cumulative gain or loss relating to an equity investment, that was disposed of, from other comprehensive income to retained earnings (as illustrated in the proposed paragraph IG11B) useful as this complements the requirements in paragraph 11A(f) of IFRS 7 and would help better depict the financial performance of equity investments that were disposed of.

IASB staff analysis

Paragraph 11A(c) of IFRS 7 - Disclosure of an aggregate fair value

14 The IASB staff notes that paragraph 6 of IFRS 7 requires an entity to group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. The classes described in that paragraph are determined by the entity and are, thus, distinct from the categories of financial instruments specified in IFRS 9.

15 In addition, paragraph B3 of IFRS 7 explains that an entity decides how it aggregates information to display the overall picture without combining information with different characteristics. Entity applies judgement in order not to overburden financial statements and at the same time not to obscure important information.

16 Entity is also required to consider the requirements in paragraphs 29–31 of IAS 1 *Presentation of Financial Statements* regarding materiality and aggregation.

17 The feedback from PIR showed that the OCI presentation option has been, or will be, applied to a number of different equity investments and that the information to provide disclosures for each separate instrument will be onerous and not necessarily useful. As a result the IASB suggested to remove the detailed disclosure requirement.

18 The IASB staff further notes, that the IASB intent was that each entity determines the appropriate level of aggregation. The IASB staff developed two examples below how an entity might group its equity investments into classes that are appropriately aggregated:

(a) If an entity is holding a small number of equity investments for strategic purposes, in a small number of investee entities operating in different jurisdictions and/or industries, the entity might conclude that aggregating such investments into a single class might not provide users of its financial statements with relevant information. Therefore, the entity could disclose the fair value of each investment, as a separate class, at the reporting date.

(b) By contrast, if an entity is holding a large number of equity investments in different investee entities, operating in same jurisdictions and/or similar industries, then the entity might aggregate these investments into various classes by the jurisdiction or the industry that the investee entities are operating in.

19 The IASB staff acknowledge that the wording of the proposed amendment to paragraph 11A(c) could be interpreted in different ways. This is because the proposed amendment referred to 'the fair value of such investments at the end of the reporting period', without any reference to classes of equity investments or references to other requirements in IFRS 7.

20 Therefore, the IASB staff recommend that the introduction sentence in **paragraph 11A of IFRS 7 is amended to require disclosure of the information per class of equity investment.** In other words, when disclosing the information required by paragraph 11A of IFRS 7, including the fair value of the equity investments at the end of the reporting period, the information is provided by class of equity investment.

21 In the IASB staff view, this will also resolve any perceived inconsistencies or duplication between the requirements in paragraph 8(h) of IFRS 7 and the proposed amendments to paragraph 11A(c).

22 Furthermore, the IASB staff considers that it will also clarify that the requirements in paragraph 34 of IFRS 7 and the related application guidance continue to apply to these type of equity investments. That is to say, an entity might aggregate the fair value of its equity investments by jurisdiction or industry as illustrated in paragraph 18(b) of this paper or by another appropriate risk concentration as portrayed in IG18 and IG19 of the illustrative examples accompanying IFRS 7.

Paragraph 11A(f) of IFRS 7 - Disclosure of changes in fair value, including those related to equity investments derecognised during the reporting period

The objective of the requirements in paragraph 11A(f) and additional costs

23 The IASB staff **did not share the concerns raised about the potential burden and costs on preparers** from having to track fair value changes raised by a few respondents. It notes that according to paragraph 14 of IFRS 13 *Fair value measurement*, the level at which fair value is measured will depend on the 'unit of account' specified in other IFRS Accounting Standards. Under IFRS 9, the unit of account is generally an individual financial instrument, and paragraph B5.7.1 of IFRS 9 requires that the election to present fair value changes in OCI is made on an instrument-by-instrument basis.

24 Thererefore, the fair value of equity investments is determined on an instrument-by-instrument basis regardless of the level of aggregation for disclosure purposes. In addition, paragraph 11B(c) of IFRS 7 already requires the disclosure of the cumulative gain or loss on disposal, determined for each equity investment disposed of during the reporting period. In the IASB staff view, an entity is therefore expected to have access to the information required in proposed paragraph 11A(f) and to be able to separately identify changes in fair value of equity investments derecognised during the reporting period without any additional cost or tracking.

25 In addition, the proposed disclosure covers only current and not previous reporting periods.

Realised and unrealised gains or losses

26 The IASB staff note that neither IFRS 9 nor IFRS 7 distinguishes between realised and unrealised fair value gains or losses and further acknowledge that when

stakeholders refer to realised gains or losses, most of the time they are referring to gains or losses that arise on disposal/derecognition.

27 The IASB staff further notes that introducing new disclosure requirements that distinguish between realised and unrealised amounts accumulated in OCI related to equity investments would be a conceptual question, which would further refer to recycling and impairment of such equity instruments. As discussed in the Agenda Paper 3A to the IASB October 2022 meeting, currently there is no evidence to support that a conceptual change or introduction of an impairment model for equity investments .

28 The IASB staff considers that the combination of the proposed requirement in paragraph 11A(f) of the ED and the requirements in paragraph 11B of IFRS 7, in particular the requirement to disclose the cumulative gain or loss on disposal and the refinements recommended in paragraph 33 of this paper below, would achieve the disclosure of what stakeholders refer to as 'realised' gains or losses.

29 As a result, the IASB staff propose **to finalise the requirements in paragraph 11A(f) of the ED without making further changes, but to acknowledge in the Basis for Conclusions that entities should provide any additional information that is not required by paragraph 11A but they consider relevant to users of financial statements.**

Paragraphs IG11A and IG11B - Illustrative example accompanying IFRS 7

30 The IASB staff note that the transfer between different components of equity is allowed but not mandatory under IFRS Accounting Standards. Paragraph 11A(e) of IFRS 7 requires to disclose this information only when such a transfer has occurred during the reporting period, including the reasons for the transfer and the amount being transferred between the different components of equity (see also paragraph BC5.26 of Basis for Conclusions on IFRS 9).

31 The IASB staff disagreed with stakeholders that suggested to require the transfer to retained earnings of the cumulative fair value gains or losses relating to an equity investment that has been derecognised. In the IASB staff view, introducing such a requirement could be burdensome and would go beyond the scope of this project as there is no conceptual basis to require this only for equity investments.

32 The IASB staff acknowledge that there could be a perceived inconsistency because paragraph 11A(e) of IFRS 7 specifically requires the disclosure of any transfers made related to equity investments the entity holds at the reporting date, but paragraph 11B does not include a similar requirement for equity investments disposed of during the reporting period.

33 Therefore, the IASB staff recommend **including a requirement similar to that in paragraph 11A(e) in paragraph 11B of IFRS 7** - that is to say, **if an entity chooses to transfer any amounts within equity relating to the equity investments that were disposed of, disclosure of the amount being transferred and the component of equity it is being transferred to, is required**. In the IASB staff view, this would not result in any additional costs or effort for entities as the transfer of such amounts remain voluntary.

34 The IASB staff also recommends **to include cross-references of the line items in the IE to the applicable sub-sections in paragraphs 11A and 11B of IFRS 7.**

The IASB discussions

35 All 13 IASB members present **voted in favour** of the IASB staff recommendations. They, however expressed the following concerns and suggestions:

(a) Members had mixed views on the cost-benefit assessment of the IASB staff of the disclosure requirements proposed in paragraph 11A(f). Several members questioned whether the benefits of the disclosure would outweigh the costs and asked for more explanations of cost-benefit considerations from the IASB staff. At the same time other members agreed with the IASB staff that this information should be readily available as it is already required for other disclosure, as well as for tax purposes.

(b) It was suggested to make explicit references to the classes of investments mentioned in paragraph 22 and on current reporting period in paragraph 25 of this paper in the Application Guidance.

(c) One member questioned whether the statement that 'entities should provide any additional information that is not required by paragraph 11A but they consider relevant to users of financial statements' should be included in the Basis to Conclusions, as it was too generic.

(d) One member asked whether they have to vote on suggested cross-references on IE and noted against providing cross-references to the individual line items to avoid unintended consequences of interpretation of the examples.

The EFRAG Secretariat assessment

36 The EFRAG Secretariat agrees with the IASB staff recommendations as they are generally in line with the EFRAG recommendations in its comment letter and will help users of financial statements to better evaluate the performance of equity investments measured at FVOCI.

37 The EFRAG Secretariat reminds that EFRAG does not provide endorsement advise on illustrative examples.

EFRAG discussions

38 EFRAG FIWG and IAWG discussed this topic at its meetings on 20 and 21 November 2023 respectively. Their feedback is provided below.

EFRAG FIWG

39 EFRAG FIWG members agreed with the IASB proposals and noted that the information about fair value changes, including on disposal is very useful for the analysts.

EFRAG IAWG

40 EFRAG IAWG members noted that 'class of equity' is not defined in IFRS 7 and suggested that more guidance on how to group the equity instruments would be useful to avoid diversity in practice.

41 One member welcomed the IASB acknowledgement that although there is no specific requirement to reclassify on derecognition the OCI amounts between different components of equity it was possible to do it. In this member view, the additional disclosure in this regard was not needed as this information is already provided in the notes. This member further noted that it is not useful to provide additional information on non-recyclable OCI and that it will not replace the recycling.

42 Members reiterated that it remains priority for insurance industry to rediscuss the non-recycling of equity within PIR of IFRS 17.

Questions for EFRAG FR TEG

43 Does EFRAG FR TEG agree with the IASB staff recommendation in the paragraph 20 of this paper to require disclosure of the information per class of equity investment?

44	Does EFRAG FR TEG agree with the IASB staff recommendation in paragraph 29 of this paper not to make changes to paragraph 11A(f) and to state in the BC that entities should provide any additional information that is not required by paragraph 11A but they consider relevant to users of financial statements?
45	Does EFRAG FR TEG agree with the IASB staff recommendation in paragraph 33 of this paper to include in paragraph 11B of IFRS 7 a disclosure requirement similar to that in paragraph 11A(e)?
46	Does EFRAG FR TEG agree with the IASB staff recommendation in paragraph 34 of this paper to include cross-references of the line items in the IE to the applicable sub-sections in paragraphs 11A and 11B of IFRS 7?