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EFRAG DP Equity Instruments – Impairment and Recycling

Dear Mr. Gauzès,

We appreciate the opportunity to respond to the DP Equity Instruments – Impairment and Recycling. We just implement IFRS 9 in the beginning of 2018 and the change in accounting treatment on equity instruments and the implication for our financial statements was of course internally discussed, but was finally overlaid from other topics e.g. how to determine reliable fair values for equity instruments within the level 3 hierarchy or the practical implementation of the new expected credit losses model.

Nevertheless, we took your DP as an opportunity to resume the discussion on that topic and we have the following suggestions:

We have no final preference on your questions whether the existing requirements of IFRS 9 or the reintroduction of recycling (whether or not combined with an impairment model or any other method of differentiating different kinds of value changes) would improve the depiction of financial performance.

In our view, the main problem is that the IFRS provide no clear conceptual distinction between items of income and expense that shall be presented in profit or loss and items that have to be presented in other comprehensive income. We think that this is the main reason why the statement of profit and loss is still the primary source of financial performance for the most users of financial statements and other comprehensive income is far away from being seen as an equal source for measuring financial performance. This priority for the statement of profit or loss will

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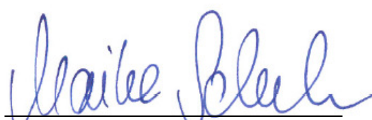
not change as long as there is no clear concept about that distinction. This consequently leads us to the conclusion that (all) value changes should be shown in the statement of profit and loss rather than showing some value changes in the statement in profit or loss and others in other comprehensive income by establishing more or less subjective criteria.

Therefore, we see the models presented by EFRAG as a starting point for further discussions with the IASB, but strongly believe that this is not the right level for these discussions as the conceptual framework of IFRS is not conceptual matured enough to come to a stringent and comprehensible result.

As long as this lack of conceptual maturity exists we honestly would prefer the US GAAP method[1] not as a conceptual matured, but as a rather practical approach.

Finally, we want to emphasize that any potential reconsideration on that topic should only be done at a global level and not as a "European solution" as this would run counter the main principles of the IFRS as world-wide accepted accounting rules with international comparability.

Yours sincerely



Maike Schuh
Head of Accounting

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[1] Equity instruments in principle have to be carried at fair value with all value changes in profit or loss except of equity instruments whose fair value is not readily determinable (level 3 hierarchy). For those equity instruments entities can elect alternatively measurement at cost with frequent impairment testing on the basis of qualitative criteria (indicators). Furthermore costs need to be adjusted for observable price changes in orderly transactions for the identical or a similar investment of the same issuer.