



Mr. Jean-Paul Gauzès
Board President
European Financial Reporting Advisory Group
Square de Meeûs 35
1000 Brussels

R&F 18030

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Dear Mr. Gauzès,

EFRAG Discussion paper on equity instruments – impairment and recycling

This comment letter is written by Assuralia, the association of Belgian insurance companies, representing about 98% of the insurance premiums of Belgian and foreign insurance companies in our market.

We welcome the discussion paper of the EFRAG to investigate the requirements of IFRS 9 on accounting for equity instruments, in particular the relevance of recycling in the context of a long-term investment business model.

Assuralia supports the reintroduction of recycling for equities measured at fair value through other comprehensive income in IFRS 9 since it would significantly improve the presentation of the financial performance of insurance companies. The proposed accounting changes will support insurance companies in their important role as providers of long-term finance to the real economy.

We also support the introduction of an accompanying impairment model similar to that of IAS 39, with rebuttable quantitative triggers set by the company. This model should allow for a reversal of impairments and address the deficiencies of the IAS 39 impairment model by providing clear principles and guidance to define and account for durable value changes.

Please find hereunder our main comments on the survey.
We remain at your complete disposal for any further information.

Yours sincerely,

Paul Windels,
Director Risk & Finance

Question 1.1

What are your views on the arguments presented in paragraphs 2.3 – 2.10? Do you consider that the reintroduction of recycling would improve the depiction of the financial performance of long-term investors? Alternatively, do you consider that the existing requirements of IFRS 9 provide an adequate depiction? Please explain.

Paragraphs 2.4 – 2.7 state that in a long-term investment business model, both dividends receipts and gains on disposal from the sale of equity instruments are important elements of realisation of the fair value of the financial instruments. However, due to the prohibition of recycling, the cash flows relating to gains on disposal from the sale of equity instruments, which are measured at FVOCI, are not reported in profit and loss anymore (in contrast to IAS 39). As a result, the general principle to show in a transparent way all realised gains and losses in profit or loss has been left under IFRS 9.

This creates the false impression that the cumulative gains and losses at the time of disposal of equity instruments are not relevant or economically insignificant, and therefore not a part of the financial performance.

From a company perspective, it creates an unnecessary distortion in the presentation of the financial performance of long-term equity investments, for which FVOCI measurement is otherwise more appropriate than FVTPL measurement.

Furthermore, investors show attention for the performance of insurance companies primarily by analysing their profit and loss statements. In these analyses, profit and loss information is used for several key metrics relating for instance to dividend payments, return on equity, realised gains and losses, etc. while other comprehensive income (OCI) is usually considered to be less important. Therefore, the prohibition to recycle the cumulative gains or losses on equity instruments from OCI in the profit and loss statement risks misrepresenting the true performance of insurance companies.

Opponents of the recycling mechanism argue that the accumulated gain or loss relates to performance over the entire period and not the period of disposal. While this may be true, this does not justify the withholding of substantial and relevant performance information from the profit or loss statement. From a practical perspective, it is impossible to retroactively change the performance statements in order to reflect the distributed result of the accumulated gains or losses on disposal over the different periods. The only way to show that part of the performance is by showing the accumulated gains or losses in profit or loss at the period of disposal. From a long-term investment perspective, this makes sense because temporary value changes during the holding period of long-term equity investments not necessarily reflect the actual performance that will be realized upon disposal.

Question 2.1

What are your views on the arguments presented in paragraphs 2.11 – 2.17? Do you consider that, from a conceptual standpoint, recycling should be accompanied by some form of impairment model? Please explain.

We recognize the need for an impairment model if equity instruments were to be accounted for at FVOCI with recycling.

We acknowledge that some of the negative fair value changes can have a permanent nature and that it would be appropriate and in line with the principle of prudence of the Conceptual Framework for Financial Reporting to reflect such fair value changes in profit or loss. A robust impairment model also increases the relevance of the profit or loss statement as primary source of information of a company's performance.

A complete return to the requirements under IAS 39 for impairment seems not appropriate. In particular, the notion of 'once impaired always impaired' is considered to be excessive and from a transparency perspective incorrect (see question 6.1). If an impairment requirement would be introduced in IFRS 9 for equity instruments measured at FVOCI, it should also allow for a reversal of impairments in the profit and loss statement (in case of a durable value increase). The impairment model under IFRS should be flexible enough as to allow a consistent approach with the impairment method used for statutory reporting purposes.

Question 3.1

What are your views on the arguments and analysis presented in Chapter 3 of the DP?

We support the perspective taken in paragraph 3.7. However, we have strong reservations regarding the approach of Chapter 3. We believe it is not in line with the IASB's core presumption that presentation and disclosure solutions cannot replace the proper recognition and measurement in the primary financial statements (IAS 1.18 and paragraph 3.24). Information recognised in the financial statements is more valuable than information disclosed in the notes. Additional disclosures will never reach the same informative impact as the recognition of impairments in the profit and loss statement.

Furthermore, we disagree with the implicit recommendation in the third scenario that all equity instruments should be accounted for at FVPL. As reinforced in our response to question 1, we fully support the FVOCI option in IFRS 9 for the eligible instruments.

Question 3.2

Are there other improvements in presentation and disclosure that you would support?

In our view no additional disclosure requirements should be introduced, beyond those already existing in IFRS 7.11A and IFRS 7.11B, if the recycling ban on FVOCI equities were not abolished (first, second and third scenario and paragraph 3.24). As indicated above, additional disclosures would never reach the same informative impact as the recognition of impairments in the profit and loss statement.

If the introduction of recycling for equity instruments in IFRS 9 were to be accompanied by an impairment approach, we suggest disclosing in the notes of the financial statements a description of the impairment rules used for equity instruments classified at FVOCI and an explanation of the aggregated impairment amounts for the reporting period. Any new disclosure requirements should however be kept to the minimum necessary to achieve the objective, i.e. to provide transparency about impairment losses recognised by the reporting entity.

Question 4.1

What should be, in your view, the general objective and main features of a robust model for equity instruments (relevance, reliability, comparability ...)?

The general objective and the main features of a robust impairment model for equity instruments would have following characteristics:

- The impairment model should lead to relevant information for users of the financial statements. Hence, it should allow for a clear distinction between permanent declines in the fair value of equities and short-term market-driven fair value changes;

- The impairment model should be objective and understandable, and its design should ensure that reliable information is provided to users of financial statements;
- The impairment model should allow for conclusions regarding the level of comparability of the information provided by reporting entities; and
- If the relevance condition were met, it would capture the need for prudent information in the case of financial instruments.

Question 4.2

Which, if either, of the two models do you prefer? Please explain.

The second model is considered as a workable impairment model, which could accompany the accounting of equities at FVOCI with recycling at disposal.

Indeed, the second model is similar to IAS 39 for financial instruments classified as AFS (available for sale) with less subjectivity (paragraphs 4.12 – 4.18). This model allows differentiating between permanent declines in fair value and short-term fair value changes. The impairment model similar to IAS 39 has several conceptual advantages:

- It would distinguish between permanent declines in the fair value of the underlying equities versus their short-term market-driven fair value changes;
- It would avoid the unintended volatility in profit or loss, when the current fair value is below the original cost (paragraph 4.11);
- It would allow the application of an impairment approach for equity instruments that is consistent with the impairment approach used for debt instruments measured at FVOCI; and
- It would allow the application of an impairment approach under IFRS for equity instruments that is consistent with the impairment approach used for those instruments under statutory reporting.

The proposed revaluation model is not supported because of the asymmetric treatment of gains in OCI and losses in profit or loss. The application of such a model would expose insurance companies to volatility in their statement of profit and loss that is not related to their business model.

Question 4.3

Do you have suggestions for a model other than those presented in the DP? If so, please describe it and explain why it would meet characteristics such as relevance, reliability and comparability.

No, we do not have any further specific suggestions.

Question 5.1

Do you support the inclusion of quantitative impairment triggers in an impairment model? If so, should an IFRS Standard specify the triggers, or should management determine them?

We do not oppose to the inclusion of rebuttable quantitative impairment triggers in an impairment model. Consistent with the principle-based nature of the IFRS-Standards, it should be up to the reporting entity to specify the impairment triggers (paragraph 4.18 b) and to disclose the applied valuation rules, including the quantitative impairment triggers, in the notes to the financial statement (see also question 3).

Based on experience in the past with the impairment model under IAS 39, additional guidance in IFRS 9 on the meaning of "significant" or "prolonged" is welcome.

Question 5.2

If you do not support quantitative impairment triggers, how would you ensure comparability across entities and over time?

Not applicable. We support the inclusion of quantitative impairment triggers, which will help to ensure comparability across entities and over time.

Question 6.1

How should subsequent recoveries in fair values be accounted for? Please explain.

The prohibition under IAS 39 to reverse in profit and loss previously booked impairment losses ('once impaired always impaired' rule) leads to an asymmetric treatment of significant and prolonged decreases and increases in the fair value of equity instruments. Therefore, we believe that recognising subsequent recoveries in profit or loss is necessary to provide relevant information to the users of the financial statements. It would also be generally in line with reversal of impairments in IFRS for other types of financial instruments. (paragraph 5.3).

Question 6.2

If subsequent recoveries in fair values are recognised in profit or loss, which of the approaches in paragraphs 5.2 – 5.10 do you support and why?

As indicated above, we prefer to apply a symmetric approach for significant and prolonged decreases and increases in the fair value of equity instruments. Therefore, the ongoing reversal approach, as described in paragraph 5.7, would be the preferred approach. Quantitative triggers may be introduced to determine when an increase in value is considered as sustainable and when previous impairments may be reversed.

Regarding the need for further analysis in paragraph 5.10, we would like to note that in case of recovery in fair value followed by a new decline in fair value in another period that it should be considered automatically as an impairment. Any other treatment of such a decline in fair value would not fit to the preferred ongoing reversal approach. Only a decline in fair value after full recovery would be subject to a new assessment.

Question 7.1

Do you consider that the same model should apply to all equity instruments carried under the FVOCI election? If not, why not and how would you objectively identify different portfolios?

For reasons of comparability and objectivity, the same model should apply to equity investments accounted for under the FVOCI category (paragraphs 4.23 – 4.29). There are no arguments to justify the application of different approaches. Hence, any impairment approach should apply to all equity instruments eligible for the irrevocable FVOCI option in IFRS 9, in line with the IASB's original decision not to determine what constitutes a "strategic investment" for this purpose.

Question 7.2

Do you have comments on these other considerations?

We support the idea to include a rebuttable presumption into the impairment model with (entity-specific) quantitative thresholds. Rebuttable presumptions would allow acknowledging entity-specific and instrument-specific characteristics. In case a rebuttable presumption is applied, this should be disclosed in the notes of the financial statements (see question 3).

We agree with the observation that the unit of account for the measurement of financial instruments is the individual instrument (paragraph 5.14). Again, this would ensure consistency between IFRS, the statutory reporting and the reporting for tax purposes.

However, we do not believe that the impairment model should specify a particular cost formula for an individual investment when it has been acquired in multiple tranches (paragraphs 5.20 – 5.22). Reporting entities should continue to be able to develop and apply such accounting policies, considering for example tax treatments (paragraphs 5.23 – 5.24).

Question 7.3

Are there other aspects that EFRAG should consider?

We underline the need to clarify the consequences of any changes to accounting for equity instruments in IFRS 9 for interim financial reporting. We believe that in the case of an impairment model with the preferred ongoing reversal approach no issues would arise in that respect.

Question 8.1

Are there other aspects of IFRS 9's requirements on accounting for holdings of equity instruments, in addition to those considered in the DP, which in your view are relevant to the depiction of the financial performance of long-term investors? Please explain.

We believe that EFRAG should amend its considerations and assess if long-term investments in equity instruments are accounted for consistently under IFRS 9, irrespective of whether they are held directly or indirectly via an investment vehicle (e.g. an investment fund or limited partnership).

Under IAS 39, investments through an investment fund are usually accounted for as equity instruments classified as Available for Sale (AFS), with recognition of changes in fair value in OCI. Under IFRS 9, those investments are considered to be debt instruments and have to be accounted for at FVTPL since these would normally not meet the "solely payments of principal

and interest" (SPPI) criteria. This accounting treatment would create volatility in the statement of profit and loss that is not consistent with the long-term investment perspective of these instruments. It would also create accounting mismatches if the corresponding liabilities were not accounted for at FVTPL under IFRS 17.

In case no changes are proposed in the accounting treatment of indirectly held equity instruments, we expect the attractiveness of these type of investments to decrease. Therefore, we ask the EFRAG to consider this detrimental accounting treatment for indirect investments in equity instruments in order to allow insurance companies to continue to invest in this asset category from a long-term investment perspective and in the context of a well-diversified asset portfolio.

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