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Mr Jean-Paul Gauzes
European Financial Reporting Advisory Group (EFRAG)
35 Square de Meeûs
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Dear Mr Gauzes,

On behalf of the Austrian Financial Reporting and Auditing Committee (AFRAC), the privately organized standard-setting body for financial reporting and auditing standards in Austria, we appreciate the opportunity to comment on the *EFRAG Discussion Paper Equity Instruments – Impairment and Recycling*, issued by the EFRAG in March 2018 (the 'DP').

Principal authors of this comment letter were Sabine Abfalter, Eva Eberhartinger, Michael Hammer, Peter Häfliger, Philip Kudrna, Gerhard Margetich, Julia Mayerhofer, Roland Nessmann, Andreas Rauter and Michael Zotlöterer. In order to assure a balanced Austrian view on the DP, the professional background of these authors is diverse.

Our detailed comments and responses to the eight questions raised in the DP are set out below.

If you would like to discuss our comments further, please do not hesitate to contact us.

Kind regards,

Romuald Bertl,
Chairman

EFRAG DISCUSSION PAPER EQUITY INSTRUMENTS – IMPAIRMENT AND RECYCLING

GENERAL COMMENTS

The basis for our considerations is the new Conceptual Framework for Financial Reporting dated March 2018, which has the purpose to assist the IASB to develop IFRS Standards that are based on consistent concepts as defined in SP1.1 lit a.

As explained in fig. 7.16 and following the statement of profit and loss is the primary source of information about an entity's financial performance for the reporting period.

As explained in diagram 5.1 (fig. 5.4) the presentation of an entity's financial performance, supplemented by contributions from and distributions to holders of equity claims, should illustrate the development of the reporting entity's equity during a reporting period.

Based on those considerations it does not seem correct to us to never disclose the effects of investments in equity instruments in the financial performance, but only as additional change in equity.

SPECIFIC COMMENTS

QUESTION 1 – RECYCLING GAINS OR LOSSES ON DISPOSAL

The Basis for Conclusions to IFRS 9 (paragraph BC5.25(b)) explains why IASB decided not to allow recycling when equity instruments are carried at FVOCI. EFRAG has previously argued that recycling enhances the relevance of the financial information provided to users of financial statements.

The DP (paragraphs 2.3 – 2.10) presents arguments as to why the recycling of cumulative gains or losses into profit or loss on disposal of equity instruments carried at FVOCI might improve the depiction of the financial performance of long-term investors.

Question 1.1

What are your views on the arguments presented in paragraphs 2.3 – 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.

With reference to the considerations already given in the general comments, it appears to us to be significant to also appropriately consider changes in value of investments within equity instruments in the financial performance. This certainly includes the consideration of final profits or losses at disposal ("recycling" of measurement effects, which were temporarily recognized in OCI).

QUESTION 2 – CONCEPTUAL RELATIONSHIP BETWEEN RECYCLING AND IMPAIRMENT

The DP (paragraphs 2.11 – 2.17) discusses the relevance of an impairment model for equity

instruments carried at FVOCI.

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.

As the financial performance of investments should be presented appropriately in the period they occur, while taking into account the business model, we are of the opinion that recycling should be accompanied by appropriate impairment regulations.

QUESTION 3 – ENHANCING PRESENTATION AND DISCLOSURE REQUIREMENTS

The DP (Chapter 3) discusses whether and how presentation and disclosure requirements could provide better information on performance from a long-term investing perspective, including potential impairments of equity instruments. The DP presents arguments as to why enhanced presentation and disclosure requirements might not be an adequate substitute for improving the depiction of performance in profit or loss.

Question 3.1

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

Question 3.2

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

Q3.1f: Based on the revised Conceptual Framework we assume that both, the recycling and the impairment, should be part in the presentation of the financial performance. Thus, in our opinion, the absence of this information in the statement of profit and loss cannot simply be replaced by additional disclosure requirements. In general, the amendment of the standard should rather be used as an opportunity to consider which disclosure requirements are really essential and which could be removed.

QUESTION 4 – TWO MODELS

The DP (paragraphs 4.4 – 4.22) describes two models for equity instruments carried at FVOCI:

- **a revaluation model in which all declines in fair value below the acquisition cost would be immediately recognised in profit or loss and changes in fair value above the acquisition cost would be recognised in OCI and recycled on disposal; and**

- **an impairment model similar to the model of IAS 39 for equity instruments classified as AFS, but with additional guidance to reduce subjectivity.**

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...)?

Question 4.2

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

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.

Q 4.1ff: The "revaluation model" illustrated in the DP appears to us as not suitable for equity instruments, which should serve the company on a long-term basis, as it results in a permanent fair value measurement of those equity instruments. In our opinion a fair value measurement at any time through profit and loss is not the correct form of presentation for those instruments due to the business model (also compare to the analog measurement of debt instruments in the hold & sell business model of IFRS 9). In our opinion an ongoing fair value measurement through profit and loss is rather only appropriate for instruments held for trading (and as also appropriately provided for in IFRS 9).

For all equity instruments beyond those held for trading, we would favor a fair value measurement through OCI, paired with a recycling and impairment model (similar to AFS under IAS 39) namely without an eclectic option as determined in the current IFRS 9, which again would only result in a differing presentation of basically similar circumstances in different entities. We regard this as a fundamental problem, which - in our opinion - can neither be mitigated by additional disclosure requirements.

QUESTION 5 – QUANTITATIVE IMPAIRMENT TRIGGERS

The DP (paragraphs 4.12 – 4.22) discusses the inclusion of quantitative impairment triggers in its impairment model. Triggers reduce the extent of judgement in assessing whether a decline in fair value below cost represents objective evidence of an impairment, especially if set within the IFRS Standard. This enhances comparability (across entities and over time) but may reduce relevance.

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?

Question 5.2

If you do not support quantitative impairment triggers, how would you ensure comparability

across entities and over time?

Q 5.1f: Regulations that specify under which circumstances (rebuttable assumption) an impairment through profit or loss has to be considered could contribute to the reduction of subjectivity in the consideration of impairment losses occurred, for example an impairment of more than 10 % within a period of one year or 20 % within a period of six months.

QUESTION 6 – SUBSEQUENT RECOVERY IN FAIR VALUES

The DP (paragraphs 5.2 – 5.10) considers whether subsequent recoveries of fair value should be recognised through profit or loss and illustrates some different reversal mechanisms.

<u>Question 6.1</u>

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

<u>Question 6.2</u>

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?

Q 6.1f: As in our opinion a presentation, which is appropriate to the period, also includes the presentation of an impairment through profit or loss, it only stands to reason - in our opinion - to also recognize recoveries in the statement of profit and loss, if the impairment does no longer exist. Only recoveries above the initial acquisition cost should be recognized in OCI and should only be recognized in the statement of profit and loss in the course of disposal after determination of the sales result. Regarding the presentation of the recovery we prefer the model of “ongoing reversal” (see the table in point 5.8), as - in our view - this model best fulfills the true and fair view.

QUESTION 7 – OTHER CONSIDERATIONS

The DP discusses a number of other relevant considerations, including:

- **whether an IFRS Standard should introduce specific requirements for particular sub-sets of equity instruments and, if so, how these sub-sets should be defined (paragraphs 4.23 – 4.29). EFRAG has not developed this approach further;**
- **the use of rebuttable presumptions for recognising impairment losses instead of automatic triggers (paragraphs 5.11 – 5.13);**
- **the unit of account in applying the models (paragraphs 5.14 – 5.24); and**
- **other application issues (paragraphs 5.25 – 5.40).**

<u>Question 7.1</u>

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?

Question 7.2

Do you have comments on these other considerations?

Question 7.3

Are there other aspects that EFRAG should consider?

Q 7.1ff: As explained in the general comments we do not see the need for an option, but we reject such an option in general as it contradicts the principles based concept: Depending on the business model (instruments held for trading or not) equity instruments should either be measured and presented through FV/P&L (instruments held for trading) or FV/OCI (including impairment and recycling through the statement of profit and loss).

Regarding the treatment of equity instruments, which are part of an effective FV hedge relationship, we do not see particular problems as the changes in value are neutralized. If the hedging relationship becomes ineffective or is dissolved, the equity instrument is to be considered in the course of the impairment test.

Regarding the question of transition guidance for the initial application of this new model we prefer a retrospective application ("as if ever applied") with the restriction that an adjustment of periods already completed is not required.

QUESTION 8 – OTHER ASPECTS OF IFRS 9´S REQUIREMENTS ON HOLDINGS OF EQUITY INSTRUMENTS

The DP (paragraphs 1.15 – 1.16) explains that the scope of EFRAG's project is based on the specific questions in the EC's request for advice and that other aspects of IFRS 9's requirements on accounting for holdings of equity instruments have not been explored.

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 refer to our responses already given to previous questions.