

INVITATION TO COMMENT ON FICE EFRAG SECRETARIAT WORKING PAPER: EARLY-STAGE ANALYSIS

Once filled in, this form should be submitted by 1 April 2019 using the 'Comment publication link' available at the bottom of the respective news item. All open consultations can be found on EFRAG's web site: [Open consultations: express your views.](#)

The EFRAG Secretariat is seeking stakeholder comments on this EFRAG Secretariat Working Paper (Working Paper) that provides an early-stage analysis of some possible effects of the IASB's Discussion Paper DP/2018/1 *Financial Instruments with Characteristics of Equity* (IASB DP). The EFRAG Secretariat seeks your comments to the following questions:

Your details

1 Please provide the following details:

- (a) Your name or, if you are responding on behalf of an organisation or company, its name:

Cyril Kanony PwC

- (b) Are you a:

Preparer User Other (please specify)

Audit Firm

Specific questions

2 Do you find this type of early stage analysis to be useful?

In General, I find this type of early stage analysis to be extremely valuable.

But cautious should be given to the results of such early stage analysis since it is in fact very difficult to be accurate on such analysis which generally relies on findings / statements provided by third parties for which EFRAG has little ability to challenge. CF comments at point 4.

3 Do you have any comments on the findings included within this Working Paper?

I generally concur with the findings on the perpetual hybrid bond issue. However, I would have appreciated the report to be more balanced and assess whether investors were misled by such the issuance of such products being classified as equity regardless the level of the step-up that can be very high for non rated bonds. I with a lot of other interested parties indeed view such products as being presented as equity as not meeting the European public good interest and this doesn't appear well in the report.

I also believe both IAS 32 and DP by precluding instruments that will be settled using a variable number of the entity's own shares prevents the development of a market

Financial Instruments with Characteristics of Equity
Invitation to Comment on Early-Stage Analysis

and I would have liked EFRAG to explore whether such market could develop if such instruments would be presented as equity as the framework and IFRS 2 allows.

I also haven't find a lot in EFRAG's assessment on the 2 following issues which are quite contentious as well:

- Economic compulsion
- Contractual rights / legal rights

It may also have been beneficial to better understand why from a pure economic / regulatory perspective cooperatives shares should be presented as equity: this may have provided EFARG a better discussion on the new criteria proposed by the DP participating feature.

- 4 Do you have any suggestions to enhance the usefulness for future work on this project on *Financial Instruments with Characteristics of Equity*?

See comment at Q3.

In addition, it may have been beneficial to provide a reconciliation between criteria used by credit rating agencies and prudential financial regulators. The report discusses at its chapter 5 section such interaction but doesn't go that far as presenting a comparison of the criteria and showing the potential divergences.

Such comparison may have highlighted that economic compulsion is to a certain extent factored by such interested parties while this is not the case from an accounting perspective which raises the European public good issue: if all those parties do to a certain extent factor such considerations, why the accounting should not factor and reflect the economics...

I have always be of the view that 2 of the criteria that are relevant are:

- Liquidity criteria (ability to avoid delivering cash)
- Participating feature which is to a certain extent consistent with the new criteria proposed in the DP.

However, I think mixing and combining those 2 criteria, even in a cumulative way is providing some confusing results.

I would have therefore find beneficial to ask users

- If they find such combination of criteria to be usefull,
- If not, which of those 2 criteria is the more relevant from a classification perspective

- 5 Do you have any suggestions to enhance the usefulness for other standard setting related early-stage exercises?