EFRAG – European Financial Reporting Advisory Group
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FINANCE DENMARK

Comment letter to EFRAG's draft comment letter on the IASB DP/2018/01 on financial instruments with characteristics of equity (FICE)

December 3, 2018
Doc. no. FIDA-1344658213-685767-v1

Finance Denmark appreciates the possibility to comment on EFRAG's draft comment letter. Please find our comments below:

In general, we support the draft comment letter.

For instance, we also support retaining the use of a binary split between liabilities and claims on equity, and that equity is defined as the residual interest in the assets of the entity after deducting all its liabilities.

From a theoretical point of view the two new concepts on 'timing' and 'amount' seem in our view reasonable but we are concerned that they in practice in some instances may lead to setting 'form over substance' and consequently resulting in counterintuitive classifications. We agree thorough analyses would have to be made before deciding whether to make such fundamental changes. In this regard we recommend analyzing capital instruments issued by European banks according to requirements in CRR[1] (e.g. additional tier 1 capital instruments defined in Article 52 of CRR[2]).

We question as well many of IASB's presentation - and disclosure considerations and believe IASB is not striking the right balance between what is useful for the users and the workload for the preparers.

[1] CRR – Capital Requirements Regulation, EU no. 575/2013
[2] As we understand IASB's preferred approach, such capital instruments will be liabilities, but it is not clear whether they will be classified into the subset of financial liabilities with income and expenses recognized in OCI, nor is it clear whether they will have a value of zero or the nominal value of the instrument.

For instance, the idea to measure and update the carrying amounts of different equity types and allocation of total income to each - type may seem appealing from a user perspective, but in practice this will often be very difficult and judgmental and in the end probably not enlighten the users anyway. The same applies for the idea to have separate presentation in the statement of financial position and statement of financial performance, including the requirement to use OCI without recycling, for a subset of financial liabilities with equity-like returns.

Please do not hesitate to contact us, if you have any questions.

Kind regards

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