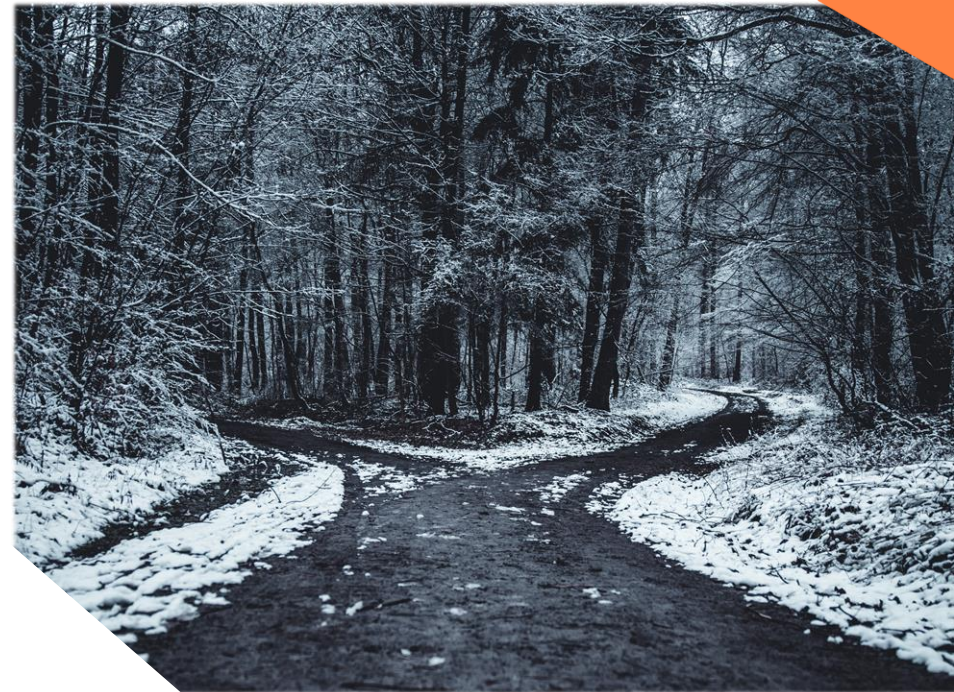


REACHING OUT TO EUROPE

IASB Discussion Paper *Financial Instruments with Characteristics of Equity* (FICE)



ASAF, 6-7 DECEMBER 2018

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European Financial Reporting Advisory Group

DISCLAIMER

The views expressed in this presentation are those of the presenter, except where indicated otherwise. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

EFRAG has not at this stage completed its outreach activities, therefore these are only preliminary views.

EFRAG OUTREACH ACTIVITIES ON FICE

Outreach events	Obtain views of European stakeholders
Early stage impact analysis	Understand the real-world consequences of IASB's suggestions in the DP
Surveys	Gather data on the expected effects and costs/benefits of the IASB's new approach
Bulletins	Help stakeholders understand the IASB's discussions with the use of simplified language and practical examples
Videos / Webinars	Engage with our constituents more broadly

OUTREACH EVENTS IN EUROPE

EFRAG EXPECTS TO DISCUSS FICE IN APPROXIMATELY 20 EVENTS

Most events taking place in partnership with European NSS or other organisations and in cooperation with the IASB, for example:

Joint outreach event in Milan

EFRAG and OIC joint outreach event in Milan on 7 November 2018

Joint outreach event in Amsterdam

EFRAG, the DASB and Eumedion joint outreach event in Amsterdam on 20 November 2018

Joint outreach event in Frankfurt

EFRAG and ASCG joint outreach event in Frankfurt on 20 November 2018

Joint outreach event in Copenhagen

EFRAG, FSR-Danish Auditors and Confederation of Danish Industry joint outreach event in Copenhagen on 23 November 2018

Joint outreach event in Brussels

EFRAG, EFFAS, ABAF-BVFA and the IASB joint user outreach event in Brussels on 26 November 2018

Joint outreach event in London

EFRAG and UK FRC joint user outreach event in London on 4 December 2018



EARLY IMPACT ASSESSMENT AND SURVEYS

EFRAG LAUNCHED ONLINE SURVEYS FOR PREPARERS AND USERS WHICH WILL FEED ITS EARLY STAGE IMPACT ASSESSMENT

Better understand the expected impact of the IASB proposals in the financial statements

Help to understand the potential costs and benefits of the IASB proposals for users and preparers

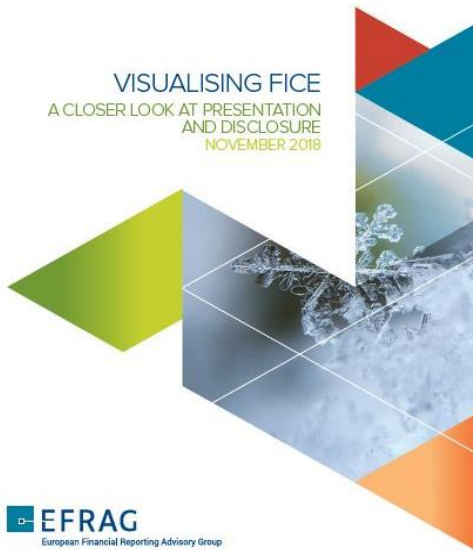
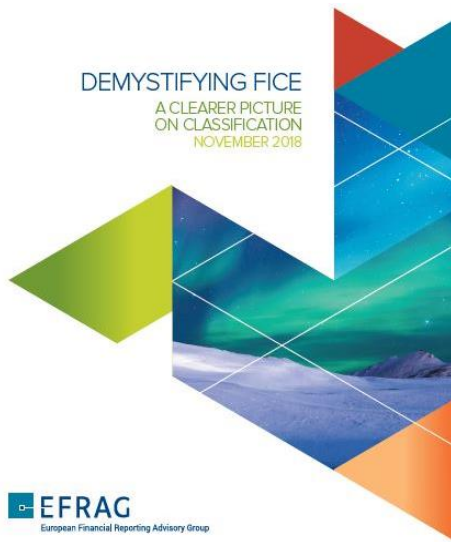
Better understand whether the proposals included in the IASB DP result in useful information to users of financial statements

Will help EFRAG conducting its early stage impact assessment of the DP's proposals

EFRAG invited stakeholders to complete the surveys by 26 November 2018

BULLETINS, WEBINARS AND VIDEOS

EFRAG ISSUED SEVERAL MATERIALS TO HELP CONSTITUENTS BETTER UNDERSTAND THE IASB DP AND PARTICIPATE IN THE DEBATE ON IT



EFRAG

Uploads



FICE Webinar: Debt or Equity?
31 views • 3 weeks ago



FICE Consultation
259 views • 1 month ago

WHAT HAVE WE HEARD UNTIL NOW?

CLASSIFICATION

- Acknowledgment of challenges arising with IAS 32 and appreciation for the IASB's efforts to address the challenges
- However, questions as to the clarity of the **new terminology** and the cost-benefit trade-off of implementing a new approach intended to result in (mostly) the same outcome

“In many cases IAS 32 is unclear, lacks guidance on how to account for specific instruments and allows structuring opportunities.”

“Entities will have to review all their contracts against the new terminology, even if classification is not expected to change”

“Definition of entity's available economic resources is, to some extent, confusing, circular and refers to unrecognised assets and liabilities”

“The new liability definition seems to be inconsistent with the new conceptual framework and other standards”

WHAT HAVE WE HEARD UNTIL NOW?

THE AMOUNT FEATURE

- The **amount feature** has been generating extensive discussion, particularly when considering liquidation. For example

“Although the amount feature is quite relevant, is there another way to provide information about the amount feature without reflecting it on classification?”

“If liquidation becomes likely, should it affect the measurement of claims for a fixed amount on liquidation?”

“How should the IASB preferred approach be applied to entities that apply IFRIC 2, particularly the amount feature?”

“The classification of non-problematic instruments, such as those with cumulative features, seems to be affected. This could be seen as disruptive. There is a need to better understand the impact of the amount feature on classification”

WHAT HAVE WE HEARD UNTIL NOW?

PRESENTATION OF FINANCIAL LIABILITIES

- Many welcomed the IASB efforts to address what they see as **counter-intuitive effects** in profit or loss.
- However, **mixed views** on whether the IASB should use OCI, a separate line item in profit or loss or additional disclosures.

“The IASB approach seems to effectively address the issues related to instruments that generate counter-intuitive effects results in profit or loss”

“Instruments with equity-like returns may result in counter intuitive accounting, however the IASB should at this stage restrict the use of OCI”

“The issues that arise with the amount feature on classification also affect presentation. For example, instruments classified as liabilities which the amount is based on a multiple of EBITDA would not meet the separate presentation requirements”

WHAT HAVE WE HEARD UNTIL NOW?

PRESENTATION OF EQUITY INSTRUMENTS

- Many commentators suggested that the attribution approach seems overly complex and some have questioned the usefulness of the resulting information, for example:

“Users and preparers have not specifically requested an attribution mechanism. Instead more disclosures on equity instruments”

“The use of an attribution mechanism would put pressure on IFRS 13 Fair Value for own equity instruments, particularly for small countries with limited active markets”

“Difficult to understand the meaning of attribution and subsequent update of the carrying amount of equity instruments”

“How would the attribution mechanism affect the distribution of dividends and line items such as retained earnings?”

“This seems to be costly to prepare and implement”

“It is important to have disclosures on the attribution mechanism to help users to make their own judgements”

WHAT HAVE WE HEARD UNTIL NOW?

DISCLOSURES AND CONTRACTUAL TERMS

- Commentators generally acknowledge the case for additional disclosures while raising questions on some of the specific proposals:
 - **Disclosures on priority on liquidation** raises many questions on consolidated financial statements as it is the legal entity that it is liquidated
 - **Priority on liquidation** should be in the notes rather than the face of the balance sheet, but unsure if this information should be provided on a going concern basis

“The additional disclosures such as information on priority on liquidation and terms and conditions will be very helpful when estimating future cash flows”

“Providing terms and conditions in a succinct and useful manner will be a challenge”

“We are concerned that the priority disclosures will differ to those under consideration by the Basel Committee, resulting in double the work”

WHAT HAVE WE HEARD UNTIL NOW?

OTHER COMMENTS

- Focus on contractual terms (i.e. not considering effects law or economic compulsion) needs further discussion
- Concerns at proposal to remove foreign currency rights issue exception
- Calls for further discussion on the accounting for written puts on NCI

“Retain not only the puttables exception but also the foreign currency rights issue exception, which is currently very narrow and its use could be expanded”

“The IASB provides a solution to the accounting for of written puts on NCI, however it does not explain how its solution interacts with previous discussions on NCI such as its interaction with IFRS 10”

“The proposals would kill hybrids as an investable asset class”



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THANK YOU



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