IFRS

STAFF PAPER

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IASB® meeting

Project	**Post-implementation Review of IFRS 9—Classification and Measurement**
Paper topic	Equity instruments and other comprehensive income

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This paper has been reposted on 16 June 2022 to make an editorial correction by inserting paragraph 53A (inserted text are underlined). Subsequent paragraph numbers are not affected.

Introduction

1. At this meeting, the IASB will discuss feedback to *Request for Information Post-implementation Review of IFRS 9—Classification and Measurement* (the RFI) on **equity instruments and other comprehensive income** (OCI).

2. This paper provides:

   (a) a reminder of the IFRS 9 requirements for equity instruments and the IASB's rationale for those requirements;

   (b) a summary of post-implementation review (PIR) feedback; and

   (c) staff analysis and preliminary views.

3. Agenda Paper 3B for this meeting provides a review of academic literature on this topic.

4. We are not asking the IASB for any decisions at this meeting, but welcome questions and suggestions for further analysis. The staff will consider those suggestions when preparing the analysis and recommendations for a future IASB meeting.

Question for IASB
Do you have questions or comments about the feedback summarised or the preliminary staff views in this paper?

IFRS 9 requirements

Classification and measurement approach

References
Section 4.1 of IFRS 9

5. IFRS 9 *Financial Instruments* provides one classification approach for all types of financial assets. Two factors determine how financial assets are classified and measured:

   (a) the entity's business model for managing the financial assets; and

   (a) the contractual cash flow characteristics of the financial asset.

		Business model for managing financial assets		
		Hold to collect	**Hold to collect and sell**	**Other**
Contractual cash flow characteristics	**Solely payments of principal and interest (SPPI)**	Amortised cost	Fair value through OCI (FVOCI)	Fair value through profit or loss (FVPL)
	Other	FVPL	FVPL	FVPL

6. Paragraph 11 of IAS 32 *Financial Instruments: Presentation* defines an equity instrument as 'any contract that evidences a residual interest in the assets of an entity after deducting its liabilities'. Therefore, by definition, financial assets that are equity instruments do not have contractual cash flows that are SPPI. Accordingly, applying the IFRS 9 classification approach, investments in equity instruments are classified as measured at FVPL regardless of the business model within which the investments are held.

Exceptions to the classification and measurement approach

References
Paragraphs 5.7.5 of IFRS 9

7. IFRS 9 provides two exceptions to the classification approach discussed in paragraph 5 of this paper:

   (a) an option to designate a financial asset at FVPL to eliminate or significantly reduce an accounting mismatch (ie 'the fair value option'). However, as investments in equity instruments are by default measured at FVPL this option is not relevant to equity instruments.

   (b) an option to elect to *present* fair value changes on an equity investment in OCI instead of profit or loss (ie 'the OCI presentation election'). This presentation election applies only to equity investments and not to debt instruments.

8. The OCI presentation election is made at initial recognition, applies on an instrument-by-instrument basis, and is irrevocable. It cannot be applied to equity instruments that are held for trading or that are contingent considerations in a business combination to which IFRS 3 *Business Combinations* applies.

9. This election is only available to investments in 'equity instruments', which is a defined term in IAS 32 (see paragraph 6 of this paper). When developing this presentation election in IFRS 9, the IASB noted that in particular circumstances a puttable instrument (or an instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation) is classified as equity by the issuer. However, the IASB noted that such instruments do not meet the definition of an equity instrument and are therefore not eligible for the OCI presentation election.

Why did the IASB introduce the OCI presentation election?

References
- Paragraphs BC5.21—BC5.28 of the Basis for Conclusion on IFRS 9
- Paragraph BCE.67 of Analysis of the Effects of IFRS 9
- Sue Lloyd: IFRS 9 and equity investments (2018 article ifrs.org)

10. In the IASB's view, fair value provides the most useful information about investments in equity instruments. However, when developing IFRS 9, the IASB noted arguments that presenting fair value gains and losses in profit or loss for some equity investments may not be indicative of the performance of the entity, particularly if the entity holds those equity instruments for non-contractual benefits, rather than primarily for increases in the value of the investment. An example could be a requirement to hold such an investment if an entity sells its products in a particular country.

11. The IASB also noted that, in their valuation of an entity, users of financial statements often differentiate between fair value changes arising from equity investments held for purposes other than generating investment returns and equity investments held for trading. Thus, the IASB believes that separate presentation in OCI of gains and losses for some investments could provide useful information to users of financial statements because it allows them to identify easily, and value accordingly, the associated fair value changes.

12. Furthermore, this presentation election was designed for circumstances in which these fair value changes were not relevant to profit or loss, even though the category is not expressly limited to these circumstances. Therefore, the IASB decided that gains or losses would not subsequently be transferred ('recycled') to profit or loss.

13. Many stakeholders, including many users, did not support the IASB's decision to prohibit subsequent recycling of fair value changes to profit or loss on disposal of equity instruments. Those stakeholders supported an approach that maintains a distinction between realised and unrealised gains and losses and said that an entity's performance should include all realised gains and losses. However, the IASB concluded that a gain or loss on those investments should be recognised once only; therefore, recognising a gain or loss in OCI and subsequently transferring it to profit or loss is inappropriate.

14. In addition, the IASB noted that recycling of gains and losses to profit or loss would create something similar to the available-for-sale category in IAS 39 and would create the requirement to assess the equity instrument for impairment, which had created application problems. That would not significantly improve or reduce the complexity of the financial reporting for financial assets.

15. The IASB considered establishing a narrower scope for the OCI presentation election, considering the types of instruments for which it was persuaded that fair value changes may not be indicative of the entity's performance. The IASB considered whether it could define a distinction based on whether the equity instrument represented a 'strategic investment'. However, the IASB decided that it would be difficult, and perhaps impossible, to develop a clear and robust principle that would identify investments that are different enough to justify a different presentation requirement. The IASB considered whether a list of indicators could be used to support the principle, but decided that such a list would inevitably be rule-based and could not be comprehensive enough to address all possible situations and factors. Moreover, the IASB noted that such an approach would create complexity in application without necessarily increasing the usefulness of information to users of financial statements.

16. When introducing the OCI presentation election, the IASB acknowledged that it is an exception to the overall classification and measurement approach and adds complexity. However, it concluded that the requirement that the election is irrevocable, together with the additional disclosures required, addresses concerns raised.

Feedback analysis

17. Respondents expressed mixed views about the accounting for equity investments. Most respondents that commented on equity investments said that the requirements in IFRS 9 are largely working as intended.

18. Many of these respondents specifically commented that fair value measurement is the most appropriate measurement basis for investment in equity investments. However, a few respondents expressed the view that fair value is only appropriate for the purpose of the statement of financial position, but not for assessing performance. Also, a few respondents commented on the removal of the cost exemption for unlisted equities in IFRS 9.

19. As mentioned in [Agenda Paper 3A](#) from the March 2022 IASB meeting, the responses are consistent with feedback the IASB has received on many occasions in the past—

both in discussions about financial instrument accounting and in discussions about accounting requirements more generally. At the heart of feedback in this area is that stakeholders continue to hold differing, and often strong, views about:

(a) the role of OCI and whether it should be used to distinguish between ‘realised’ and ‘unrealised’ gains and losses; and

(b) the importance of reporting amounts in profit or loss versus in OCI and when amounts in OCI are recycled or not.

20. These fundamental and longstanding accounting debates are not specific or limited only to IFRS 9, but relevant to a wider scope of IFRS Accounting Standards and the *Conceptual Framework for Financial Reporting*. Revisiting any of the topics described in paragraphs 19(a)−(b) of this paper would require consideration of fundamental principles across all IFRS Accounting Standards and extent beyond the scope of this PIR.

21. However, this paper analyses the feedback that is raised within the context of these wider debates, but that is specific to the IFRS 9 requirements for equity instruments. The staff are of the view that even though this specific feedback is within the context of those wider debates, it does not prevent the IASB from considering in this PIR whether there is a need to take action in response to that specific feedback. Therefore, consideration of this wider context is important to understand the underlying source of any issues or requests for change, possible conflicts and consequences, and the feasibility and scale of any possible actions in response to that feedback.

22. As indicated in the summary feedback presented in March 2022, feedback on the OCI presentation election is very polarised between stakeholders that are supportive of (or indifferent to) the criteria and requirements and those that feel strongly the election should be available for a wider scope of investments. We have therefore structured our analysis and preliminary staff views to distinguish between feedback on:

(a) the OCI presentation election as intended;

(b) requests to broaden the scope of the OCI presentation election; and

(c) the cost exemption for unlisted equity instruments.

The OCI presentation election as intended

Support for the OCI presentation option

23. Many respondents said that generally, the option to present FV changes on investments in equity instruments in OCI works as the IASB intended and that they are not aware of significant challenges in applying the principles and requirements in IFRS 9 in this regard.

24. Some respondents were of the view that presenting the gains and losses in OCI on such investments is consistent with the objective of holding the investments because the gains and losses that arise while the investments are held are only incidental to the performance of the entity. In their view, in assessing its performance, the entity is therefore not concerned with or influenced by the changes in the fair value of such investments, either while holding the instrument or upon disposal.

25. Other reasons provided by respondents in support of the OCI presentation election, included:

    (a) the OCI presentation election has greatly reduced the complex accounting that was previously required by IAS 39;

    (b) presenting fair value changes on investments in equity instruments that are not held for trading in OCI, does not distort the financial performance of the entities and allows users to easily identify the associated fair value changes; and

    (c) disclosure requirements in IFRS 7 *Financial Instruments: Disclosures* require entities to provide information on equity investments for which they have applied the OCI presentation election that are useful to the users of financial statements' understanding of the entity's financial performance.

26. Some respondents observed that when the IASB developed IFRS 9, it received feedback from those stakeholders that were strongly in favour of recycling, that the OCI presentation election introduced by IFRS 9 may disincentivise entities from long-term equity investments. These respondents reported that they had not identified any evidence that suggests the IFRS 9 requirements had impacted entities' investment decisions.

27. One prudential regulator specifically references the European Banking Authority's public report on undue short-term pressures from the financial sector that analysed concerns expressed about the accounting for equity investments negatively affecting long-term investments decisions. The report mentioned '…that from a broader financial market perspective, neither [a] public survey nor the collection of evidence from literature undertaken […] has indicated that fair value measurement results in the distortion of the investment process that could trigger undue short-term pressures in financial markets. Fair value is deemed to be a relevant measurement basis for both managers and investors, and there is no evidence yet on the consequences of the implementation of IFRS 9 on long-term investment practices.'

28. A few respondents said that they rarely used the OCI presentation election or use it only for 'strategic investments' as explained in the Basis for Conclusions on IFRS 9. Although some respondents specifically used the term 'strategic investments', it was evident that they have different interpretations of what they consider a 'strategic investment' to be, for example, some used the term to refer to long-term investments (also see paragraphs 37–43 of this paper).

Support for non-recycling

29. With regards to the requirements in IFRS 9 that prohibit the recycling of gains and losses presented in OCI, some respondents said that non-recycling prevents a gain or loss being recognised in profit or loss that could distort the core-business performance during that period.

30. Other respondents also agreed with the non-recycling of amounts presented in OCI and cited the following arguments in support of their view:

    (a) they have not identified any evidence that suggests the requirements are not working;

    (b) fair value gains and losses on investments should be recognised only once;

    (c) requiring recycling of gains and losses on disposal of an investment could incentivise managing disposals to achieve an accounting outcome; and

    (d) if recycling were permitted or required, a robust impairment model would be needed, which would add complexity and be difficult to develop.

31. Similarly, a securities regulator reiterated its view, expressed in the past, that there is no evidence that provide an appropriate basis to conclude that recycling needs to be reintroduced to support long-term investments. They are also concerned that 'recycling may introduce in some cases, and especially for financial institutions, short-term accounting incentives to put in place opportunistic profit-taking disposal policies, thus sustaining earnings management practices, which would be contrary to the objective of encouraging long-term investments'.

Concerns about consistent application

32. Even though respondents generally considered the OCI presentation election to work as intended, some respondents also commented on whether the requirements are applied consistently. These respondents specifically commented on the lack of clarity in paragraph 5.7.5 of IFRS 9 on the criteria for an investment to be eligible for the OCI presentation election, which is one of the leading causes of the option being applied to a wider scope of instruments than originally intended.

33. They consider that the definition of 'held for trading' in IFRS 9 is vague as it is defined as 'held principally for the purpose of selling or repurchasing in the near term'. Respondents said that there is a significant difference between an investment not being held for trading (as required in paragraph 5.7.5 of IFRS 9) and one where 'presenting fair value gains and losses in profit or loss may not be indicative of the performance of the entity' as described in paragraph BC5.22 of the Basis for Conclusions on IFRS 9. In their view, this could lead to the designation of equity investments under the OCI presentation election that is not consistent with the IASB's intention. For example, entities may be incentivised to elect this option for investments with a potential loss in the near future contrary to the purposes for which the investments are held.

34. These respondents therefore suggested the IASB amend IFRS 9 to clarify the intention of the OCI presentation election and the scope of instruments to which the option could be applied.

Other matters

35. Some respondents also commented on other aspects of accounting for investments to which the OCI presentation election is applied. One such area is regarding differences

between the fair value at initial recognition and the transaction price. A few respondents consider there to be a potential inconsistency in IFRS 9 between:

(a) the requirements in paragraph B5.1.2A for the recognition of the difference on initial recognition (ie the day 1 gain or loss) in profit or loss; and

(b) the requirements in paragraph 5.7.1 for the presentation of fair value changes in OCI.

Requests to broaden the scope of the OCI presentation election

36. Many respondents, including some of those that said the OCI presentation election is working as intended, asked the IASB to broaden the scope of equity investments that are eligible for the OCI presentation election. These respondents reported that they are either using or intend to use the OCI presentation election for more than just ‘strategic investments’. For example, many respondents from the insurance industry indicated that they intend to apply the OCI presentation election to all their equity investments to achieve consistency with the classification of other financial assets and insurance liabilities. Other examples of investments to which respondents are applying (or want to apply) the OCI election, include:

(a) equity investments not expected to be sold in the near term;

(b) investments with a stable dividend policy that provide predictable cash flows to the investor over the long term;

(c) equity investments for which significant fluctuation of market prices are anticipated—the OCI presentation election helps avoiding volatility in profit or loss;

(d) equity investments that are held passively through debt-equity swaps; or

(e) any equity investments that are not held for trading.

Alignment with a long-term business model

37. A few respondents in the insurance industry said that they would be very keen to apply an OCI presentation election for equity instruments if it permits/requires recycling. In their view, such an approach would align the accounting treatment for all

equities not held for trading with the underlying distinct business model of insurers and with the existing accounting models in IFRS 17 *Insurance Contracts*.

38. They said that the current OCI presentation election for equity instruments without recycling in IFRS 9 is less attractive to insurers, because:

(a) the default requirement to account for all equity instruments at FVPL is not appropriate to reflect the business model of insurers that invest in equity instruments to hold them for the long-term. This is because including all fair value changes in profit or loss would create 'market noise' in their performance and would overshadow the real underlying economic performance. Therefore, accounting for equity investments at FVPL does not provide useful information about the stable and long-term oriented business model of insurers to investors and other users of financial statements.

(b) the existing requirements in IFRS 9 do not allow for an adequate depiction of the financial performance specifically when equity investments to which the OCI presentation election is applied are derecognised and the related gains or losses are realised.

(c) it creates an accounting disadvantage for all investments in equity instruments compared to debt instruments. Equity investments that are held in a business model similar to the 'collect and sell' business model for debt instruments should be accounted for in a similar manner.

39. These respondents also said that in their view, these significant deficiencies in IFRS 9 described in paragraph 38 cannot be compensated for through the disclosure requirements in paragraphs 11A and 11B of IFRS 7.

40. These respondents said although they intend to apply the current OCI presentation election, as it is the only accounting alternative currently available in IFRS 9 instead of the FVPL approach, it will create a need for additional measures for external and internal reporting purposes to address the implications of non-recycling on performance reported in the statement of profit or loss (also see paragraphs 46–50 of this paper).

41. Some respondents outside the insurance industry also said that they are applying the OCI presentation election to equity investments they intend to hold over the long-term

(sometimes referred to a ‘strategic investments’) as this would be consistent with the business model within which the investments are held.

42. Similar to insurance entities, these respondents explained that they consider the fair value of the investments to be relevant for purposes of the statement of financial position. As they do not consider changes in fair value to be relevant to their performance while they are holding the investments, presentation of such changes in OCI is appropriate and preferable. However, they consider changes in fair value to be most relevant to the performance of the entity **in the period they dispose** of the investment and therefore ‘realises’ the change in value.

43. These respondents said that even though IFRS 9 does not provide an approach that would achieve the accounting that those stakeholders would prefer, they still consider the OCI presentation election as the best approach currently available to them.

Equity-like investments

44. Some respondents, including some in the insurance and asset management industries suggested the IASB expand the scope of the OCI presentation election to include indirect equity holdings and ‘equity-like’ instruments such as puttable instruments. Those respondents expressed the view that the accounting treatment should be the same regardless of whether a holding is direct or indirect, and whether an instrument is ‘equity’ or ‘equity-like’.

45. These requests to extend the scope of the OCI presentation election to apply to financial assets that do not meet the IAS 32 definition of equity relate to two types of investments:

(a) **indirect investments in equity instruments.** For example, when an entity invests in a fund that invests primarily in equity instruments and associated derivatives and necessary cash holdings. Respondents explained that entities, in particular, insurers, invest in equities both directly and indirectly to achieve their long-term asset liability management strategies. In their view, given the direct and indirect investments are held with the same intention, they should be measured and presented in the same way.

(b) **financial assets that are not equity but are ‘equity-like’.** Generally, respondents are referring to two types of instruments that, from the issuer’s perspective, meet the definition of a financial liability, but for which IAS 32 provides an exception for the issuer to treat them as if they were equity instruments if specific conditions are met. In their view, the holder of the instruments should also be permitted to treat the instruments as equity. Those ‘equity like’ instruments are:

(i) puttable instruments— instruments that include a contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset on exercise of the put (paragraphs 16A and 16B of IAS 32); and

(ii) obligations arising on liquidation—instruments that impose on the issuer an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation (paragraphs 16C and 16D of IAS 32).

Recycling amounts presented in OCI

46. Consistent with their views on a broader scope of instruments that should be eligible for the OCI presentation election, some respondents held strong views about the recycling of amounts presented in OCI.

47. In their view, the requirements in IFRS 9 do not provide users of financial statements with the most useful information about the performance of equity instruments that an entity intends to hold for the long-term. They believe that the best information about such equity instruments would be provided by presenting fair value changes in OCI over the period the entity holds the instrument and recycling those gains and losses to profit or loss in the period of disposal. These respondents made the following arguments in support of their view:

(a) recycling on disposal is needed to provide users of financial statements with clearly distinguished information about ‘realised’ and ‘unrealised’ gains and losses.

(b) in their view, recycling would be consistent with the *Conceptual Framework for Financial Reporting*. Some respondents said that the IASB issued the revised *Conceptual Framework* four years after IFRS 9 was issued and suggested the IASB consider whether its rationale for not including recycling in the OCI presentation election still held in the light of the revisions to the *Conceptual Framework*.

(c) dividends are recognised in profit or loss, and they are not persuaded that there is conceptual ground for treating gains or losses on disposal differently to dividends.

(d) in their view, introducing recycling would align the accounting for equity instruments with the accounting for debt instruments in IFRS 9. A few respondents believed that that equity instruments have unequal and unfavourable accounting treatment compared to debt instruments and that requiring recycling would result in debt and equity instruments being subject to the same accounting requirements.

48. Almost all respondents that suggested the IASB amend IFRS 9 to require recycling agreed that recycling would need to be accompanied by an impairment model. However, a few respondents said that they understand the challenges in developing a robust impairment model for equity instruments is the IASB's primary reason for prohibiting recycling. In their view, it is possible to design a simple impairment test for equity instruments, and therefore there is no reason not to permit recycling.

49. Respondents expressed differing views about how to develop an impairment model for equity investments. Some respondents supported a principle-based approach, while others supported a rule-based approach using quantitative thresholds. Their suggestions included:

(a) adapting or improving the IAS 39 impairment test. In their view, that model worked well enough and should be reinstated, however no suggestions were made on how the model could be improved.

(b) the impairment test be based on specified but rebuttable quantitative thresholds to reduce complexity. For example, some respondents suggested the IASB could introduce an impairment test that includes a rebuttable presumption that an investment in an equity instrument is impairment if either:

(i) the fair value is more than 25 per cent below acquisition cost; or

(ii) the fair value is below the acquisition cost for more than six months.

50. Other respondents, despite being in favour of introducing recycling, held strong views that the current non-recycling approach is better than reintroducing the IAS 39 impairment model for equity investments.

Cost exemption for unquoted equity investments

51. A few respondents commented on the removal of the exemption to fair value measurement in IAS 39 for 'investments in equity instruments that do not have a quoted price in an active market and whose fair value cannot be reliably measured'. These respondents argued that the cost of estimating the fair value of unquoted instruments exceed the benefits of this information to investors, because entities often have limited access to information needed for such measurements and it is especially challenging to justify the techniques and key assumptions used in valuing some unquoted equity investments such as start-ups. These respondents further claimed that the use of unobservable inputs and judgements by management results in a high degree of measurement uncertainty.

52. Most of these respondents suggested an amendment to IFRS 9 to re-introduce the exemption to fair value measurement for such instruments. A few other respondents suggested that the IASB reconsider the observation in paragraph BC5.18 of the Basis for Conclusions on IFRS 9 that the circumstances in which cost might be representative of fair value would never apply to equity investments held by particular entities such as financial institutions and investment funds.

Preliminary staff views

The OCI presentation election as intended

53. As explained in the Basis for Conclusions on IFRS 9, the IASB designed the OCI presentation election for equity instruments for which changes in value do not reflect the performance of the entity. Changes in the value of equity instruments held for trading always reflect the performance of the entity (ie its trading performance), and therefore are excluded from the OCI presentation election. For other equity instruments, IFRS 9 is designed so that an entity can determine whether the equity instrument is relevant to its performance:

(a) if yes—fair value changes over the holding period and gains and losses on disposal are both recognised in profit or loss—the primary source of information about an entity's performance.

(b) if no—fair value changes over the holding period and gains and losses on disposal could both be recognised in OCI. This would be the case in circumstances where an entity holds equity instruments for non-contractual benefits, such as to maintain a business relationship.

53A <u>However, the only requirements in paragraph 5.7.5 of IFRS 9 are that equity investments to which the OCI presentation election is applied, are neither held for trading nor contingent consideration in a business combination.</u>

54. The staff can therefore understand why a few respondents suggested to clarify the scope of the equity investments to which the OCI presentation election can be applied. Doing so would align the scope of the election to the IASB's rationale for developing the election.

Requests to broaden the scope of the OCI presentation election

55. There is a strong correlation between respondents' views on the scope of investments that should be eligible for the OCI presentation election and their views on the non-recycling of amounts presented in OCI—ie those who believe the OCI presentation election should be available for a wider scope of instruments tend to strongly favour recycling of amounts presented in OCI.

56. Based on PIR feedback, the staff are of the view that the requests for OCI recycling should not be categorised as requests to amend the current OCI presentation election in IFRS 9. Rather, those requests are asking for a new classification category for equity instruments that they think would better reflect a long-term business model or strategy. This would be a significant change to the classification approach in IFRS 9, rather than being only an adaption of the OCI presentation election.

57. In our view, amending IFRS 9 to add a new classification category for equity instruments would add complexity and would only be justified if there is evidence that there is a significant deficiency in the information that investors are being provided. That is, if neither FVPL nor the OCI presentation election, accompanied by the

required IFRS 7 disclosures, is providing investors with the information they need about the performance of equity investments that entities intend to hold long-term.

58. The staff note that whether or not an entity uses the OCI presentation election is a presentation matter—that is, it does not change what information investors receive, rather it changes how and where that information is presented. Regardless of whether an entity was required to/prohibited from recycling gains and losses from OCI on disposal of equity instruments using the OCI presentation election, the entity would provide the following information to users of financial statements about those instruments:

   (a) information about fair value changes in each period the entity holds the instrument:

      (i) with recycling: presented in OCI in all periods except for the period of disposal; or

      (ii) without recycling: presented in OCI in all periods; and

   (b) information about the cumulative gain or loss on disposal in the period of disposal:

      (i) with recycling: presented in profit or loss; or

      (ii) without recycling: disclosed in the notes (applying paragraph 11B of IFRS 7).

59. Accordingly, recycling would not result in users of financial statements receiving more or better information about 'realised' gains, but rather would change how that information is presented to users of financial statements.

60. Furthermore, as noted in the feedback analysis of this paper and Agenda Paper 3B, there does not yet appear to be an indication that the use of the OCI presentation option has led to a reduction in the usefulness of information provided to users of financial statements or a disincentive for entities to make long-term investments.

61. The staff also observed from outreach and comment letters that there appears to be a common misunderstanding that the IASB prohibits recycling for equity instruments primarily because the IASB could not develop a robust impairment model for such instruments. This is not the case, as explained in paragraphs 10−16 of this paper.

62. With regards to indirect equity investments or ‘equity-like’ instruments, the staff observe that the rights and obligations of an entity as an investor in a fund that trades equities and other instruments is different to those of an entity’s that directly purchases the shares of a company. Paragraphs 16A–16D of IAS 32 provides an exception to classify instruments that would meet the definition of a financial liability as an equity instrument in narrowly defined circumstances. However, this does not change the fact that the instruments do not meet the definition of an equity instrument.

63. When holding a financial asset, an entity needs to determine from the holder’s perspective whether it holds an investment in an equity or debt instrument. The OCI presentation election is an exception to the requirement that is only available for investments in equity instruments. In our view it would not be appropriate to extend the OCI presentation option to ‘equity-like’ instruments that do not meet the definition of an equity instrument in IAS 32.

Further analysis

64. The staff will present a further analysis of the matters discussed in this paper at a future meeting.