
IASB[®] meeting

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Project	Post-implementation Review of IFRS 9 – Classification and measurement
Topic	Equity instruments and other comprehensive income
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Purpose of this meeting

1. In June 2022, the IASB discussed feedback to [Request for Information Post-implementation Review of IFRS 9—Classification and Measurement](#) (the RFI) on equity instruments and the other comprehensive income (OCI) presentation option. [Agenda paper 3A](#) of that meeting summarised the requirements in IFRS 9 *Financial Instruments* for investments in equity instruments and the IASB's rationale for those requirements, along with the staff analysis and preliminary views on the feedback.
2. At this meeting, the IASB will be asked to decide whether, and if so when, to take further action to respond to these findings.
3. This paper is structured as follows:
 - (a) [summary of the staff recommendations and question for the IASB](#) (paragraphs 4 – 5)
 - (b) [a reminder of the IFRS 9 requirements](#) (paragraphs 6 – 9)
 - (c) [feedback on the RFI](#) (paragraphs 10 – 35)
 - (d) [staff analysis of matters arising from the Post-implementation Review \(PIR\)](#) (paragraphs 36 – 85)
 - (e) [staff conclusions](#) (paragraphs 86 – 90)

Summary of staff recommendations and question for IASB

4. Based on the analysis of feedback against the PIR framework, the staff is not recommending any changes to the requirements in IFRS 9.
5. However, to increase the usefulness and transparency of information provided about the overall performance of equity investments for which the OCI presentation election was made, we recommend amending paragraph 11A of IFRS 7 *Financial Instruments: Disclosures* to require disclosure of:
 - (a) the aggregated fair value of equity investments for which the OCI presentation option is applied at the end of the reporting period; and
 - (b) changes in fair value recognised in other comprehensive income during the period.

Question for IASB

Do you agree with the staff's recommendations as summarised in paragraphs 4 and 5 of this paper?

A reminder of the IFRS 9 requirements

6. As discussed in [Agenda paper 3A](#) for the June 2022 IASB meeting, applying the IFRS 9 classification approach, investments in equity instruments are classified as measured at fair value through profit or loss (FVPL) regardless of the business model within which the investments are held. This is because an equity instrument represents a residual interest in the net assets of an entity and consequently does not have contractual cash flows that are solely payments of principal and interest (SPPI).
7. IFRS 9 includes an irrevocable option to present fair value changes of an equity instrument in OCI instead of profit or loss. IFRS 9 does not permit the reclassification of amounts recognised and accumulated in OCI to profit or loss ('recycling'). This applies throughout the life of the instrument and also at derecognition. Furthermore, as this is a presentation election only, such investments continue to be measured at fair value through profit or loss and are not subject to any impairment.
8. This OCI presentation election is made at initial recognition on an instrument-by-instrument basis and is restricted to investments in equity instruments that are neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies. Although this presentation election was aimed at

investments for which fair value changes of the equity instrument are not relevant to the performance of the entity (as stated in paragraph BC5.22 of the Basis for Conclusions on IFRS 9), the requirements in paragraph 5.7.5 of IFRS 9 are not expressly limited to these circumstances.

9. Instruments that are classified as equity by the issuer but do not meet the definition of an 'equity instrument' (as defined in paragraph 11 of IAS 32 *Financial Instruments: Presentation*) are not eligible for the OCI presentation election from the holder's perspective.

Feedback on the RFI

The OCI presentation election as intended by the IASB

10. Many respondents said that generally, the option to present fair value (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.
11. Some respondents were of the view that presenting the gains and losses in OCI on some equity 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.
12. With regard 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. For example, the Hong Kong Institute of Certified Public Accountants said:

Our respondents generally welcome the measurement option in IFRS 9.5.7.5 because presenting fair value changes on investments in equity instruments that are not held for trading in other comprehensive income (OCI), instead of profit or loss, would not distort the financial performance of the entities and would allow users to identify easily the associated fair value changes.
13. A few respondents specifically commented that requiring recycling of amounts accumulated in OCI, complemented by a robust impairment model, would add significant complexity to the requirements for investments in equity instruments and would go against the IASB's objective to reduce complexity.

14. 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. For example, the European Securities and Market Authority (ESMA) said:

ESMA believes that the current option to present fair value changes on investments in equity instruments in OCI is working as the Board intended. ESMA reiterates its view, expressed in the past, that there is no evidence that provides appropriate basis to conclude that recycling needs to be reintroduced to support long-term investments. We also remain 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.

15. Similarly, the European Banking Authority (EBA) made reference to its public report on undue short-term pressures from the financial sector on corporations. This report has analysed concerns expressed by the industry on IFRS 9, in particular whether accounting for equity investments at fair value through profit or loss (unless irrevocable election is made and instruments are measured at fair value through OCI), could negatively affect long-term investments. The EBA said that:

Following the conclusion based on the available information at that time and the more recent investigations conducted by the EBA on the basis of the regulatory reporting data, it seems that there is no evidence (on an EU aggregated level) that new rules are negatively affecting the long-term investments held by the banking sector. The importance of a continuous monitoring and impact assessment is well acknowledged by the EBA and available data will continue to be scrutinised over time. From the EBA's perspective, the option to present FV changes in OCI works as the Board intended and no unexpected effects were, so far, identified.

16. 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 about which investments in equity instruments are eligible for the OCI presentation election and the perceived inconsistency with the explanations in the paragraph BC5.22 of the Basis for Conclusions on IFRS 9. These respondents noted that this is one of

the leading causes of the option being applied to a wider scope of instruments than originally intended.

17. Many of the respondents that did not specifically express a view on whether the requirements for equity investments are working as the IASB intended, commented on the requirement for amount accumulated in OCI to not be recycled to profit or loss upon disposal of the investment as discussed in paragraphs 18 - 30 of this paper.

Requests to require recycling of amounts accumulated in OCI

18. Many respondents—particularly those in the insurance industry and the Asia-Oceania region—held strong views about the recycling of amounts presented in OCI. These respondents generally said that, contrary to the IASB’s original intention, they are either using, or intend to use, the OCI presentation election for all their equity investments not held for trading as this will generally contribute to the decision usefulness of their financial statements.
19. 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.
20. The main reasons provided by respondents for why they ask the IASB to reconsider the requirements for investments in equity instruments, are:

Alignment with an entity’s business model

21. Many of the respondents that are asking for recycling of gains or losses from OCI to profit or loss, are of the view that the default requirement to account for all equity instruments at FVPL is not appropriate to reflect the business model of investors that invest in equity instruments to hold them for the long term, such as insurers. 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.
22. In their view, 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. For example, Allianz SE said:

Most insurers generally manage their investments either in a hold-to-collect or hold-and-sell business model. This implies (infrequent) sales of investments that are triggered by the underlying strategic asset allocation and asset-liability management decisions. From an economic perspective, the overall return profile of equity investments encompasses both, the stream of revenues from dividends as well as realized gains and losses upon disposal.

23. Some of these respondents also said that the effect of the prohibition of recycling gains and losses on disposals into profit or loss may have a detrimental effect on long-term investments as investors may make their investment strategy and their financing of entities' capital dependent on performance measures.

Faithful representation of performance

24. Some respondents are of the view that the current requirements in IFRS 9 do not allow for an adequate depiction of the financial performance of the entity specifically when equity investments (to which the OCI presentation election is applied) are derecognised.
25. Many of these respondents specifically said that it is appropriate to recognise unrealised gains or losses in OCI, while all realised gains or losses must be recognised in profit or loss. They said that the requirements will create the need for additional performance measures for external and internal reporting to provide users of financial statements with useful information. For example, the German Insurance Association said:

However, the existing requirements in IFRS 9 do not allow for adequate depiction of the financial performance of long-term oriented investors like insurers in profit or loss statement, specifically when such investments in equity instruments accounted for at FVOCI are derecognised and the related gains or losses are realised.

While the dividend payments are recognised in profit or loss on ongoing basis, the cumulative gains or losses are prohibited from being recognised in profit or loss when the related investments are derecognised at their disposal. This way a significant part of financial performance of insurers' investments in equity instruments is not reported in profit or loss statement, though recognising gains and losses on equity investments accounted for at FVOCI would give investors and other users of financial statements direct access to information about the economically motivated disinvestments decisions made by a reporting entity and would thus put investors in a better position to assess the stewardship of management.

26. Similarly, the European Federation of Financial Analysts Societies (EFFAS) said:

For users, the key point is that if realized gains or losses are not reflected in the profit or loss statement the performance of the equity portfolio might remain undisclosed as equity. This will make it difficult to understand how equity has evolved over the period despite the statement of changes in equity and it will not contribute to the principle of good financial reporting.

Asymmetry between investments in debt and equity instruments

27. Some respondents said that non-recycling of realised gains or losses on equity investments creates an accounting disadvantage for all investments in equity instruments compared to debt instruments. They are of the view that equity investments that are held in a business model similar to the ‘hold to collect and sell’ business model for debt instruments should be accounted for in a similar manner to debt instruments that are measured at FVOCI. For example, the Accounting Standards Council Singapore said:

The IASB’s argument in [BC5.25 that gains or losses on those investments should be recognised only once] lacks conceptual merit as it is inconsistent with the OCI recycling requirements for debt instruments measured at FVOCI in IFRS 9 and for foreign currency translation reserves in IAS 21 *The Effects of Changes in Foreign Exchange Rates*. It is evident from those OCI recycling requirements that the IASB considers OCI recycling to reflect the gain or loss from realising an asset is the correct accounting approach.

... The objective for holding equity investments with an intention for sale at some point in the future is similar to the ‘hold to collect and sell’ business model for debt instruments and therefore, should not warrant significantly different impairment and OCI recycling requirements. In fact, some equity investments provide a steady stream of dividends and are commonly held for both periodic dividend income and eventual sale in the future.

Inconsistency with the Conceptual Framework.

28. Some respondents said that recycling would be consistent with the Conceptual Framework for Financial Reporting. They noted that the IASB issued the revised Conceptual Framework 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. For example, the Life Insurance Association of Japan said:

Given that the Conceptual Framework revised in 2018 set out principles concerning recycling, the LIAJ would like the Board to review the IFRS 9 to ensure consistent treatment under the principles.

[...]

With regard to recycling, there are different treatments between debt instruments and equity instruments, causing problems such as inconsistent practice among assets, and lack of reasonable and coherent explanation about those inconsistency. The LIAJ would like to expect the Board to work on reviewing the treatment of recycling required under IFRS 9, in terms of principles concerning recycling set out in the revised Conceptual Framework.

Proposals for an impairment model

29. 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.
30. 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. Frequent suggestions made by respondents included:
- (a) adapting or improving the IAS 39 *Financial Instruments: Recognition and Measurement* 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 to be based on specified but rebuttable quantitative thresholds to reduce complexity, however, there was no consensus between respondents about what the appropriate thresholds could be, with suggestions for the percentage below cost suggested between 15 per cent and 25 per cent and the period between six months and one year. For example, the joint comment letter from the European Insurance CFO Forum and Insurance Europe, said:

We fully acknowledge that the IASB considers a robust impairment model to be the precondition for recycling. To address previous concerns raised about

impairments of equity instruments under IAS 39, we propose that a well-defined, robust reversible impairment model is introduced to accompany recycling for FVOCI equities which would provide clear indicators of a potential impairment. This could be done by defining a specific percentage decline from the acquisition cost and a specific time period over which the fair value has been below the acquisition cost. We propose a rebuttable presumption that an impairment exists when either of the following criteria are met:

- Significant - an equity instrument's fair value is more than 25% below its acquisition cost; or
- Prolonged - an equity instrument's fair value is below its acquisition costs value for more than 6 months.

Requests to broaden the scope of the OCI presentation election

31. 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.
32. 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'*. For example, instruments that, from the issuer's perspective, meet the definition of a financial liability, but for which paragraphs 16A–16D of IAS 32 provides an exception for the issuer to treat them as if they were equity instruments if specific conditions are met.
33. These respondents expressed the view that the accounting treatment from the holder's perspective should be the same regardless of whether a holding is direct or indirect, and whether an instrument is 'equity' or 'equity-like'. For example, the European Fund and Asset Management Association (EFAMA) said:

...the real problem for our industry is the unequal treatment of the investments. If you structure your equity investment through a fund or you hold it directly, we see there is a different treatment from an accounting perspective.

This unequal accounting treatment of funds and equity holdings (direct/indirect investments) under this standard leads institutional investors (that don't like to have volatility in P&L) to stop investing in funds (and this is detrimental for the asset management industry).

Cost exemption for unquoted equity investments

34. 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'.
35. 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 said that the use of unobservable inputs and judgements by management results in a high degree of measurement uncertainty.

Staff analysis of matters arising from the PIR

36. Applying the IASB's framework post-implementation reviews and the criteria for determining whether to take action as set out in paragraphs 12-15 of [Agenda paper 8A](#) for the September 2022 IASB meeting, the IASB takes action, if there is evidence that:
 - (a) there are fundamental questions (ie 'fatal flaws') about the clarity and suitability of the core objectives or principles in the new requirements; or
 - (b) the benefits to users of financial statements of the information arising from applying the new requirements are significantly lower than expected (for example, there is significant diversity in application); or
 - (c) the costs of applying some or all of the new requirements and auditing and enforcing their application are significantly greater than expected (or there is a significant market development since the new requirements were issued for which it is costly to apply the new requirements consistently).

37. To determine whether the IASB needs to take action based on the feedback on the requirements for investments in equity instruments in IFRS 9, we have analysed the feedback received and the results of the academic literature review in terms of these criteria.

Are there fundamental questions about the clarity and suitability of the core objectives and principles of the requirements?

Non-recycling of amounts in OCI

38. As mentioned in paragraph 12 of the IASB's [Agenda paper 3A](#) for the June 2022 meeting, the option to include the changes in the fair value of the eligible equity instruments in OCI is a 'presentation option' specifically designed for circumstances in which the fair value changes relating to the instrument were not relevant to the profit or loss of the entity and could therefore be presented in OCI. The IASB did not intend it to be an alternative to measuring investments in equity instruments at FVPL, neither is it a classification category similar to the FVOCI category for financial assets held in a collect-and-sell business model.
39. Therefore, although respondents did not ask the IASB to develop a new classification category for equity investments, the staff continue to be of the view that recycling of gains or losses on equity investments presented in OCI, would equate to a new classification category to be added to IFRS 9 because:
- (a) unlike IAS 39 where the default classification category was available for sale (AFS), the default classification category in IFRS 9 for financial assets is FVPL. In other words, a financial asset is measured at FVPL unless it is measured at amortised cost or fair value through other comprehensive income (FVOCI).¹
 - (b) to classify a financial asset as measured at anything other than FVPL, the asset needs to have contractual cash flows that are solely payments of principal and interest and held in a business model that is either held to collect or held to collect and sell.²
 - (c) when the conditions in paragraphs 4.1.2 and 4.1.2A of IFRS 9 are met, measurement at amortised cost or FVOCI is a requirement, not a choice or an option.³

¹ Paragraph 4.1.4 of IFRS 9

² Paragraphs 4.1.2 and 4.1.2A of IFRS 9

³ Despite paragraphs 4.1.1- 4.1.4 of IFRS 9, an entity may at initial recognition irrevocably designate a financial asset as measured at fair value through profit or loss if the criteria in paragraph 4.1.5 is met

- (d) the business model for financial assets is based on how an entity expects to manage the assets to generate cash flows.⁴
40. The FVOCI measurement category for debt instruments is a mixed measurement model as both amortised cost and fair value information are relevant and useful because it reflects how cash flows are realised. The effects of this are that amounts presented in profit or loss provide amortised cost information and the statement of financial position presents fair value information, with the amount recognised in OCI being the difference.⁵
41. Requiring gains or losses on investments in equity instruments that are presented in OCI to be recycled to profit or loss, is therefore not a straightforward or easy task, as it will require:
- (a) defining the business model within which equity investments need to be managed as a condition for such a classification category. Many respondents referred to alignment with an entity's business model, referencing 'hold to collect' or 'hold to collect and sell', long-term or insurance business models. However, there was no clear indication of what the objective of such a business model would be or what information this provides to users about how the entity expects to realise cash flows.
 - (b) consideration of what amounts recognised in profit or loss would represent or provide information to the users of financial statements about the performance of the entity. The use of OCI throughout IFRS Accounting Standards is not to distinguish between realised and unrealised gains or loss; such a distinction does not exist in our standards.
 - (c) development of an impairment model based on what amounts in profit or loss would represent (also see paragraphs 51–56 of this paper). The impairment model for debt instruments is consistent with amortised cost information being provided in profit or loss. However, as it not clear what amounts in profit or loss for equity investments would represent, it is not possible to contemplate what a potential impairment model could be based on.
42. Furthermore, debt instruments that do not have cash flows that are SPPI are measured at FVPL even if those assets are managed under a 'hold to collect and sell' business model. In other words, all financial assets that do not have cash flows that are SPPI, whether debt or

⁴ Paragraph B4.1.2B of IFRS 9

⁵ Paragraph BC4.157 of the Basis for Conclusions on IFRS 9

equity, are measured at FVPL. Therefore, we do not agree with respondents that the current requirements create an unfair disadvantage for equity investments.

43. As mentioned in [Agenda Paper 3A](#) from the March 2022 IASB meeting, the responses to the question in the RFI about the requirements for equity investments in IFRS 9, 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.
44. 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 whether amounts in OCI are recycled or not.
45. 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 these matters are not limited to equity investments only and would require consideration of fundamental principles across all IFRS Accounting Standards and extend beyond the scope of this PIR.
46. As noted in paragraph 13(c) of [Agenda paper 3B](#) for the June 2022 IASB meeting, Löw and Erkelenz (2022) found that the percentage of long-term investments European banks held in equity instruments (ie more than five years) remained fairly stable between 2014 (38%) and 2020 (40%).
47. This is consistent with the comments made by the ESMA and EBA (see paragraphs 14 and 15 of this paper) that there is no evidence yet that the requirements in IFRS 9 had a negative effect on entities’ long-term investment practices or that any unexpected effects were identified.
48. In addition, in the year of IFRS 9 initial application, 52 of the FTSE 100 entities that had AFS equity instruments reported under IAS 39, elected to apply the OCI presentation option to the majority (72%) of these instruments — the remaining available for sale equity instruments were reclassified as FVPL (see paragraph 14 [Agenda Paper 3B](#) for the June 2022 meeting).
49. As many insurers deferred applying IFRS 9 until the mandatory application of IFRS 17 *Insurance Contracts* on 1 January 2023, there is no evidence yet about the effects of the

requirements on insurance entities and how the requirements might impact insurers' investment decisions.

50. Therefore, based on the responses to the RFI and academic literature review to date, the staff consider there to be no evidence of fatal flaws about the clarity and suitability of the core objectives and principles of the OCI presentation election or that the current requirements will affect entity's business or business models in the long term.

Potential impairment model

51. Almost all respondents that suggested the IASB amend IFRS 9 to require recycling agreed that recycling would need to be accompanied by a robust impairment model. This is consistent with the acknowledgement in paragraph BC5.25(b) of the Basis for Conclusions on IFRS 9 that equity investments would need to be assessed for impairment if OCI recycling is permitted.
52. Although impairment was not the main reason the IASB decided not to permit recycling for equity investments to which the OCI presentation option is applied, it was a key consideration and continues to be as explained in paragraph 41(c) of this paper.
53. IFRS 9 introduced a single principle-based, forward-looking expected credit loss model for measuring the impairment of debt instruments that is based on the concept of assessing whether there has been a significant increase in the credit risk of the instrument since its initial recognition. This impairment model applies to the collectability of contractual cashflows of the debt instrument so is not relevant for equity instruments. Therefore, impairment of equity instruments would require the development of a new impairment model. However, the staff note that identifying an impairment model for equity investments that is capable of being widely accepted and that results in timely recognition of impairment losses would be difficult and complex.
54. The impairment model for equity investments in IAS 39 required an entity to assess whether a decline in the investment's value was 'significant' or 'prolonged'. This led to significant diversity in practice, and also resulted in losses being recognised too late. Under this approach, reversal of impairment losses was not permitted.
55. In an article [IFRS 9 and Equity instruments](#) published in April 2018, then Vice-chair of the IASB Sue Lloyd commented:

The impairment test in IAS 39 for equity investments was notoriously ineffective and practice has long cited those requirements as a problematic area. History shows that

companies can be very reluctant to recognise losses indicated by market prices and the question of identifying the point in time when equity investments are impaired (ie when losses must be recognised in P&L) has been a vexed one that was a source of great complexity during the recent global financial crisis. Deciding when equity investments are impaired is highly subjective and that determination is made inconsistently in practice.

56. As noted in paragraph BCE68 of the Basis for Conclusions on IFRS 9, accounting for impairment on equity investments, including assessing whether fair value changes are ‘significant or prolonged’ was one of the most difficult application areas of IAS 39. This was also reiterated by some of the respondents, for example Canadian Accounting Standards Board said that:
- ...Recycling realised gains and losses through profit or loss may require entities to assess such equity instruments for impairment. This assessment created significant application problems for entities applying IAS 39 and reimposing this requirement contradicts the Board’s intention to simplify the classification and measurement requirements for financial assets.
57. This is consistent with EFRAG’s [summary of responses](#) on its discussion paper [Equity Instruments—Impairment and Recycling](#) published in March 2018. On the question of which of the two impairment models proposed in the paper the respondents preferred, despite expressing a preference for a model similar to IAS 39, some respondents acknowledged that experience has proven that the IAS 39 ‘significant or prolonged’ approach failed to be effective regarding comparability among entities due to the wide range of thresholds retained.
58. Furthermore, the staff think that developing a new impairment model by introducing thresholds (ie ‘bright lines’) to the IAS 39 impairment model as suggested by some respondents, would not resolve the complexities and challenges previously identified with the application of this model; in particular, the problems with the late recognition of an impairment loss in profit or loss. Not only are ‘bright lines’ inconsistent with the principle-based nature of IFRS 9, but any bright lines will invariably be arbitrary without any conceptual basis or principle to justify such an approach.
59. We therefore continue to agree with the IASB’s conclusion in paragraph BC5.25(b) of Basis for Conclusions on IFRS 9, that introducing an impairment model for equity instruments would not significantly improve or reduce the complexity of financial reporting for such instruments.

Are the benefits to users of financial statements of the information arising from applying the new requirements significantly lower than expected?

60. In the view of some respondents from the insurance industry, 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.
61. As noted in paragraphs 58 and 59 of [Agenda paper 3A](#) for the June 2022 meeting, neither IFRS 9 nor IFRS 7 distinguishes between realised and unrealised gains or losses and the staff do not believe that ‘recycling’ would necessarily result in users of financial statements receiving more or better information about ‘realised’ gains. However, we acknowledge that it would change how that information is presented.
62. We do not agree with respondents that the OCI presentation option is inconsistent with the Conceptual Framework for Financial Reporting (Conceptual Framework). Although we acknowledge that the Conceptual Framework was finalised after IFRS 9 was issued, in our view, the requirements for equity investments in IFRS 9 are consistent with paragraphs 7.16 and 7.17 which states:

The statement of profit or loss is the primary source of information about an entity’s financial performance for the reporting period... [...] Many users of financial statements incorporate that total in their analysis either as a starting point for that analysis or as the main indicator of the entity’s financial performance for the period. Nevertheless, **understanding an entity’s financial performance for the period requires an analysis of all recognised income and expenses— including income and expenses included in other comprehensive income**—as well as an analysis of other information included in the financial statements.

Because the statement of profit or loss is the primary source of information about an entity’s financial performance for the period, all income and expenses are, in principle, included in that statement. However, in developing Standards, the Board **may decide in exceptional circumstances that income or expenses arising from a change in the current value of an asset or liability are to be included in other comprehensive income when doing so would result in the statement of profit or loss providing more relevant information, or providing a more faithful representation of the entity’s financial performance for that period.** [emphasis added].

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63. In the staff's view, there is no evidence based on the feedback on the RFI or the academic literature review to indicate that the use of the OCI presentation election has led to a reduction in the usefulness of information provided to the users of the financial statements.
64. This is consistent with the findings of Pinto and de Carvalho Morais (2022) as summarised in paragraph 14(c) of [Agenda paper 3B](#) for the June 2022 IASB meeting, that the implementation of IFRS 9 was associated with a decrease in the value relevance of earnings and an increase in the value relevance of other comprehensive income.⁶
65. We continue to believe that choosing either FVPL or the OCI presentation election, accompanied by the required IFRS 7 disclosures, provides users of the financial statements with the information they need about the performance of equity investments. For equity investments for which the OCI presentation election was applied, paragraph 11A of IFRS 7 requires disclosure of:
- (a) which investments the presentation option has been applied to;
 - (b) the reasons for doing so;
 - (c) the fair value of each such investment at the end of the reporting period;
 - (d) dividends recognised during the period; and
 - (e) any transfers within equity during the period and the reasons for such transfers.
66. However, we acknowledge respondents' feedback that these current requirements are not necessarily adequate in communicating all the relevant and useful information about such investments to the users of the financial statements. The European Federation of Financial Analysts Societies (EFFAS) said:
- For users, the key point is that if realized gains or losses are not reflected in the profit and loss statement the **performance of the equity portfolio might remain undisclosed as equity**. This will make it difficult to understand how equity has evolved over the period despite the statement of changes in equity and it will not contribute to the principle of good financial reporting. [emphasis added]
67. Although paragraph 11A of IFRS 7 requires disclosure of the fair value of the investments to which the OCI presentation option is applied, it does not require disclosure of the fair value changes during the period that were recognised in OCI on these investments. The staff

⁶ In the authors' view, investors rely more on other comprehensive income when changes in fair value are not recycled, thereby reducing the value relevance of earnings.

therefore recommend including an additional requirement in paragraph 11A for disclosing changes in fair value during the period. In our view, this would improve transparency and provide the users of the financial statements with a more comprehensive view of the performance of these instruments since their acquisition.

68. We acknowledge respondent's views that when the OCI presentation option has been applied to a number of different equity investments, disclosing fair value for each investment held at the end of the reporting period may become onerous and would not necessarily provide useful information to users of financial statements. We therefore recommend amending paragraph 11A(c) of IFRS 7 to allow an aggregated disclosure of the fair value of equity investments held at the end of the reporting period.

Equity-like investments

69. As noted in paragraphs 62 and 63 of [Agenda paper 3A](#) for the June 2022 meeting, the staff observed that the economic substance of the rights and obligations of an entity as an investor in a fund that trades equities as well as other instruments is different to those of an entity's that directly invests in an investee. Furthermore, 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, ie investments in which the holder has contractual rights to residual interest in the net assets of the investee.
70. Many equity-like instruments meet the definition of a financial liability (ie a debt instrument) as stated in paragraph 11 of IAS 32, but are presented as equity if they have all the features and meet the conditions in paragraphs 16A and 16B or paragraphs 16C and 16D of IAS 32. Therefore, unless designated at initial recognition at FVPL, the holder of such instruments shall apply the classification and measurement requirements in paragraph 4.1.1 of IFRS 9 to these instruments.
71. This is consistent with the conclusions reached by the Interpretations Committee (the Committee) in [September 2017](#) when it was asked to consider whether a financial instrument is eligible for the presentation election in paragraph 4.1.4 of IFRS 9, if the issuer would classify it as equity applying paragraphs 16A–16D of IAS 32. The Committee stated that a financial instrument that has all the features and meets the conditions in paragraphs 16A and 16B or paragraphs 16C and 16D of IAS 32 is not eligible for the presentation election in paragraph 4.1.4 of IFRS 9. This is because such an instrument does not meet the definition of an equity instrument in IAS 32.

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72. Applying the OCI presentation election to investments in equity-like instruments that do not provide the holder with a residual interest in the net assets of the investee would not provide the users of the financial statements with a more relevant and faithful representation of the holder's rights and obligations. On the contrary, we think it could provide misleading information to users of the financial statements if an entity's investment in a debt instrument is presented as if it entitles the entity to a residual interest in an entity.
73. Therefore, in the staff's view, it would not be appropriate to extend the OCI presentation election to 'equity-like' instruments that do not meet the definition of an equity instrument as defined in IAS 32.

Cost exemption for investments in unquoted equity instruments

74. IFRS 9 requires investments in equity instruments to be measured at fair value and there is no exemption from measurement on that basis. The staff acknowledge respondents' feedback that in some situations, the cost of performing fair value calculations exceed the benefits of providing such information to the users of the financial statements for unquoted equity instruments
75. Paragraph 46(c) of IAS 39 stated that:
- ...investments in equity instruments that do not have a quoted price in an active market and whose fair value cannot be reliably measured and derivatives, that are linked to and must be settled by delivery of such equity instruments, [...] shall be measured at cost.
76. The two key characteristics were (1) the lack of a quoted market price; and (2) the fair value of the instruments could not be reliably measured. IFRS 13 *Fair Value Measurement* (issued in May 2011) introduced the fair value measurement hierarchy and provides detailed application to determine the fair value of an item for which there is no quoted market price and therefore nullified the first criteria.
77. With regard to the second criteria, the staff note that paragraph B5.2.3 of IFRS 9 already recognises that in some limited circumstances, cost may be an appropriate estimate of fair value for an unquoted equity investment. This may be the case if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.
78. The application guidance in paragraph B5.2.4 of IFRS 9 provides a non-exhaustive list of indicators where cost might not be representative of fair value is provided in. Paragraph

B5.2.5 further goes on to say that in determining the fair value, an entity shall use all information about the performance and operations of the investee that becomes available after the date of initial recognition. To the extent that any such relevant factors exist, they may indicate that cost might not be representative of fair value. In such cases, the entity must measure fair value.

79. The IASB explained in paragraph BC5.17(a) of the Basis for Conclusions on IFRS 9 that when respondents comment on the reliability of fair value measurements, they were considering only one of the qualitative characteristics of usefulness of information in isolation. In the IASB's view, the usefulness of information must be assessed against all four qualitative characteristics in the Conceptual Framework; reliability, understandability, relevance and comparability. Therefore, measuring all equity investments at fair value meets the criteria in the Conceptual Framework for information to be useful if appropriate measurement techniques and inputs are employed.⁷ The IASB therefore concluded that basic shareholder rights would enable an entity to obtain the necessary information to perform a valuation for such instruments.
80. As stated in paragraph BC5.17(b) of the Basis for Conclusions on IFRS 9, the IASB acknowledged that there are circumstances in which the costs of determining fair value could outweigh the benefits from fair value measurement, for example when an entity holds a high number of investments in unquoted equity instruments and the value of a single investment is low. However, the IASB concluded that if the value of investments individually or in aggregate is material, the incremental benefit of fair value generally outweighs the additional costs because of the impact of the investments on the financial performance and financial position of the entity.
81. In the staff's view, fair value remains the most informative measurement basis for investments in all equity instruments and IFRS 9 provides an adequate basis to determine when cost might be an appropriate estimate of fair value for an unquoted equity investment and when it might not. Therefore, we do not consider it necessary to reintroduce the exemption from fair value measurement for investments in unquoted equity instruments.

⁷ The revised Conceptual Framework includes relevance (including materiality) and faithful representation as fundamental qualitative characteristics of information to be useful to users of financial statements. Comparability, variability, timeliness and understandability are qualitative characteristics that enhance the usefulness of information that is both relevant and a faithful representation.

Are the costs of consistently applying, auditing and enforcing the application of the requirements significantly higher than expected?

82. Most of the respondents that commented on the requirements for investments for equity instruments, did not identify significant challenges in applying, auditing and enforcing the application of the principles and requirements of IFRS 9 regarding the OCI presentation election.
83. As noted above, IFRS 9 is yet to be applied by the insurance industry, however there is no evidence to suggest that application of OCI presentation election by the insurers would be significantly costlier than expected.
84. As noted in paragraphs 74–81 of this paper, a few respondents are concerned about the costs and judgement required to determine the fair value of some investments in unquoted equity investments. However, in the staff's view, the concerns raised regarding costs incurred are not widespread and there is no evidence to suggest that the costs of applying the requirements for equity investments are significantly greater than expected.
85. The staff therefore consider that, based on the responses to the RFI and academic literature review to date, there is no evidence of costs of consistently applying, auditing and enforcing the application of the requirements being significantly higher than expected.

Staff conclusions

86. Any standard-setting invariably lead to costs and implementation efforts to entities applying the requirements, hence there is a high hurdle to justify disrupting current practice. Reconsidering the development of a new measurement category for investments in equity instruments or requiring the recycling of the fair value changes to profit or loss on disposal of equity instruments would require major standard setting, and would only be justified if there is evidence that:
- (a) there are fundamental questions about the clarity and suitability of the core objectives or principles in the new requirements;
 - (b) the benefits to users of financial statements of the information arising from applying the new requirements are significantly lower than expected; or
 - (c) the costs of applying some or all of the new requirements and auditing and enforcing their application are significantly greater than expected.

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87. As noted in paragraphs 44 and 45 of this paper, requests to require recycling of amounts accumulated in OCI are closely related to respondents' views on the role of OCI within the Conceptual Framework and extend beyond the scope of this PIR. Furthermore, as noted in paragraph 41, changing the requirements in IFRS 9 to introduce a new measurement category for equity investments, will require major standard-setting and would take a considerable time to complete.
88. As is evident from the feedback discussed in paragraphs 18–30 of this paper, many respondents indicated that they are either applying, or intend to apply, the OCI presentation option to a wider scope of equity investments than the IASB may have originally intended. However, based on the feedback and review of academic literature to date, there does not seem to be any evidence that this has led to fundamental questions about the suitability or clarity of the requirements or that the benefits to users of financial statements of applying the requirements are significantly lower than expected. This is despite the fact that the current requirements in IFRS 9, do not require or allow recycling. Therefore, the staff is not recommending any amendments to the existing requirements in IFRS 9.
89. To address concerns that the current disclosure requirements in IFRS 7 may not provide all the useful information that users might need, the staff has recommended amendments to the disclosure requirements in IFRS 7. In our view, these amendments would improve transparency and provide the users of the financial statements with a more comprehensive view of the performance of equity instruments to which OCI presentation election has been applied, while not increasing the costs to entities to prepare the information.
90. There is a planned Exposure Draft that will include proposed amendments to IFRS 9 that will clarify the classification and measurement requirements for financial assets based on their contractual cashflow characteristics along with the accompanying proposed amendments to IFRS 7. If the Board is in agreement with the staff's recommendations in paragraph 5 of this paper, in the staff's view, it would be more efficient to include these proposed amendments in the same Exposure Draft.