



# EFFAS THE EUROPEAN FEDERATION OF FINANCIAL ANALYSTS SOCIETIES

## **EFRAG – European Financial Reporting Advisory Group**

35, Square de Meeûs  
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**Re:** Comments on *Financial Instruments with  
Characteristics of Equity: Early-Stage Analysis*

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## **Comments by the European Federation of Financial Analysts' Societies (EFFAS) Commission on Financial Reporting (CFR)**

Dear Sirs,

The Commission on Financial Reporting of the European Federation of Financial Analysts Societies (hereafter the "CFR") would like to present its views regarding the approach of EFRAG's research document *Financial Instruments with Characteristics of Equity: **Early-stage Analysis***.

Given the challenge of writing research documents on subjects as particularly complex as FICE, we consider the document to be comprehensive and useful. Taking a broad approach, incorporating issues of relevance to the European Union and including specific examples to reduce uncertainty adds value to the document.

We encourage EFRAG to develop and present research papers and technical documents in a clear and concise language avoiding density, new terminology and concepts unfamiliar for users. Simplicity and clarity are always appreciated by users.

We find the research document's structure straightforward and well supported with quantified-driven research included in the Appendices.

### a). – Approach

Conducting research at a developmental stage -IASB DP- might present limitations. This however is a useful and practical exercise to anticipate potential shortfalls in the outcome.

FICE products are particularly complex. Additionally, the large amount and vast type of outstanding financial instruments can make it lengthy and difficult to develop research on this subject. Anticipating the potential impact of reclassification is for instance, a useful exercise. Analysts and investors like consistency and transparency and developing research *ex-ante* should contribute to clarity and accuracy when developing a new standard.

We think that undertaking a survey among the different stakeholder's provides insights about their experiences and views. The FICE survey shows that, apparently, reclassification does not provide evidence of a significant impact on corporations' financial statements. This, we believe, is a meaningful output to be considered. Additionally, if the survey is complemented with quantitative analysis and academic research the final product becomes relevant



b). – Quantifying

Analysts and investors take investments decisions mainly based on quantifiable information. Therefore, an approach to empirical research is always well received. We encourage EFRAG to continue incorporating quantified-driven analysis in research documents. It provides “fact-based” inputs and contributes to significantly reduce uncertainty and mitigate pre-determined assumptions.

c). - Public Good

We support research that contemplates the potential impact of new reporting standards in the European Public Good initiative. For instance, implementing FICE we do not expect a major effect on the cost of capital of financial institutions, although we agree with assessing the potential impact due to the reclassification when computing capital ratios, specifically Tier-1 (CET1). An *ex-ante* analysis of the potential impact, we believe, is advisable.

d). – Academic Research

As noted previously, the inclusion of academic research as part of a comprehensive approach to the research document serves to set the theoretical basis to develop the subject. Academic views combined with empirical analysis should set the direction. when drafting reporting standards.

Outreaches also contribute to have a better and more profound understanding of stakeholder’s opinions. We support users’ comments regarding the need for clear and more information on the potential dilutive effect of FICE instruments.

If you have any questions, please do not hesitate to contact me.

Yours faithfully,

Javier de Frutos

On behalf of EFFAS Commission on Financial Reporting

*EFFAS was established in 1962 as an association for nationally-based investment professionals in Europe. Headquartered in Frankfurt am Main, EFFAS comprises 22-member organizations representing more than 16,000 investment professionals. The Commission on Financial Reporting is a standing commission of EFFAS aiming at proposing and commenting on financial issues from an analyst and investors standpoint. CFR members are Javier de Frutos (Chairman, IEF-Spain), Jacques de Greling (Vice-Chairman, SFAF-France), Dr. Carsten Zielke (DVFA, Germany), Friedrich Spandl (ÖVFA, Austria), Henning Strom (NFF, Norway), Serge Pattyn (BVFA/ABAF, Belgium) and Luca D’Onofrio (AIAF, Italy).*