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EFRAG Research Project Equity Instruments - Impairment and Recycling Cover note

Objective

- 1 At its January 2018 meeting, EFRAG TEG approved to recommend to the EFRAG Board the publication of a discussion paper in relation to the second phase of the European Commission's ('EC') request.
- 2 The objective of this session is to discuss and approve this discussion paper for public consultation.

Background and previous EFRAG Board discussions

- 3 At its September 2016 meeting, the EFRAG Board decided to add the project *Equity Instruments - Impairment and Recycling* to EFRAG's research agenda.
- 4 In May 2017, the EC requested EFRAG to investigate the potential effects of IFRS 9's requirements on accounting for investments in equity instruments on long-term investment. The request comprised of two phases. On 17 January 2018, EFRAG issued [a report](#) related to the first phase of the EC request.
- 5 In the second phase of the project ("the possible solutions phase"), the EC requested EFRAG to assess, from a conceptual perspective, the significance of an impairment model to the re-introduction of recycling and how the impairment model under IAS 39 *Financial Instruments: Classification and Measurement* for equity instruments could be improved or propose other impairment approaches. The EC also requested EFRAG to consider if, in the absence of a robust impairment model, alternative presentation or disclosure requirements could be used to provide users with the necessary information to make the adjustments deemed necessary to the reported profit or loss.
- 6 To respond to the possible solutions phase request, EFRAG will:
 - (a) issue a discussion paper for public consultation;
 - (b) consider the input from constituents; and
 - (c) provide its technical advice to the EC.

EFRAG TEG discussion and advice to the EFRAG Board

- 7 EFRAG TEG discussed the discussion paper at its January 2018 meeting and agreed to recommend to the EFRAG Board its publication. EFRAG TEG members made the following main suggestions for improving the paper:
 - (a) the discussion of the alternative presentation and disclosure requirements related to the EC request should be made more prominent in the paper and a question to constituents should be added regarding this topic;
 - (b) the consultation paper should include a preliminary view that reintroducing recycling would improve financial reporting and that a recycling approach should

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be accompanied by the reintroduction of an impairment model, but it should not express any preference between the two impairment models that it describes; and

- (c) indicate in the paper the next steps and expected final outcome are (technical advice to the EC).
- 8 The EFRAG Secretariat revised the paper, which is provided as agenda paper 07-02. In order to comply with the timetable set in the EC request, the EFRAG Secretariat is considering a 60-day comment period.

Agenda papers

- 9 In addition to this cover note, the EFRAG Secretariat provided agenda paper 07-02 *EFRAG's Research Discussion Paper on possible solutions phase Board 18-02-06* for this session.

Question for the EFRAG Board

- 10 Does the EFRAG Board approve to issue the discussion paper for public consultation?