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EFRAG Research Project Equity Instruments - Impairment and Recycling Cover note

Objective

- 1 The objective of this session is to discuss a second draft of the discussion paper in relation to the second phase of the European Commission's ('EC') request and approve it for public consultation.

Background

- 2 At its September 2016 meeting, the EFRAG Board decided to add the project *Equity Instruments - Impairment and Recycling* to EFRAG's research agenda.
- 3 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.
- 4 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.
- 5 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.

Previous EFRAG TEG and EFRAG Board discussions

- 6 EFRAG TEG discussed the paper at its January 2018 meeting and agreed to recommend to the EFRAG Board its publication.
- 7 The EFRAG Board discussed the paper at its February 2018 meeting and decided that the consultation paper should:
 - (a) not express any preliminary views;
 - (b) include the request from the EC as an Appendix and clarify that the matters considered in the consultation paper are based on the scope of the EC request;
 - (c) better clarify that the revaluation model does not try to depict impairment losses; and

EFRAG Research Project Equity Instruments - Impairment and Recycling – Cover note

- (d) include a comment period longer than two months.
- 8 Moreover, the EFRAG Board asked the EFRAG Secretariat to redraft certain of the questions in a more neutral manner and to expand and clarify the analysis on enhancements to presentation and disclosure.
- 9 The EFRAG Secretariat updated the paper for the above decisions and consequential amendments. The paper is provided as agenda paper 02-02. The EFRAG Secretariat included a deadline of 25 May for constituents to comment on EFRAG's discussion paper.

Agenda papers

- 10 In addition to this cover note, the following papers have been provided for this session:
 - (a) agenda paper 02-02 *EFRAG's Research Discussion Paper on possible solutions phase Board 18-02-19*; and
 - (b) agenda paper 02-03 *EFRAG's Research Discussion Paper on possible solutions phase marked up – for background - Board 18-02-19*.

Question for the EFRAG Board

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