Dear Mr Gauzès,

The Association Française de la Gestion Financière (AFG) represents and promotes the interests of third-party portfolio management professionals. It brings together all asset management players from the discretionary and collective portfolio management segments. These companies manage at end 2017 €4,000 billion in assets, including €1,950 billion in French funds and €2,050 billion in discretionary portfolios and foreign funds.

AFG would like to thank EFRAG for the possibility to comment the Discussion Paper to gather constituents' view on recycling and impairment of equity instruments designated at fair value through other comprehensive income.

We understand that this consultation sits in the wider IFRS 9 discussion around the potential effects on long-term investment equity instruments. In the first phase of the project, the European Commission asked EFRAG to collect quantitative data on the current holdings of equity instruments and their accounting treatment and investigate if entities expect that the new accounting requirements will affect their decisions in relation to investment in equity instruments. EFRAG reported its findings from this phase to the EC in January 2018. Our members comfort EFRAG's view that IFRS 9 may have a negative impact even if investment decisions are usually not only based on accounting or tax considerations. Several billions of redemptions in equity open ended funds are likely by long term investors.

In the second phase of the project, the EC asked EFRAG to provide advice on whether and how the requirements in IFRS 9 on accounting for holdings of equity instruments held for long-term investments could be improved in order to assess unintended effects and ensure it serves the long-term investment strategy.

As explained in our March meeting at EFRAG premises, AFG, as representing Collective Investment vehicles (CIVs) is only indirectly concerned by the consultation and therefore, will not reply to the specific questions asked in the consultation for which we will rely on the Autorité des Normes Comptables (ANC) 's reply to which we contributed.

However, we would like to emphasize the points we discussed during our meeting:
The concept of long-term investors is not satisfactory but should be replaced by the concept of long-term portfolios.

Long-term portfolios may include equities but also other financial instruments including CIVs: CIVs investors bear the risks associated with the underlying assets and should therefore be protected from negative and probably unintended consequences of the IFRS 9 norm.

Therefore, in order to achieve a consistency between the economic model of the portfolio and its accounting transcription, the FV OCI option with recycling should be applied to any identified long-term investment portfolio and not only to equities directly held.

Long-term investment portfolios may cover different types of strategies and we have clearly identified with client investors, the following cases:

- A portfolio designed to cover long term liabilities and meet cash requirements year after year (thus is the case for energy companies that run nuclear plants, or for some pension schemes that do not qualify as IORP and must be borne in the accounts of the company)
- A portfolio with a long-term horizon or with no definite horizon and an investment strategy built on a period longer than the full economic cycle and accepting cyclical temporary downturns
- A portfolio that is identified by the manager as long term with specific internal rules policies on stability and impairment. …

More generally, our concern is that in IFRS9 collective investment schemes are penalized compared to direct holding of the same financial instruments. It hurts our understanding that accounting should be based on risk and business model and be neutral vis à vis the type of envelope that holds the instruments. In that respect AFG is very much concerned that IAS 32 classifies funds as non-equity, even if totally invested in equities and even if listed on an exchange. The derogatory possibility that existed for equity funds to be accounted for as equity instruments (with FV through OCI with recycling) unexpectedly disappeared in IFRS9. This causes many client investors' puzzlement and incomprehension of the new norm.

Should there be no modification of the definition of long-term investments, we suspect that multinational companies and institutional investors subject to IFRS 9 will withdraw from CIVs and move to direct holding with management mandates, losing:

- access to a professional management,
- diversification and hedging of assets,
- lower administrative burden
- shared, and therefore reduced, management costs.

These adverse consequences will probably increase in 2021 when insurances companies apply the new regulation.

Finally, the main losers will be the medium-sized companies, which have no access to the present consultation and will not be able to afford the cost of a dedicated fund or a mandate.
Should you need any further explanation about this reply, please do not hesitate to contact us

Yours very truly

Delphine-Charles-Péronne
Directeur des affaires fiscales et comptables
Chargée de la titrisation et des fonds de prêts
Chargée de la relation avec les membres correspondants

AFG – Association Française de la Gestion financière
41, rue de la Bienfaisance, 75008 Paris
01 44 94 94 21 – 06 12 89 25 26
d.charles-peronne@afg.asso.fr