

REQUEST FOR FEEDBACK – QUESTIONNAIRE

EQUITY INSTRUMENTS – RESEARCH ON MEASUREMENT

Why is EFRAG consulting?

As part of its [Action Plan on Sustainable Finance](#), the European Commission ("EC") announced it would ask EFRAG to explore potential alternative accounting treatments to ("FV") measurement for long- term investment portfolios of equity and equity-type instruments.

In June 2018, EFRAG received a request for advice from the EC in relation to the accounting requirements for investments in equity instruments.

The request for advice is part of the EC's initiatives to orient capital flows towards investment in sustainable activities.

The request for advice asks EFRAG to consider alternative accounting treatments to measurement at fair value through profit or loss (FVPL) for equity instruments.

According to the request for advice, such possible alternative accounting treatments should serve the following objectives:

- properly portray the performance and risks of long-term investment business models, in particular for those equity and equity-type investments that are much needed for achieving the [UN Sustainable Development Goals](#) and the goals of the [Paris Agreement on Climate Change](#);
- preferably enhance investors' insight in the long-term performance of investments, as opposed to recognising point-in-time market-based value changes in reported profit or loss during the duration of the equity investment.

The questionnaire

EFRAG has developed this questionnaire in order to gather views from constituents on alternative accounting treatments to IFRS 9 *Financial Instruments* requirements for equity and equity-type instruments held in a long-term investment business model. Such alternative treatments should serve the objectives mentioned above. Respondents are encouraged to read the EFRAG Secretariat background paper available [here](#).

The EFRAG Secretariat background paper provides background information on the request for advice. It explains how the consultation relates to the EC's initiatives on sustainable growth, illustrates the accounting requirements in IFRS 9 and explores some possible alternative measurement approaches.

The possible alternatives in the background paper are to be considered as examples; respondents may suggest other measurement approaches that they consider appropriate.

Additionally, the background paper provides indications of how the concepts of 'long-term investment business model' and "equity-type instrument" may be considered in the context of the questionnaire.

In addition to submitting replies to the questionnaire, constituents can provide their input on the topic and ask questions about the survey by writing to:

Fredre Ferreira (fredre.ferreira@efrag.org), or Isabel Batista (isabel.batista@efrag.org).

Respondents are encouraged to respond to all questions but are not required to do so. EFRAG will still consider their answers.

EFRAG will disclose the responses, unless a respondent asks for confidentiality.

Please complete this survey by 5 July 2019

General information about the respondent

1) Name of the individual/ organisation

AG Insurance

2) Country of operation

Belgium

3) Job title

Financial Reporting Development

4) E-mail address

daniel.vossensteyn@aginsurance.be

5) Are you currently engaging in a long-term investment business model?

Yes

No

6) How do you define long-term investment business model?

A long-term investment business model is a model in which the company acquires assets in order to generate a stream of revenues in the long run, often in order to match long-term insurance or savings related liabilities.

As an insurer, AG Insurance provides i) protection for life- and non-life related risks and ii) long-term savings products. The underlying insurance liabilities should be able to cover the long-term projected cash outflows.

Through an efficient asset-liability management we aim to match the long-term profile of our investments with these long-term liabilities. Therefore we aim for holding investments that replicate the duration of our liabilities.

As such AG Insurance can be considered as a long-term investor, playing a significant role in financing the real economy.

7) Are you currently engaging in investment of sustainable activities?

Yes

No

8) How do you define sustainable activities?

Sustainable activities generally refer to activities taking into account environmental, social and governance objectives, aiming at having a positive impact on society in the long-term.

Environmental: factors that contribute to an environmental objective. Such objectives include climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, waste prevention and recycling, pollution prevention and control and protection of healthy ecosystems

Social: factors that contribute to a social objective, in particular to tackling inequality, fostering social cohesion, social integration and labour relations, human capital and economically or socially disadvantaged communities

Governance: factors that contribute to good governance practices, in particular companies with sound management structures, good employee relations, fair remuneration and tax compliance

Question 1

9. IFRS 9 allows an entity to account equity instruments either at FVPL or, if applicable, at fair value through other comprehensive income (FVOCI) without impairment and without reclassification ("recycling") to P&L upon disposal of valuation gains or losses previously recognized through OCI ("IFRS 9 requirements" for equity instruments). When defining an accounting treatment alternative to IFRS 9 requirements for equity instruments held in a long term investment business model, which characteristics would you require to identify a *long-term investment business model*?

The characteristics/ business model of the investor

The expected holding period

The actual holding period

The long-term nature of the liabilities that fund the assets

Other

If you have indicated "Other" please provide details

AG Insurance supports the fact that IFRS 9 classification rules are based on our business model but wants to stress that investments held for trading only represent a limited interest. This would lead us to classify the majority of our equity instruments under the FVOCI method. FVOCI classification is suitable for both shorter term and long term, life and non-life activities. As such, there is no real need to make a distinction between a short term and a long-term investment business model for equity instruments. However, the proposed IFRS 9 treatment of equity under the FVOCI method (without "recycling") will probably hamper investments in equity by insurance companies.

Question 2

10. In your view, is an alternative accounting treatment to IFRS 9 requirements needed to properly portray the performance and risks of equity instruments held in a long-term investment business model?

Yes

No

Question 3

11. Explain the reasons for your reply to question 2, including the key operational challenges in developing a different accounting treatment to IFRS 9 requirements

According to AG Insurance, a general improvement of the proposed IFRS 9 accounting treatment of equity instruments classified at FVOCI is needed rather than to introduce a new accounting treatment for long-term investment in equity instruments. The reintroduction of "recycling" is necessary for equities measured at FVOCI since it would significantly improve the presentation of the financial performance of insurance companies. Just as dividends, gains and losses realised on disposal of equity instruments measured at FVOCI are an integral part of the company performance and should be included in our results. As such, there is no conceptual reason to make a distinction between these different sources of profits and losses. Reporting consistently all the components of the performance of equity instruments in profit and loss will provide complete and appropriate information to users about the performance of the related investments. This will also ensure consistency with the accounting treatment of debt instruments accounted for at FVOCI for which interests payments as well as gains and losses upon realization in a "hold to collect and sell" business model are recognised in profit and loss.

Many users of financial statements are interested in additional information that distinguishes between realised and unrealised gains and losses. Recognising realized gains and losses on derecognized equity instruments at FVOCI in profit and loss would provide clear information about the contribution of disinvestment decisions. As such, users will be in a better position to assess the performance of the company.

Question 4

12. With reference to equity instruments held in a long-term investment business model, if you support measurement at FV through other comprehensive income with reclassification to P&L upon disposal of the valuation gains or losses previously recognized through OCI (so called “recycling”), which impairment model would you suggest and how it would work in practice?

AG Insurance fully supports measurement at FVOCI with reclassification to profit and loss upon disposal of the valuation gains or losses previously recognized through OCI (i.e. recycling) for all equity instruments which are not held for trading. However, we recognize the need for an impairment model if equity instruments were to be accounted for at FVOCI with recycling.

We acknowledge that some of the negative fair value changes can have a permanent nature and that it would be appropriate and in line with the principle of prudence of the Conceptual Framework for Financial Reporting to reflect such fair value changes in profit or loss. A robust impairment model also increases the relevance of the profit or loss statement as primary source of information of a company’s performance.

An improved version of the IAS 39 impairment model could be used as a way forward. An improvement is needed in order to overcome inconsistencies caused by the unclear notion of ‘*prolonged or significant*’ and by the excessive notion of ‘*once impaired always impaired*’. Consequently, we support the introduction of an impairment model similar to that of IAS 39 but with the introduction of a clear definition of the notions of ‘*significant*’ and ‘*prolonged*’ and of reversal of impairments in profit and loss.

We would suggest the introduction of an impairment model under IFRS 9 for FVOCI equity instruments with clear criteria such as, for instance:

- A ‘significant’ decline in fair value could be defined as being a decline of more than 30 % in fair value.
 - A ‘prolonged decline in fair value’ could be defined as being a decline in fair value during a period greater than or equal to 12 months.
 - The same quantitative triggers could be used in order to consider reversal of impairments.
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Question 5

13. Should the different accounting treatment be restricted to equity instruments held in a longterm investment business model?

For more detail, please refer to paragraphs 4.3 to 4.29 of the Background paper.

Yes

No

14. Please explain your answer

Cfr. Question 1

Question 6

15. As per IFRS 9, equity-type of instruments, such as units of investment funds, do not meet the definition of equity instrument of IAS 32 Financial Instruments: Presentation, therefore are not eligible for the option to measure them at fair value through comprehensive income ("FVOCI"). At the same time, they are not eligible for measurement at amortised cost (as they have contractual cash flows that are not Solely Payments of Principal and Interest, "SPPI" instruments). As such, IFRS 9 requires to account for them at FVPL; no FVOCI option is granted ("IFRS 9 requirements for equity-type instruments").

Should the different accounting treatment referred to in the previous questions be extended to instruments that are "equity-type"?

For more detail please refer to paragraph 4.30 to 4.39 of the Background paper.

Yes

No

16. Please explain your answer

AG Insurance supports extension of the proposed accounting treatments in our answers under Questions 3 and 4 to "equity-type" instruments.

Insurers do not invest only directly in equity instruments; they also invest indirectly, for example through units or notes in investment funds. It is important not to create a competitive disadvantage because the same assets are held through different mechanisms. Therefore, to provide relevant information for the performance of long-term investors such as insurers, we believe that the accounting treatment of "equity-type" instruments such as UCITs should also be eligible to the FVOCI category under IFRS 9.

Question 7

17. If so, which characteristics would you require to define the "equity-type" instruments?

Units of funds and other instruments that meet the 'puttable exception' in IAS 32

The nature of the assets invested in

Mutual funds

Other

18. If you have indicated "Other" please provide details

Question 8

19. With reference to equity and equity-type instruments held in a long term investment business model, please rate how relevant a different accounting treatment is to the objective of reducing or preventing detrimental effects on investment in sustainable activities in Europe.

0 _____ [75%] _____ 100

Question 9

20. Are there other characteristics that would justify an accounting treatment different than IFRS 9 requirements for equity instruments and equity-type instruments held in a long-term investment business model? Please provide examples.

AG Insurance is convinced that an adaptation of the accounting treatment under IFRS 9 for equity and equity-type instruments is necessary. However, in our opinion a dedicated accounting treatment limited to a long term investment business model is not appropriate for insurance companies. The FVOCI model is a suitable accounting model for both long-term and shorter-term investments as long as changes in fair value recorded in OCI are reclassified ("recycled") to profit or loss on disposal and as long as a robust impairment model as described under Question 4 is foreseen.

There is no need to try to differentiate long-term investments from shorter-term investments as companies already distinguish investments by accounting for them at FVOCI instead of FVPL. This choice is made based on the nature of the underlying liabilities, as part of the ALM strategy.

The following pages include 7 illustrative examples of long term investment. For each scenario, you are invited to answer the questions on the page which follows.

Please consider that for Scenario A, B, C and D IFRS 9 requires to either measure the investment at FVTPL or to elect the option for measurement at FV through other comprehensive income, without reclassification to P&L, upon disposal, of the valuation gains or losses previously recognized through OCI, and without impairment.

Illustrative example A - Wind farm with predetermined useful life

21. For scenario A - In your view, is a different accounting treatment needed in order to meet the following two objectives? (i) properly portray the performance and risks of long-term investment business models, in particular for those equity and equity-type investments that are needed for achieving the UN Sustainable Development Goals and the goals of the Paris Agreement on Climate Change; and (ii) preferably enhance investors' insight in the long-term performance of investments, as opposed to recognising point-in-time market-based value changes in reported profit or loss during the duration of the equity investment.

Yes

No

If yes, please explain why.

22. Which element in the scenario is more relevant for your reply?

_____The sustainable nature of the investee's operation

_____The definite useful life of the investee's operation

_____The investor's inability to dispose of the shares

23. Which accounting treatments do you support?

- Historical cost
- Average fair value
- Adjusted cost
- Adjusted fair value
- Allocation-based approaches
- Existing requirements are appropriate
- Other

In case you would support an Accounting treatment other than the examples explored in the EFRAG Secretariat Background paper and/or you have selected “Other”, please illustrate the accounting treatment you would support and why.

No alternative accounting treatment for the long-term investment business model is needed to properly portray the performance and risks of equity instruments.

The reintroduction of recycling is however necessary for equities measured at FVOCI since it would significantly improve the presentation of our financial performance. Gains and losses when equity instruments measured at FVOCI are sold are an integral part of our performance as dividend on these instruments. As such, there is no conceptual reason to present them differently.

AG Insurance also supports the introduction of an impairment model if equity instruments were to be accounted for at FVOCI with recycling. As stated under Question 4, we suggest the introduction of an impairment model similar to that of IAS 39 with the introduction of reversal of impairments and of a clear definition of the notions of ‘significant’ and ‘prolonged’.

Illustrative example B - Unlisted single equity instrument

24. For scenario B - In your view, is a different accounting treatment needed in order to meet the following two objectives? (i) properly portray the performance and risks of long-term investment business models, in particular for those equity and equity-type investments that are needed for achieving the UN Sustainable Development Goals and the goals of the Paris Agreement on Climate Change; and (ii) preferably enhance investors’ insight in the long-term performance of investments, as opposed to recognising point-in-time market-based value changes in reported profit or loss during the duration of the equity investment.

- Yes

No

If yes, please explain why.

25. Which element in the scenario is more relevant for your reply?

_____ The fact that the shares are unlisted

_____ The fact that the investor does not have a put option

_____ The sustainable nature of the investee's operation

26. Which accounting treatments do you support?

Historical cost

Average fair value

Adjusted cost

Adjusted fair value

Allocation-based approaches

Existing requirements are appropriate

Other

If you would support an Accounting treatment other than the examples explored in the EFRAG Secretariat Background paper and/or you have indicated "other", please illustrate the accounting treatment you would support and why.

No alternative accounting treatment for the long-term investment business model is needed to properly portray the performance and risks of equity instruments.

The reintroduction of recycling is however necessary for equities measured at FVOCI since it would significantly improve the presentation of our financial performance. Gains and losses when equity instruments measured at FVOCI are sold are an integral part of our performance as dividend on these instruments. As such, there is no conceptual reason to present them differently.

AG Insurance also supports the introduction of an impairment model if equity instruments were to be accounted for at FVOCI with recycling. As stated under Question 4, we suggest the introduction of an impairment model similar to that of IAS 39 with the introduction of reversal of impairments and of a clear definition of the notions of 'significant' and 'prolonged'.

Illustrative Example C - Open portfolio of equity instruments held with a view to service a long-term insurance liability

27. For scenario C - In your view, is a different accounting treatment needed in order to meet the following two objectives? (i) properly portray the performance and risks of long-term investment business models, in particular for those equity and equity-type investments that are needed for achieving the UN Sustainable Development Goals and the goals of the Paris Agreement on Climate Change; and (ii) preferably enhance investors' insight in the long-term performance of investments, as opposed to recognising point-in-time market-based value changes in reported profit or loss during the duration of the equity investment.

Yes

No

If yes, please explain why.

28. Which element in the scenario is more relevant for your reply?

The link to a long-term obligation (insurance contracts)

The fact that the entity holds a portfolio of equity instruments

The fact that the shares are unlisted

29. Which accounting treatments do you support?

Historical cost

Average fair value

Adjusted cost

Adjusted fair value

Allocation-based approaches

Existing requirements are appropriate

Other

If you would support an Accounting treatment other than the examples explored in the EFRAG Secretariat Background paper and/or you have indicated "other", please illustrate the accounting treatment you would support and why.

No alternative accounting treatment for the long-term investment business model is needed to properly portray the performance and risks of equity instruments.

The reintroduction of recycling is however necessary for equities measured at FVOCI since it would significantly improve the presentation of our financial performance. Gains and losses when equity instruments measured at FVOCI are sold are an integral part of our performance as dividend on these instruments. As such, there is no conceptual reason to present them differently.

AG Insurance also supports the introduction of an impairment model if equity instruments were to be accounted for at FVOCI with recycling. As stated under Question 4, we suggest the introduction of an impairment model similar to that of IAS 39 with the introduction of reversal of impairments and of a clear definition of the notions of 'significant' and 'prolonged'.

Illustrative Example D - Open portfolio of equity instruments held with a view to service a long-term liability

30. For scenario D - In your view, is a different accounting treatment needed in order to meet the following two objectives? (i) properly portray the performance and risks of long-term investment business models, in particular for those equity and equity-type investments that are needed for achieving the UN Sustainable Development Goals and the goals of the Paris Agreement on Climate Change; and (ii) preferably enhance investors' insight in the long-term performance of investments, as opposed to recognising point-in-time market-based value changes in reported profit or loss during the duration of the equity investment.

Yes

No

If yes, please explain why.

31. Which element in the scenario is more relevant for your reply?

The link to a long-term obligation

The fact that the entity holds a portfolio of equity instruments

The fact that the shares are unlisted

32. Which accounting treatments do you support?

Historical cost

Average fair value

Adjusted cost

Adjusted fair value

Allocation-based approaches

Existing requirements are appropriate

Other

If you would support an Accounting treatment other than the examples explored in the EFRAG Secretariat Background paper and/or you have indicated "other", please illustrate the accounting treatment you would support and why.

No alternative accounting treatment for the long-term investment business model is needed to properly portray the performance and risks of equity instruments.

The reintroduction of recycling is however necessary for equities measured at FVOCI since it would significantly improve the presentation of our financial performance. Gains and losses when equity instruments measured at FVOCI are sold are an integral part of our performance as dividend on these instruments. As such, there is no conceptual reason to present them differently.

AG Insurance also supports the introduction of an impairment model if equity instruments were to be accounted for at FVOCI with recycling. As stated under Question 4, we suggest the introduction of an impairment model similar to that of IAS 39 with the introduction of reversal of impairments and of a clear definition of the notions of 'significant' and 'prolonged'.

Illustrative example E - Long-term investment held indirectly through a unit fund - listed

33. For scenario E - In your view, is a different accounting treatment needed in order to meet the following two objectives? (i) properly portray the performance and risks of long-term investment business models, in particular for those equity and equity-type investments that are needed for achieving the UN Sustainable Development Goals and the goals of the Paris Agreement on Climate Change; and (ii) preferably enhance investors' insight in the long-term performance of investments, as opposed to recognising point-in-time market-based value changes in reported profit or loss during the duration of the equity investment.

Yes

No

If yes, please explain why.

34. Which element in the scenario is more relevant for your reply?

The investor's assessment of the long-term nature of its investment

The listed feature of the fund

The investor's ability to redeem or sell

35. Which accounting treatments do you support?

Historical cost

Average fair value

Adjusted cost

Adjusted fair value

Allocation-based approaches

- Existing requirements are appropriate
 Other

If you would support an Accounting treatment other than the examples explored in the EFRAG Secretariat Background paper and/or you have indicated "other", please illustrate the accounting treatment you would support and why.

No alternative accounting treatment for the long-term investment business model is needed to properly portray the performance and risks of equity instruments.

The reintroduction of recycling is however necessary for equities measured at FVOCI since it would significantly improve the presentation of our financial performance. Gains and losses when equity instruments measured at FVOCI are sold are an integral part of our performance as dividend on these instruments. As such, there is no conceptual reason to present them differently.

AG Insurance also supports the introduction of an impairment model if equity instruments were to be accounted for at FVOCI with recycling. As stated under Question 4, we suggest the introduction of an impairment model similar to that of IAS 39 with the introduction of reversal of impairments and of a clear definition of the notions of 'significant' and 'prolonged'.

Illustrative example F - Long-term investment held indirectly through a unit fund – non listed

36. For scenario F - In your view, is a different accounting treatment needed in order to meet the following two objectives? (i) properly portray the performance and risks of long-term investment business models, in particular for those equity and equity-type investments that are needed for achieving the UN Sustainable Development Goals and the goals of the Paris Agreement on Climate Change; and (ii) preferably enhance investors' insight in the long-term performance of investments, as opposed to recognising point-in-time market-based value changes in reported profit or loss during the duration of the equity investment.

- Yes
 No

If yes, please explain why.

37. Which element in the scenario is more relevant for your reply?

- The investor's assessment of the long-term nature of its investment
 The unlisted feature of the fund
 The investor's ability to redeem or sell

38. Which accounting treatments do you support?

- Historical cost
- Average fair value
- Adjusted cost
- Adjusted fair value
- Allocation-based approaches
- Existing requirements are appropriate
- Other

If you would support an Accounting treatment other than the examples explored in the EFRAG Secretariat Background paper and/or you have indicated "other", please illustrate the accounting treatment you would support and why.

No alternative accounting treatment for the long-term investment business model is needed to properly portray the performance and risks of equity instruments.

The reintroduction of recycling is however necessary for equities measured at FVOCI since it would significantly improve the presentation of our financial performance. Gains and losses when equity instruments measured at FVOCI are sold are an integral part of our performance as dividend on these instruments. As such, there is no conceptual reason to present them differently.

AG Insurance also supports the introduction of an impairment model if equity instruments were to be accounted for at FVOCI with recycling. As stated under Question 4, we suggest the introduction of an impairment model similar to that of IAS 39 with the introduction of reversal of impairments and of a clear definition of the notions of 'significant' and 'prolonged'.

Thank You!

Thank you for taking our survey. Your response is very important to us.
