Mr. Jean-Paul Gauzes

EFRAG Chairman

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Belgium

Rf: Draft Comment Letter on the Request for Information - *Post-implementation Review of IFRS 9 Financial Instruments - Classification and Measurement*.

14th January 2022

Dear Jean-Paul,

In the present letter the ICAC gives its view on EFRAG´s Draft Comment Letter on Request for Information - *Post-implementation Review of IFRS 9 – Classification and Measurement*.

Firs of all the ICAC welcomes the EFRAG´s draft comment letter in response to the *Request for Information – Post-implementation Review of IFRS 9 Financial Instruments– Classification and Measurement* issued by IASB in September 2021.

Overall, the ICAC is of the opinion that the issues raised and views taken in the EFRAG´s draft comment letter are the key issues for the post-implementation review-Classification and Measurement.

In most situations we believe that the classification and measurement requirements in IFRS 9 are suitable to align the measurement of financial instruments with their contractual cash flow characteristics and the way the entity manages them. As such, IFRS 9 generally provides users of financial statements with useful information about the amount, timing and uncertainty of the entity's future cash flows.

However, in line with the opinion expressed by the ICAC in its comment letter to the EFRAG´s Discussion Paper Equity Instruments- Impairment and recycling in 2018, we consider that it is necessary to improve the accounting requirements of IFRS 9 for holdings of equity instruments. We continue to support the need for recycling for equities measured at fair value through other comprehensive income (“FVOCI”) to help ensure that profit and loss correctly reflects financial performance for all long-term investors. The ICAC continues to stress the importance of profit or loss as a main indicator of financial performance.

Therefore, we strongly support overcoming the current prohibition of OCI recycling for equity financial instruments and replace the existing model with a FVOCI option that entails OCI recycling. In this sense, we agree with the EFRAG view that a FVOCI with recycling solution should be accompanied by a robust impairment model.

The ICAC also shares the EFRAG´s view that similar fact patterns should be treated similarly, and due to some mutual funds and puttable instruments respond to movements in market variables in a similar way to equity instruments even though these do not meet the definition of an equity instrument under IAS 32 Financial Instruments: Presentation, that investments in equity instruments should generally be treated alike, regardless of whether they are held directly by an entity or indirectly, e.g. via an investment fund.

Consistent with the opinions expressed and following the strategy of convergence with the IFRS adopted by the EU, the Spanish Gaap (The General Accounting Plan) has been amended by the Royal Decree 1/2021, of 2nd of January 2021, that applies to accounting exercises beginning on or after the 1st of January 2021, adopting partially IFRS -UE 9 applying for the annual financial statements of all non-financial entities and for the consolidated financial statements of entities not required to apply IFRS and that voluntarily follow the local standard.

According to that, for those equity instruments measured at FVOCI at initial recognition irrevocably designated, in case of impairment or derecognition the accumulated income or losses in equity should be reclassified to the profit and loss account. The reason for maintaining recycling is to preserve the general principle that the company's profit or loss is reflected in the profit and loss account at a given point in time.

Regarding the definition of equity-type instruments, in our legislation the General Accounting Plan approved by Royal Decree 1514/2007 of 16th November 2007, in its second part the recognition and measurement standard 9th Financial Instrument mentions “acquired equity instruments of other companies, e.g. shares, mutual fund units and other equity instruments”. This issue has not been changed.

Finally, with respect to sustainable finance products, we acknowledge that the application of the SPPI cash flow criterion to new types of investments such as sustainability-linked bonds may be challenging. Therefore, we propose to enhance the current IFRS 9 with specific classification guidance for these types of investments but abstain from fundamental changes to the overall SPPI concept of IFRS 9. This issue should be treated as an urgent issue separately from the PIR process.

Please, don´t hesitate to contact us if you need to clarify any point of this letter.

Yours sincerely,

Santiago Durán Domínguez

Chairman of the ICAC