Call by EFRAG for comments on FICE Early-Stage Analysis Working Paper

Erste Group comments

- *Do you find this type of early-stage analysis to be useful?*

Considering the extent of outreach activities performed by EFRAG and inputs received which was probably unprecedented for this kind of IASB projects we consider that the early stage assessment is a logical outcome of the discussion paper (DP) stage of the FICE project and provides a useful analysis.

- *Do you have any comments on the findings included in the Working Paper?*

We would like to note that the concerns regarding reclassification of AT1 instruments mentioned in the working paper (WP) multiple times (paragraphs 4.23, 4.47, 5.7) may be overstated compared to what the proposed requirements in the DP actually ask for. The DP does not bring specific requirements in this respect and, in our view, the issue should be analysed based on the general principles of the timing and amount feature. From this perspective the timing feature, in general, is not different to IAS 32. Application of the amount feature in this case would be equivalent to the fixed-for-fixed condition in IAS 32 (for instruments with the conversion feature) or would bring no changes for instruments with the write-down feature.

Thus the situation in the DP is unchanged to IAS 32. We note that the IFRS IC was not able to resolve the issue in the context of IAS 32 requirements (final agenda decision from January 2014 meeting regarding classification of financial instruments mandatorily convertible to variable number of shares upon a contingent non-viability event). In line with our understanding, the WP points to this unclarity in paragraph 4.49 and notes that EFRAG´s comment letter suggested the need for the IASB to provide clarifying guidance to these instruments.

However, in our view, the uncertainty in the classification of AT1 instruments persists rather than is caused by the FICE DP proposed model. Therefore, the DP should not be blamed for classification changes in this area.

We are aware that inputs received in the outreaches should be captured faithfully in the EFRAG analysis. But perhaps EFRAG could be more ambitious in assessing the merit of the inputs. If EFRAG identified that some of the proposed requirements may not be well understood this could be indicated in the analysis.

Further, certain findings from the outreach summarised in the WP might have been better considered in the process of drafting the EFRAG´s position in the comment letter. We are aware that the comment letter was published earlier than the WP and the comment letter follows a different due process. But the findings from the outreach were already known when the comment letter was being drafted.

For example, the WP mentions concerns of stakeholders that co-operative shares may be reclassified (paragraphs 4.26, 4.50, 4.51, 5.8, 6.3) However, EFRAG always mitigates the concerns by saying that the IASB DP proposes that the provisions in IFRIC 2 are retained. Nevertheless, the comment letter mentions the potential reclassification issues (in the summary of EFRAG's views and paragraph 10(a)) without such mitigation which comes only in the final part of the comment letter titled *IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments*.

Further, the WP shows that certain instruments which would be subject to reclassification from equity to liabilities are rare in the practice of EU entities. This is the case for net-share settled derivatives and, as discussed more in detail, for foreign currency rights issued (paragraphs 4.24, 4.52, 4.53) for which the potential impact is expected to be minimal. Despite this EFRAG comment letter dedicates as many as 10 paragraphs to discussing these instruments with a conclusion in favour of the original IAS 32 requirements. We do not question the analysis in the CL as such but in such cases EFRAG might indicate that the issues raised may be of marginal significance as suggested in the quantitative outreach.

- *Do you have any suggestions to enhance the usefulness for future work on the project on FICE?*

The FICE project is important for preparers and we note that previous attempts to design a new model for distinguishing between equity and liabilities failed. We would like that this project continues towards a new principle-based classification model. We acknowledge the thorough outreach work by EFRAG in the discussion paper stage. EFRAG should continue following all the IASB developments and stay proactive.

In line with our comments to the previous question, we would suggest that EFRAG considers the issues raised by the constituents in light of their merits and reflects expected quantitative impacts in order to avoid potential bias in the assessments.

We understand that this type of early-stage analysis is inherently prone to assessments which may be inconclusive due to limited available evidence or difficulties of stakeholders in making accurate estimates. As a result, as the IASB proceeds with the project and the proposed requirements become more specific EFRAG should consider how to update the outcomes and make them more conclusive.

- *Do you have any suggestions to enhance the usefulness of this type of exercise on other projects?*

We do not have specific comments in this regard. The extent of EFRAG outreaches and own analytical efforts should be proportional to the significance of specific projects. Whether the work carried out by EFRAG for a particular stage of a project should be concluded with a similar early-stage analysis WP should depend on the extent and quality of the data collected.