



## EUROPEAN COMMISSION

Directorate General Financial Stability, Financial Services and Capital Markets Union

### INVESTMENT AND COMPANY REPORTING

Accounting and financial reporting

Head of Unit

Brussels, *1 June 2018*  
FISMA B3/EVDP/fv/Ares(2018)3110211

Jean-Paul Gauzès  
President  
EFRAG  
Square de Meeûs 35 B-1000 Brussels  
[jean-paul.gauzes@efrag.org](mailto:jean-paul.gauzes@efrag.org)

**Subject: Request for technical advice on possible alternative accounting treatments to fair value measurement for long-term investment portfolios of equity and equity type instruments**

Dear Mr Gauzes,

As part of its Action Plan on Sustainable Finance<sup>1</sup>, the Commission announced it would ask EFRAG to explore potential alternative accounting treatments to fair value measurement for long-term investment portfolios of equity and equity-type instruments.

Under IFRS 9 equity instruments can be measured either as fair value through profit or loss (FVPL) or, as an irrevocable choice at initial recognition, at fair value through other comprehensive income (FVOCI). However, in case of FVOCI measurement IFRS does not allow gains or losses realized upon the disposal of the financial asset to be recognized as profit or loss (no “recycling” through P&L).

The Commission has already asked EFRAG to assess the FVOCI treatment for equity instruments in an earlier call for advice<sup>2</sup>. The Commission asked to assess in two phases: 1) the significance of the equity instruments portfolios measured at FVOCI and the possible impact on long-term investments, and 2) to explore possible alternative accounting treatments. The Commission notes that EFRAG’s work is well under way for this call for technical advice.

This request for technical advice asks EFRAG to consider alternative accounting treatments to measurement at FVPL for equity instruments. Possible accounting treatments should 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.

Alternative accounting treatments for long term equity investments should preferably enhance investors’ insight in the long term performance of investments as opposed to recognizing point in time market based value changes in reported profit or loss during the duration of the equity investment.

<sup>1</sup> COM/2018/097 final : <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52018DC0097>

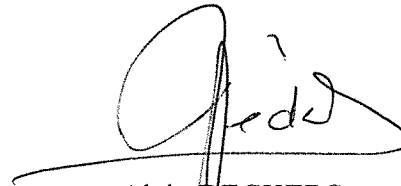
<sup>2</sup><https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FMeeting%20Documents%2F1606211130208837%2F06.02%20-%20Request%20from%20EC%20-%20Equity%20Instruments.pdf>

We would be grateful if EFRAG could provide us with the outcome of its work by the second quarter of 2019.

We thank you in advance for your cooperation and would be happy to provide any clarification required on this letter to EFRAG representatives.

Should you have any questions, please contact Erik van der Plaats (Telephone: +32 2 29 55565).

Yours sincerely,



Alain DECKERS

cc.: A. Watchman, (EFRAG TEG Chairman)