



EFRAG  
35 Square de Meeûs  
B-1000 Brussels  
Belgium

## Equity Instruments – Impairment and recycling

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### Introduction

UK Finance welcomes the opportunity to comment on the discussion paper (DP) 'Equity Instruments – Impairment and Recycling'. UK Finance represents nearly 300 of the leading firms providing finance, banking, markets and payments related services in or from the UK. UK Finance was created by combining most of the activities of the Asset Based Finance Association, the British Bankers' Association, the Council of Mortgage Lenders, Financial Fraud Action UK, Payments UK and the UK Cards Association. Our members are large and small, national and regional, domestic and international, corporate and mutual, retail and wholesale, physical and virtual, banks and non-banks. Our members' customers are individuals, corporates, charities, clubs, associations and government bodies, served domestically and cross-border. These customers access a wide range of financial and advisory products and services, essential to their day-to-day activities. The interests of our members' customers are at the heart of our work

In our view, this is not the appropriate time to consider making changes to IFRS 9 'Financial Instruments'. The standard has only recently been applied and we do not think there is sufficient evidence that the treatment of equity instruments is causing any issues for users of financial statements or raising other concerns. As acknowledged by the DP, holdings of equity instruments are concentrated so it is unclear that there is a widespread issue. It would be most appropriate for EFRAG to wait for the IASB's Post Implementation Review before raising any concerns. This would be the best way for EFRAG to influence the international debate and ensure consistent global implementation of any changes.

We also consider that fair value through profit or loss provides the best indication of performance for equity securities where gains and losses arise over time and not when the holding is sold. The timing of sales are entirely within control of the entity. If significant, the impact of disposals can be disclosed, but their inclusion in profit or loss through recycling does not help depict the entity's performance in the year.

Furthermore, recycling allows the entity to choose to recognise only gains and not losses. We therefore strongly believe any reintroduction of recycling would need to be accompanied by impairment testing. This would introduce further complexity into the standard which would, in our view, exceed any benefit.

**Question 1.1: What are your views on the arguments presented in paragraphs 2.3 – 2.10? Do you consider that the reintroduction of recycling would improve the depiction of the financial performance of long-term investors? Alternatively, do you consider that the existing requirements of IFRS 9 provide an adequate depiction? Please explain.**

No. For the reasons set out in the above letter, we do not consider that the reintroduction of recycling would improve the depiction of the financial performance of investments in equity instruments classified as at FVOCI. Rather we consider that the existing provisions for IFRS 9 provide the appropriate basis for depicting the performance of equity securities.

Question 2.1: What are your views on the arguments presented in paragraphs 2.11 – 2.17? Do you consider that, from a conceptual standpoint, recycling should be accompanied by some form of impairment model? Please explain.

As explained above, we do not consider that recycling should be reintroduced for equity instruments classified as at FVOCI. However, if recycling were reintroduced for such instruments, then we consider that recycling would need to be accompanied by some form of impairment model and that this model would need to ensure symmetrical treatment for reversals of impairment losses.

Question 3.1: What are your views on the arguments and analysis presented in Chapter 3 of the DP?

In our view, presentation and disclosure requirements cannot replace an appropriate accounting model. We do not support the introduction of extensive disclosure requirements which would not convey useful information, particularly when dealing with large portfolios.

Question 3.2: Are there other improvements in presentation and disclosure that you would support?

Not at this stage. As noted above, it is too early to propose changes to IFRS 9.

Question 4.1: What should be, in your view, the general objective and main features of a robust model for equity instruments (relevance, reliability, comparability...)?

An accounting model for any item, needs to meet the qualitative characteristics of financial reporting as set out in the Conceptual Framework for Financial Reporting (relevance and faithful representation). We note that meeting these characteristics involves striking the appropriate balance. In the absence of any evidence to the contrary, we consider the current model for equity instruments strikes this balance.

Question 4.2: Which, if either, of the two models do you prefer? Please explain.

Question 4.3:

Do you have suggestions for a model other than those presented in the DP? If so, please describe it and explain why it would meet characteristics such as relevance, reliability and comparability.

Since we do not support the reintroduction of recycling for equity investments at FVOCI, we express no preference or suggestions for other models.

Question 5.1:

Do you support the inclusion of quantitative impairment triggers in an impairment model? If so, should an IFRS Standard specify the triggers, or should management determine them?

Question 5.2:

If you do not support quantitative impairment triggers, how would you ensure comparability across entities and over time?

Again, given our overall position regarding recycling, we do not have strong views on these questions. We note that the different approaches illustrate the difficulties of balancing relevance and comparability and therefore any model is likely to be imperfect. The inherent limitations and compromises illustrate the difficulties with the proposal and confirm our support for not making such changes to IFRS 9.

Question 6.1: How should subsequent recoveries in fair values be accounted for? Please explain.

Question 6.2: If subsequent recoveries in fair values are recognised in profit or loss, which of the approaches in paragraphs 5.2 – 5.10 do you support and why?

If impairment were to be reintroduced, it should be done symmetrically.

Question 7.1: Do you consider that the same model should apply to all equity instruments carried under the FVOCI election? If not, why not and how would you objectively identify different portfolios?.

Question 7.2: Do you have comments on these other considerations?

Question 7.3: Are there other aspects that EFRAG should consider?

We support the scope of the FVOCI model for equity securities as set out in IFRS 9. We do not support the reintroduction of recycling and the recognition of impairment. The introduction of another category of FVOCI would result in further complexity.

Question 8.1: Are there other aspects of IFRS 9's requirements on accounting for holdings of equity instruments, in addition to those considered in the DP, which in your view are relevant to the depiction of the financial performance of long-term investors? Please explain.

There are no further aspects on which we wish to comment.

*For further information on this submission please feel free to contact Paul Chisnall, Director, Financial & Operations Policy [paul.chisnall@ukfinance.org.uk](mailto:paul.chisnall@ukfinance.org.uk)*

