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Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

[Date]

Dear Sir/Madam,

Request to amend IFRS 9 to require recycling of gains or losses on equity investments

In May 2015, EFRAG published its draft endorsement advice relating to IFRS 9 *Financial Instruments*. That advice assesses IFRS 9 as issued by the IASB in July 2014 for its potential endorsement within the EU.

This letter stands independent from the endorsement process and hence is not intended to delay the endorsement process in any way nor is its outcome intended to affect the endorsement process.

While overall we concluded in our draft endorsement advice that IFRS 9 meets the endorsement criteria, EFRAG identified a number of weaknesses which reduce its quality. One of these issues relates to the prohibition on transferring gains or losses on equity investments which are measured at fair value through other comprehensive income to profit or loss on derecognition (i.e. recycling). The Basis for Conclusions of the Standard defends this accounting treatment by stating that:

(a) Gains or losses on these instruments should be recognised once only; therefore, recognising a gain or loss in other comprehensive income and subsequently transferring it to profit or loss is inappropriate; and

(b) Recycling of gains or losses to profit or loss would create the need to develop an impairment model which in its turn would create application problems (similar to those faced for available-for-sale category in IAS 39 *Financial Instruments: Recognition and Measurement*).

EFRAG disagrees with these views and notes that recycling of gains or losses from other comprehensive income to profit or loss upon a pre-determined event (e.g. sale of an asset) enhances the resulting information.

EFRAG notes that the argument about recognising the gains or losses only once could be used for prohibition of any kind of recycling while IASB clearly allows the recycling for certain cases. Further, IAS 1 *Presentation of Financial Statements* paragraph 93 explains that the amounts recycled to profit or loss may have been recognised in other comprehensive income in the current or previous periods and before reclassifying into profit or loss they must be deducted from other comprehensive income. The Basis for Conclusions of IFRS 9 does not explain why the equity investments, due to their nature, should belong to the category of non-recyclable items. Moreover the IASB itself proposes in its Exposure Draft on the Conceptual Framework that once it has been decided that fair value changes would be recognised in other comprehensive income they should be reclassified upon derecognition of the asset or liability.

We agree with the IASB that the impairment model for available-for-sale assets has proven deficient in practice and our recommendation is not to reinstate it. We believe however that the IASB should strive to identify a satisfactory alternative, and that the difficulty in doing so should not let us adopt sub-optimal accounting other than for the short term. Recycling outstanding gains upon sale of the assets contributes to relevant performance reporting for long term investors and provides information to assess the efficiency of the investment strategy.

As was argued in our letter of 25 October 2013 on *Reflecting long-term investment business models in financial reporting* we believe that requiring recycling of gains or losses from other comprehensive income to profit or loss would improve the quality of the information resulting from the application of IFRS 9. Hence we ask the IASB to reconsider this issue prior to the Post-Implementation Review of IFRS 9.

If you would like to discuss our comments further, please do not hesitate to contact Françoise Flores or me.

Yours sincerely,

Roger Marshall
[Acting] President of the EFRAG Board

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