IFRS Accounting

Staff paper

Agenda reference: 16B

IASB® meeting

Date	**November 2023**
Project	**Amendments to the Classification and Measurement of Financial Instruments**
Topic	**Feedback analysis – Equity instruments and other comprehensive income**
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Purpose of this paper

1. Question 5 of the Exposure Draft *Amendments to the Classification and Measurement of Financial Instruments* (the Exposure Draft) asked for feedback on the proposed disclosure requirements for investments in equity instruments designated at fair value through other comprehensive income (referred to as the other comprehensive income (OCI) presentation option).

2. This paper analyses the feedback on these proposed disclosure requirements and asks whether the IASB agree with the staff recommendations for responding to this feedback.

3. This paper is structured as follows:

   (a) Summary of staff recommendations and question for the IASB;

   (b) Proposals in the Exposure Draft;

   (c) Feedback on proposals; and

   (d) Staff analysis and recommendations.

Summary of staff recommendations and question for the IASB

4. The staff recommend that:

   (a) the introduction sentence in paragraph 11A of IFRS 7 *Financial Instruments: Disclosures* is amended to require disclosure of information in that paragraph *per class of equity investment*, see paragraph 28 of this paper;

   (b) the proposed amendments to paragraph 11A(c) and the proposed addition of paragraph 11A(f) are finalised as drafted in the Exposure Draft, see paragraphs 28 and 38 of this paper respectively; and

   (c) a disclosure requirement similar to that in paragraph 11A(e), is included in paragraph 11B of IFRS 7, see paragraph 42 of this paper.

Question for the IASB
Does the IASB agree with the staff's recommendations as summarised in paragraph 4 of this paper?

Proposals in the Exposure Draft

5. As part of the post implementation review (PIR) of IFRS 9 *Financial Instruments*, the IASB concluded, based on the feedback and evidence (including academic evidence) received, that the requirements for investments in equity instruments to which the OCI presentation election is applied (from here on, these instruments are simply referred to as 'equity investments' for the purposes of this paper) were generally working as intended. Therefore the IASB decided not to make any changes to the Standard in this regard.

6. However, some PIR participants said that the prohibition of reclassification of amounts accumulated in OCI to profit or loss ('recycling') in IFRS 9, does not faithfully represent the performance of the equity investments on disposal.

7. The IASB noted that neither IFRS 9 nor IFRS 7 distinguishes between 'realised' and 'unrealised' fair value gains or losses; and there was no evidence as part of the PIR to indicate that recycling would necessarily result in more or better information about realised fair value gains or losses being communicated to users of financial statements.

8. To enable users of financial statements to better evaluate the performance of equity investments during the reporting period and to differentiate between changes in fair value related to investments derecognised during the reporting period and those related to investments held at the end of the reporting period, the IASB proposed:

   (a) amending paragraph 11A(c) of IFRS 7 to not require disclosure of the fair value of *each* investment at the end of the reporting period; and

   (b) adding paragraph 11A(f) to IFRS 7 to require an entity to disclose the changes in fair value presented in OCI during the reporting period, showing separately the amount of that change related to equity investments derecognised during the reporting period and the amount of that change related to equity investments held at the end of the reporting period.

Feedback on proposals

Disclosure of an aggregate fair value (paragraph 11A(c) of IFRS 7)

9. As outlined in Ageda Paper 16 for the September 2023 IASB meeting, most respondents welcomed the proposed amendment to paragraph 11A(c) of IFRS 7 to not require the disclosure of the fair value of *each* equity investment at the end of the reporting period. Some explained that the current requirement is onerous to apply, and in their view, does not necessarily provide useful information to users of financial statements.

10. However, a few respondents that commented on this proposal noted that the proposed requirement in paragraph 11A(c) does not explicitly require the disclosure of the

aggregate (ie total) fair value of these equity investments at the reporting date. They suggested that the requirements are reworded to be explicit about requiring the disclosure of the aggregate fair value of these equity investments at the reporting date if that is what the IASB had intended.

11. On the other hand, a few respondents suggested clarifying that an entity is required to determine an appropriate level of aggregation and disaggregation of equity investments to provide useful information to users of financial statements.

12. A few respondents suggested adding cross-references to paragraphs 34(c) and B8 of IFRS 7, which require disclosures about concentrations of risk. In their view, without the requirement to disclose information at a disaggregated level, any concentrations of risk arising from an entity's equity investments might be less apparent to users of financial statements, hence cross-references to these disclosure requirements might be helpful.

13. One respondent suggested that the requirement to disclose an aggregate fair value is removed altogether because it appears to duplicate the requirement in paragraph 8(h)(ii) of IFRS 7.[1]

14. A few other respondents disagreed with the proposed amendment because in their view, aggregation of the equity investments may obscure useful information in the financial statements and disclosures may become less useful to the users of financial statements.

[1] Paragraph 8(h) of IFRS 7 *Financial Instruments: Disclosures* requires equity investments to which the other comprehensive income (OCI) presentation option is applied to be disclosed separately, either in the statement of financial position or in the notes, from financial assets that are classified and measured at fair value through OCI in accordance with the business model (and characteristics of contractual cash flows) requirements.

Disclosure of changes in fair value, including those related to equity investments derecognised during the reporting period (paragraph 11A(f) of IFRS 7)

15. As summarised in Ageda Paper 16 for the September 2023 IASB meeting, many respondents supported the proposed requirements in paragraph 11A(f) of IFRS 7 to disclose the changes in fair value presented in OCI during the reporting period, showing separately the amount of that change related to equity investments derecognised during the reporting period and the amount of that change related to equity investments held at the end of the reporting period.

16. Despite their agreement with the proposals, some respondents again expressed their disappointment that the IASB is not amending IFRS 9 to permit the recycling of fair value gains or losses accumulated in OCI to profit or loss. However, they acknowledged the IASB's rationale for not making any changes to the requirements in IFRS 9 and appreciate that the IASB will continue to monitor new information and further evidence when such information becomes available especially from the insurance industry (see Agenda Paper 3A for the October 2022 IASB meeting).

17. Some of the respondents who support recycling questioned the usefulness of the proposed disclosure requirements. They suggested that, although not being a perfect substitute for recycling, users of financial statements might find disclosure requirements distinguishing between realised and unrealised accumulated fair value gains and losses in the OCI more useful than the proposed requirements in paragraph 11A(f).

18. A few respondents suggested that disclosing changes in the fair value of equity investments derecognised during the reporting period, separately from those still held by the entity at the reporting date, will require tracking of the required information that may not be readily available to the preparers and result in additional costs.

Illustrative example accompanying IFRS 7 (paragraphs IG11A and IG11B)

19. Some of the respondents that commented on these proposals, said that they find the proposed illustrative example accompanying IFRS 7 (proposed paragraphs IG11A and IG11B) useful, but suggested cross-referencing the line items in the illustrative example to the applicable sub-sections in paragraphs 11A and 11B of IFRS 7.

20. Of those who found the illustrative example useful, many also said that, although not required in IFRS 7, users of financial statements would find the disclosure of the transfer of any cumulative gain or loss relating to an equity investment, that was disposed of, from other comprehensive income to retained earnings (as illustrated in the proposed paragraph IG11B) useful as this complements the requirements in paragraph 11A(f) of IFRS 7 and would help better depict the financial performance of equity investments that were disposed of.

Staff analysis and recommendations

Disclosure of an aggregate fair value (paragraph 11A(c) of IFRS 7)

21. In considering stakeholders' feedback and potential refinements that could be made to the proposals in the Exposure Draft, the staff considered the requirements in the relevant IFRS Accounting Standards. For example, paragraph 6 of IFRS 7 requires an entity to group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. The classes described in that paragraph are determined by the entity and are, thus, distinct from the categories of financial instruments specified in IFRS 9 (which determine how financial instruments are classified and measured, including where changes in fair value are recognised).

22. In addition, as explained in paragraph B3 of IFRS 7, an entity decides how it aggregates information to display the overall picture without combining information

with different characteristics. It is necessary to strike a balance between overburdening financial statements with excessive detail that may not assist users of financial statements and obscuring important information as a result of too much aggregation. For example, an entity shall not obscure important information by including it among a large amount of insignificant detail. Similarly, an entity shall not disclose information that is so aggregated that it obscures important differences between individual transactions or associated risks.

23. The staff also note that an entity is required to consider the requirements in paragraphs 29–31 of IAS 1 *Presentation of Financial Statements* regarding materiality and aggregation. As per the requirements in paragraph 30A of IAS 1, an entity shall take into consideration all relevant facts and circumstances when aggregating information in its financial statements, which include the notes and shall not reduce understandability of its financial statements by obscuring material information.

24. When developing the proposed amendments to paragraph 11A(c) of IFRS 7, the IASB considered the feedback received as part of the PIR (see paragraph 68 of Agenda Paper 3A for the October 2022 IASB meeting) that the OCI presentation option has been, or will be, applied to a number of different equity investments. Stakeholders said that disclosing fair value for each investment held at the end of the reporting period may become onerous and would not necessarily provide useful information to users of financial statements. This was reiterated in comment letters to the Exposure Draft as well, as noted in paragraph 9 of this paper.

25. The IASB proposed to remove the requirement to disclose the fair value of *each* equity investment to which the OCI presentation option is applied and permit an entity (having considered the requirements in IFRS 7 and IAS 1 that are described in paragraphs 21–23 of this paper) to provide the disclosure of the fair value on an aggregated basis. The IASB therefore intended for an entity to determine the appropriate level of aggregation of the information.

26. The proposed amendment in paragraph 11A(c) and how an entity might group its equity investments into classes that are appropriately aggregated could be illustrated by two contrasting examples below:

    (a) If an entity is holding a small number of equity investments for strategic purposes rather than for generating investment returns, in a small number of investee entities operating in different jurisdictions and/or industries, the entity might conclude that aggregating such investments into a single class might not provide users of its financial statements with relevant information. Therefore, the entity could disclose the fair value of each investment, as a separate class, at the reporting date.

    (b) By contrast, if an entity is holding a large number of equity investments in different investee entities, operating in same jurisdictions and/or similar industries, then the entity might aggregate these investments into various classes by the jurisdiction or the industry that the investee entities are operating in.

27. The staff acknowledge that the wording of the proposed amendment to paragraph 11A(c) could be interpreted in different ways, which in our view contributed to the feedback described in paragraphs 9–14 of this paper. This is because the proposed amendment referred to 'the fair value of such investments at the end of the reporting period', without any reference to classes of equity investments or references to other requirements in IFRS 7.

28. To avoid confusion and to clarify the requirements further, the staff recommend that— in addition to retaining the proposed amendment to paragraph 11A(c)— the introduction sentence in paragraph 11A of IFRS 7 is amended to require disclosure of the information *per class of equity investment*. In other words, when disclosing the information required by paragraph 11A of IFRS 7, including the fair value of the equity investments at the end of the reporting period, the information is provided by class of equity investment.

29. In our view, this will clarify the IASB's original intention of the proposed amendment (as explained in paragraph 25 of this paper) and be consistent with the underlying principles in IFRS 7. This will also resolve any perceived inconsistencies or duplication between the requirements in paragraph 8(h) of IFRS 7 and the proposed amendments to paragraph 11A(c).

30. Furthermore, it will also clarify that the requirements in paragraph 34 of IFRS 7 and the related application guidance continue to apply to these type of equity investments. That is to say, an entity might aggregate the fair value of its equity investments by jurisdiction or industry as illustrated in paragraph 26(b) of this paper or by another appropriate risk concentration as portrayed in IG18 and IG19 of the illustrative examples accompanying IFRS 7.

Disclosure of changes in fair value, including those related to investments derecognised during the reporting period (paragraph 11A(f) of IFRS 7)

The objective of the requirements in paragraph 11A(f) and additional costs

31. To respond to the stakeholder feedback described in paragraphs 15–18 of this paper, the IASB proposed requiring separate disclosure of changes in fair value between those related to equity investments derecognised during the reporting period and those related to equity investments held at the end of the reporting period. The IASB believed that this would provide users of financial statements with useful information about the performance of equity investments in a similar way to the requirement in paragraph 11A(d)—which requires separate disclosure of dividends recognised related to equity investments derecognised during the reporting period, and those related to investments held at the end of the reporting period.

32. If changes in fair value are disclosed separately, users of financial statements would be able:

(a) to assess the entity's continued level of fair value exposure arising from equity investments retained and their expected continued performance —for example, if there are no disposals or additions of equity investments during the reporting period immediately subsequent to the period of disposal, users of financial statements would be able to easily compare the changes in fair value of the retained equity investments period on period, ie they would be able to assess the level of continued fair value exposure; and

(b) to clearly see the fair value exposure arising from the equity investments derecognised during the reporting period, ie the fair value exposure they ceased to have.

33. The staff do not agree with the concerns raised in paragraph 18 of this paper about the potential burden on preparers from having to track fair value changes. Paragraph 14 of IFRS 13 *Fair value measurement*, explains that the level at which fair value is measured will depend on the 'unit of account' specified in other IFRS Accounting Standards. Under IFRS 9, the unit of account is generally an individual financial instrument, and paragraph B5.7.1 of IFRS 9 requires that the election to present fair value changes in OCI is made on an instrument-by-instrument basis.

34. Therefore, the fair value of equity investments is determined on an instrument-by-instrument basis regardless of the level of aggregation for disclosure purposes. In addition, paragraph 11B(c) of IFRS 7 requires the disclosure of the cumulative gain or loss on disposal, which has to be determined for each equity investment disposed of during the reporting period. In our view, an entity is therefore expected to have access to the information required in proposed paragraph 11A(f) and to be able to separately identify changes in fair value of equity investments derecognised during the reporting period without any additional cost or tracking.

35. We also note that the proposed requirement only requires the separation of fair value changes that occurred during the reporting period under review and not over time, on an ongoing basis. Therefore, there is no need for tracking of fair value changes

related to equity investments that have been disposed of during previous reporting periods.

Realised and unrealised gains or losses

36. The staff acknowledge that when stakeholders refer to realised gains or losses, most of the time they are referring to gains or losses that arise on disposal/derecognition. However, gains or losses could also be realised in other ways, for example through impairment. In addition, as explained in paragraph BC96 of the Basis for Conclusions on the Exposure Draft, and paragraph 7 of this paper, neither IFRS 9 nor IFRS 7 distinguishes between realised and unrealised fair value gains or losses.

37. Furthermore, in the staff's view, introducing new disclosure requirements that distinguish between realised and unrealised amounts accumulated in OCI related to equity investments would be a conceptual question. This is because determining realised fair value gains or losses gives rise to questions that are similar to those related to recycling and it would also reopen the question of whether these equity investments should be subject to impairment, if realised gains or losses are to be measured. As discussed in Agenda Paper 3A for the October 2022 IASB meeting, currently there is no evidence to support that a conceptual change or introduction of an impairment model for equity investments would significantly improve the usefulness or reduce the complexity of financial reporting for such investments.

38. We also note that the combination of the proposed requirement in paragraph 11A(f) of the Exposure Draft and the requirements in paragraph 11B of IFRS 7, in particular the requirement to disclose the cumulative gain or loss on disposal and the refinements recommended in paragraph 42 of this paper, would achieve the disclosure of what stakeholders refer to as 'realised' gains or losses. The staff therefore recommend that the proposed requirements in paragraph 11A(f) are finalised without making any further changes. However, the staff propose to acknowledge in the Basis for Conclusions that entities should provide any additional information that is not required by paragraph 11A but they consider relevant to users of financial statements.

Illustrative example accompanying IFRS 7 (paragraphs IG11A and IG11B)

39. IFRS Accounting Standards permit the transfer of amounts between different components of equity, but they neither require it nor specify how frequently or under which circumstances such transfers would be appropriate. In accordance with the requirements in paragraph 11A(e) of IFRS 7, an entity is only required to disclose information when such a transfer has occurred during the reporting period, including the reasons for the transfer and the amount being transferred between the different components of equity (see also paragraph BC5.26 of Basis for Conclusions on IFRS 9).

40. Therefore the staff do not agree with those stakeholders that suggested the transfer to retained earnings of the cumulative fair value gains or losses relating to an equity investment that has been derecognised, should be required. In our view, introducing such a requirement could be burdensome for some entities and would go beyond the scope of this project as there is no conceptual basis to require this only for equity investments. In addition, such a requirement could lead to similar questions as discussed in paragraph 37 of this paper.

41. However, the staff acknowledge that there could be a perceived inconsistency because paragraph 11A(e) of IFRS 7 specifically requires the disclosure of any transfers made related to equity investments the entity holds at the reporting date, but paragraph 11B does not include a similar requirement for equity investments disposed of during the reporting period. The staff acknowledge that information about transfers within components of equity pertaining to these equity investments could provide useful information to users of financial statements.

42. We therefore recommend including a requirement similar to that in paragraph 11A(e) in paragraph 11B of IFRS 7—that is to say, if an entity chooses to transfer any amounts within equity relating to the equity investments that were disposed of, disclosure of the amount being transferred and the component of equity it is being transferred to, is required. In our view, this would not result in any additional costs or

effort for entities as the transfer of such amounts remain voluntary. However, this would ensure that all disclosure requirements specifically applicable to the derecognition of an equity investment are included in the same paragraph.

43. The staff also agree with respondents' suggestion of cross-referencing the line items in the illustrative example to the applicable sub-sections in paragraphs 11A and 11B of IFRS 7 and propose to include the cross-references in the finalised illustrative example.