

List of Submissions to ED 172 *Embedded Derivatives (Proposed Amendments to AASB Interpretation 9 and 139)*.

- 1 Representatives of the Australian Accounting Profession
(CPA Australia, The Institute of Chartered Accountants in Australia and National
Institute of Accountants)
- 2 Grant Thornton
- 3 ANZ

14 January 2009

Mr Bruce Porter
Acting Chairman
Australian Accounting Standards Board
PO Box 204
COLLINS STREET WEST VIC 8007

Via email: standard@asb.gov.au

Dear Mr Porter

Comments on ED 172 *Embedded Derivatives – proposed amendments to AASB Interpretation 9 and AASB 139*

Thank you for the opportunity to comment on the AASB Exposure Draft *Embedded Derivatives – proposed amendments to AASB Interpretation 9 and AASB 139*. CPA Australia, The Institute of Chartered Accountants and the National Institute of Accountants (the Joint Accounting Bodies) have considered the above exposure draft (ED) and our comments follow.

The Joint Accounting Bodies represent over 180,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government, academia throughout Australia and internationally.

A copy of our letter submitted to the International Accounting Standards Board is attached which highlights our overall support of the proposals along with our concern about the effective date.

We support adoption of the proposals in Australia, as it will result in more useful information to stakeholders and do not see any issues in respect of the application to not-for-profits or the public sector.

If you have any questions regarding this submission, please do not hesitate to contact Mark Shying (CPA Australia) at mark.shying@cpaaustralia.com.au, Kerry Hicks (the Institute) at kerry.hicks@charteredaccountants.com.au or Tom Ravlic (NIA) at tom.ravlic@nia.org.au.

Yours sincerely



Geoff Rankin
Chief Executive Officer
CPA Australia Ltd



Graham Meyer
Chief Executive Officer
Institute of Chartered
Accountants



Roger Colton
Chief Executive Officer
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Representatives of the Australian Accounting Profession



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14 January 2009

Sir David Tweedie
International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH
United Kingdom

Via "Open to comment" page on www.iasb.org

Dear Sir David

Comments on IASB Exposure Draft *Embedded Derivatives – proposed amendments to IFRIC 9 & IAS 39*

Thank you for the opportunity to comment on the IASB Exposure Draft *Embedded Derivatives – proposed amendments to IFRIC 9 and IAS 39*. CPA Australia, The Institute of Chartered Accountants and the National Institute of Accountants (the Joint Accounting Bodies) have considered the above exposure draft (ED) and our comments follow.

The Joint Accounting Bodies represent over 180,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government, academia throughout Australia and internationally.

We agree with the content of the specific proposals, as they clarify the Reclassification of Financial Assets changes made in October 2008.

We encourage due process (even if a shortened version) to be undertaken in all circumstances in future to ensure that subsequent amendments or clarifications are not required.

While we do not support the 15 December 2008 effective date we understand the need for the IASB to introduce this immediately. Our general view is that the IASB, when setting effective dates and transition arrangements, should allow sufficient time for jurisdictions with legislative/endorsement processes to enact such changes to enable them to be fully compliant with IFRS.

If you have any questions regarding this submission, please do not hesitate to contact Mark Shying (CPA Australia) at mark.shying@cpaustralia.com.au, Kerry Hicks (the Institute) at kerry.hicks@charteredaccountants.com.au or Tom Ravlic (NIA) at tom.ravlic@nia.org.au

Yours sincerely



Geoff Rankin
Chief Executive Officer
CPA Australia Ltd



Graham Meyer
Chief Executive Officer
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Roger Cotton
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Cc: Bruce Porter, Acting AASB Chairman

Representatives of the Australian Accounting Profession



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Mr Bruce Porter
Acting Chairman
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By Email: standard@asb.gov.au

16 January 2009

Dear Bruce

ED 172 Embedded Derivatives - Proposed Amendments to AASB Interpretation 9 and AASB 139

Grant Thornton Australia Limited (Grant Thornton) is pleased to provide the Australian Accounting Standards Board with its comments on Exposure Draft ED 172 which is equivalent to the International Accounting Standards Board's Exposure Draft *Embedded Derivatives - Proposed Amendments to IFRIC 9 and LAS 39* (the ED). Grant Thornton's response reflects our position as auditors and business advisers both to listed companies and privately held companies and businesses. This submission has benefited with input from Grant Thornton International which will be finalising a global submission to the IASB, and discussions with key constituents.

We support the Board's decision to clarify the interaction between AASB Interpretation 9 and the recent reclassification amendments to AASB 139. We also agree that financial assets reclassified out of the fair value through profit or loss category should not escape AASB 139's requirements on embedded derivatives.

In addition to our responses to the specific questions raised in the ED, we have certain minor comments and suggestions, all detailed in the attached Appendix. If you require any further information or comment, please contact me.

Yours sincerely
GRANT THORNTON AUSTRALIA LIMITED

Keith Reilly
National Head of Professional Standards

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Appendix 1: Responses to Exposure Draft Questions

ED 172 Embedded Derivatives - Proposed Amendments to AASB Interpretation 9 and AASB 139

Question 1 - The exposure draft clarifies that an entity must assess whether an embedded derivative is required to be separated from a host contract when the entity reclassifies a hybrid (combined) financial asset out of the fair value through profit or loss category.

Do you agree with that clarification? If not, why? What would you propose instead, and why?

We agree.

Question 2 - The exposure draft requires the assessment to be made on the basis of the circumstances that existed when the entity first became a party to the contract.

Do you agree with that proposal? If not, why? What would you propose instead, and why?

We agree that the assessment should be made based on circumstances that existed when the entity first became party to the contract. The Board might also wish to clarify that separation, if applicable, is effected at the date of the reclassification of the instrument.

Question 3 - The exposure draft proposes that if the fair value of an embedded derivative that would have to be separated cannot be reliably measured, the entire hybrid (combined) financial instrument must remain in the fair value through profit or loss category.

Do you agree with that proposal? If not, why? What would you propose instead, and why?

We agree.

Question 4 - Do you agree with the proposed effective date? If not, why? What would you propose instead, and why?

We do not support the effective date of 15 December 2008. This is consistent with our general view that we do not support amendments that take effect for financial periods ended prior to the date of publication. Furthermore, this is not permitted in the Australian legislation process.

Question 5 - Are the transition requirements appropriate? If not, why? What would you propose instead, and why?

We agree subject to the following comment. We note that some entities have already reclassified financial assets in accordance with the October 2008 AASB 139 amendments and published quarterly results that reflect that decision. If those entities have not assessed and separated any non-closely related embedded derivatives, the proposals in the ED would require them to do so retrospectively. This may be problematic. In the circumstances, we suggest that the transition requirements should include a possibility to reverse the previous reclassification.



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20 January 2009

International Accounting Standards Board
30 Cannon Street
London EC 4M 6XH
UNITED KINGDOM

Dear Sir/Madam

"Embedded Derivatives"

Thank you for the opportunity to provide comments on the Exposure Draft "Embedded Derivatives (Proposed amendments to IFRIC 9 and IAS 39)".

Australia and New Zealand Bank Limited (ANZ) is a bank listed on the Australian Stock Exchange. Our operations are predominantly based in Australia, New Zealand & Asia and our most recent annual results reported profits of USD2.6 billion and total assets of USD376 billion.

From an overall perspective, we agree with proposed amendments, which in our view predominantly provide logical clarifications.

Our responses to specific questions raised in the Exposure Draft are also attached to this letter.

Should you have any queries on our comments, please contact Rob Goss, Head of Financial Policy and Governance at rob.goss@anz.com.

Yours faithfully

SHANE BUGGLE
Group General Manager Finance

Copy:

Australian Accounting Standards Board (AASB)
Australian Bankers' Association (ABA)
Group of 100 (G100)

Question 1

The exposure draft clarifies that an entity must assess whether an embedded derivative is required to be separated from a host contract when the entity reclassifies a hybrid (combined) financial asset out of the fair value through profit or loss category.

Do you agree with that clarification? If not, why? What would you propose instead, and why?

Yes. IAS 39 requires all derivatives to be carried on the balance sheet at full fair value. It is therefore important that all derivative-like contracts are accounted for in a consistent manner, that is, at full fair value. We note that the original requirement to separate embedded derivatives was purposefully introduced to prevent circumventing recognition and re-measurement of derivative-like contracts.

A reclassification of financial assets out of the fair value through profit or loss category, when use is made of the recently introduced changes that allow such reclassifications, cannot be a means to circumvent the fundamental requirement.

Question 2

The exposure draft requires the assessment to be made on the basis of the circumstances that existed when the entity first became a party to the contract.

Do you agree with that proposal? If not, why? What would you propose instead, and why?

Yes. Where an assessment is triggered by alterations to the terms of the hybrid financial assets, the reassessment should be performed as of the alteration date. In contrast, where an assessment is triggered by a mere change in the classification of the financial assets as decided by the reporting entity, it is reasonable to perform the reassessment based on the circumstances existing as of the asset recognition date. We anticipate this approach (i) increases comparability between reporting entities, and (ii) reduces structuring opportunities in connection with the recently introduced ability to change classification of financial assets.

Question 3

The exposure draft proposes that if the fair value of an embedded derivative that would have to be separated cannot be reliably measured, the entire hybrid (combined) financial instrument must remain in the fair value through profit or loss category.

Do you agree with that proposal? If not, why? What would you propose instead, and why?

Yes. This is a logical extension of the already existing requirement in IAS 39.12.

Questions 4 and 5

Do you agree with the proposed effective date? If not, why? What would you propose instead, and why?

Are the transition requirements appropriate? If not, why? What would you propose instead, and why?

Yes to both. However, we note that some local standard setters may be unable to approve changes that apply retrospectively, where prevented by local laws. We are not capable of commenting on the likelihood of divergence arising in practice in relation to the separation of embedded derivatives on reclassifications of financial assets, should the proposed amendments become mandatory applicable at a later date. On the other hand, considering the release of this ED, and relative lack of complexity of the discussed matters, this is likely to be minimal.