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Mr David Boymal
Chairman
Australian Accounting Standards Board
PO Box 204
COLLINS STREET WEST VIC 8007

27 September 2006
Our ref: DH:SC

Dear David

Re: ED 150 Proposed Amendments to AASB 132 *Financial Instruments: Presentation* and AASB 101 *Presentation of Financial Statements: Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation*

Deloitte Australia welcomes the opportunity to comment on the exposure draft ED 150 Proposed Amendments to AASB 132 *Financial Instruments: Presentation* and AASB 101 *Presentation of Financial Statements: Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation Operating Segments* ('ED 150').

Whilst we are supportive of the IASB's endeavours to improve the accounting treatment of certain types of financial instruments that have characteristics similar to ordinary shares but are currently classified as financial liabilities, we are concerned whether the approach adopted by the IASB achieves this objective.

In principle, we do not agree with the proposals to allow exceptions from the general definition of a financial liability. We believe the proposed exceptions will create inconsistencies between the *Framework* and Accounting Standards and the proposed amendment adds further complexity to the definition of liability and equity. In addition, the proposed exceptions appear to be very subjective and narrowly drafted which results in 'relief' for some types of financial instruments and not for others.

We recommend that the IASB re-consider these proposed changes in the context of the active Framework project and the liability/equity project which is currently on the IASB Research Agenda.

Notwithstanding our comments above, should the IASB still wish to develop a short term solution to some of the problems resulting from application of IAS 32, we recommend the revision of IAS 32 be broadened to address a number of other similar problems arising from the application of the Standard. The proposals appear to have been drafted very narrowly such that they appear to provide relief in certain cases but not others which arguably require equal consideration.

We note that there are reasons other than the right to put the instrument back to the issuer at fair value, or receive a pro rata share of the net assets of the entity upon liquidation, that may result in an instrument being classified as debt under the current requirements of AASB 132 which for all intents and purposes have characteristics similar to ordinary shares. These issues are not addressed by the ED. For example:

- unit trusts that convey a contractual obligation to distribute the annual profits of the trust to the unit holders will still be required to classify its units as debt (and not equity) under the ED proposals. This is because it is the obligation to distribute the annual profits, in addition to the right of the holder to put the instrument back to the issuer at fair value or receive a pro rata share of the net assets of the entity upon liquidation, that results in the units being classified as debt. These contractual obligations are common in Australian trusts for local tax reasons and removing this obligation may be commercially difficult.
- co-operatives whose members are only entitled to put back their shares at the amount for which they were purchased, rather than at the fair value of a pro rata share of the net assets of the entity, will still be required to classify the shares as debt (and not equity) under the ED proposals.

We consider that the IASB should consider these issues in any proposed short term revision to IAS 32 in addition to those issues currently addressed by the ED proposals. Irrespective of whether this ED is approved, the IASB should accelerate the liability/equity project with the FASB which is currently on the IASB Research Agenda.

Due to the later IASB submission deadline for the Exposure Draft, the global firm of Deloitte Touche Tohmatsu has not finalised its views in relation to the matters raised. Furthermore, in this letter we have highlighted issues and concerns in the Australian context that may not have the same degree of relevance internationally or which may not be considered of sufficient significance to warrant separate comment by the global firm of Deloitte in its submission. Therefore, the views presented in this document should be read in this context and may not necessarily represent the view of the global firm of Deloitte.

Our responses to the AASB specific questions raised in the Exposure Draft are outlined below.

If you have any questions concerning our comments, please contact Debbie Hankey on (02) 9322 7665.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Debbie Hankey', written in a cursive style.

Debbie Hankey
Partner

MATTERS FOR SPECIFIC COMMENT

Question 1 Any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to not-for-profit entities and public sector entities?

We are not aware of any other Australian issues that would affect the implementation of the proposals.

Question 2: Whether the proposals are in the best interests of the Australian economy?

We believe that the adoption of IFRS as converged Australian Standards will improve the ability of Australian entities to compete for funds in global capital markets. Accordingly, we believe that there must be no change made by the AASB to the IFRS when issuing the AASB equivalent, other than any amendments applicable to not-for-profit and public-sector entities that are considered absolutely necessary.