



Mr Bruce Porter
Acting Chairman
Australian Accounting Standards Board
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By Email: standard@asb.gov.au

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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
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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.