FICE sub 4

31 July 2008

Professor David Boymal
Chairman
Australian Accounting Standards Board
PO Box 204
COLLINS ST WEST VIC 8007

Via email: standard@assb.com.au

Dear David

Discussion Paper Financial Instruments with Characteristics of Equity

CPA Australia and the Institute of Chartered Accountants in Australia (the Institute) are pleased to respond to the IASB Discussion Paper Financial Instruments with Characteristics of Equity.

CPA Australia and the Institute do not believe the Discussion Paper provides us with an adequate context to enable us to support any of the three approaches proposed. We recommend a long term project involving further analysis on the basic ownership model and the ownership settlement approach, as we believe that would be preferred by the IFRS community. Further, where various alternative models have been recommended by respondents, such as the loss absorption method, those considered worthy of further analysis should be pursued as part of a full review of debt/equity classification. Given the significance of any proposed changes in this area on a longer term basis, we encourage the Board to include as part of its due process formal field testing requirements. The reasons for our position follow. We do not address the Discussion Paper's specific questions

CPA Australia and the Institute understand that converging with the United States on liability/equity classification issues is a high priority in order to meet the requirements under the revised Memorandum of Understanding which commits to having certain areas of convergence finalised by 2011.

In Australia the application of IAS 32 Financial Instruments: Classification has sometimes resulted in the presentation of financial instruments in the financial statements that is not useful to users. Areas of contention have included resultant liabilities for partnership equity, fixed life trusts and co-operatives, contingent settlement features, foreign currency equity, fixed for fixed derivatives and the lack of consideration of economic compulsion.

CPA Australia and the Institute understand that to distinguish liabilities from equity is important to internal and external stakeholders. However, it is not clear that creditors and common equity holders are in agreement as to the characteristics that may indicate where the appropriate distinction should lie in a liabilities-equity classification system.

CPA Australia and the Institute also understand that the Boards have determined, due to timing that this project should run concurrently with the joint IASB/FASB Conceptual Framework – Phase B: Elements and Recognition Project and the findings would be an important input to that project. In this context we consider that further research is required on liability-equity characteristics and their trade-offs in order to determine appropriate liability and equity definitions. Robust definitions of assets, liabilities and equity accompanied by text that appropriately amplifies the definitions should adequately address the classification of financial instruments, rather than proposing various models without full consideration of their conceptual fit.

CPA Australia and the Institute note that both US GAAP and IFRS have a residual concept already for equity, however they are quite different in the specific rules. Therefore we consider that a short term fix or interim approach to this issue could be to converge US GAAP and IFRS on the asset and liability definitions, leaving equity as a residual, until an equity definition and various models can be given full consideration. The various classification standards for equity of the US and IFRS will still need review and change in the short term. We consider IAS 32 superior to the various US equivalents, although accept that the Board may wish to 'improve' the current standard to a limited extent if it is to be held out to be the converged standard ready for 2011.

It is clear from our members that a simpler approach to classification, in this case called the basic ownership model, is not always the right answer due to extent of volatility this is likely to have on performance of an entity in instruments that are clearly not part of an entity's performance. It is also clear that the increasing extent of exceptions and variations to principles, thereby creating more and more rules, would also be unacceptable in any converged standard.

If you have any queries on our comments please contact Dr Mark Shying, CPA Australia's Financial Reporting and Governance Senior Policy Adviser via email at mark.shying@cpaaustralia.com.au or Kerry Hick's , the Institute's Head of Reporting via email at kerry.hicks@charteredaccountants.com.au.

Yours sincerely

Chief Executive Officer
CPA Australia Ltd

Graham Meyer
Chief Executive Officer
Institute of Chartered Accountants

cc: M Shying
K Hicks