

25 July 2006

Mr David Boymal
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Australian Accounting Standards Board
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Dear David

ED 150 Proposed Amendments to AASB 132 and AASB 101

The Group of 100 (G100) is pleased to provide comments on the proposed amendments to AASB 132 'Financial Instruments: Presentation' and AASB 101 'Presentation of Financial Statements'. The G100 represents the interests of the CFOs of Australia's major business enterprises.

AASB Questions

1. *Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:*
 - i) *not-for-profit entities; and*
 - ii) *public sector entities?*

No.

2. *Are the proposals in the best interests of the Australian economy?*

Yes.

IASB Questions

Q1. Financial instruments puttable at fair value

The Exposure Draft proposes that financial instruments puttable at fair value should be classified as equity, provided that specified criteria are met. Do you agree that it is appropriate to classify as equity financial instruments puttable at fair value? If so, do you agree that the specified criteria for equity classification are appropriate? If not, why? What changes do you propose, and why? If you disagree with equity classification of financial instruments puttable at fair value, why?

The G100 supports the proposals provided the specified criteria are met. The G100 considers that the proposed requirements reflect the economic substance of the arrangements and the behaviour of both parties and those in the capital markets who regard these instruments as equity. In many respects the economic effects of putting these instruments are equivalent to those where there is a return of capital or a share buy-back.

Notwithstanding the equity treatment proposal, a derivative of the puttable instrument (eg employee share options) will be treated as a financial instrument and recognised at fair value through the profit and loss whereas a derivative of an equity instrument is not fair valued through the profit and loss. We believe that all derivatives on the instrument are accounted for in a manner consistent with their balance sheet classification as equity.

In addition, to qualify for classification as equity the financial instrument must be the most subordinated class of financial instruments. However, the proposals do not address the mechanism for reclassifying these instruments in those circumstances where a new, more subordinate instrument is issued.

While the ED is stated to be a short-term solution pending completion of the IASB's project on liabilities and equity, we believe that if puttable instruments are classified as equity as a result of this project a mechanism is needed to ensure that this classification is grandfathered.

Q2. *Obligations to deliver to another entity a pro rata share of the net assets of the entity upon its liquidation.*

The Exposure Draft proposes that an instrument that imposes on the entity an obligation to deliver to another entity a pro rata share of the net assets of the entity upon its liquidation should be classified as equity, provided that specified criteria are met (eg ordinary shares issued by a limited life entity).

Do you agree that it is appropriate to classify as equity these types of instruments? If so, do you agree that the specified criteria for equity classification are appropriate? If not, why? What changes do you propose, and why? If you disagree with equity classification for these types of instruments, why?

The G100 supports the proposal. However, we are concerned about the IASB's processes in dealing with this and related issues. This issue was raised with the IASB in 2005 in respect of listed property and other trusts in Australia and the IASB indicated that the requirements in IAS 32~~4~~ were appropriate. Consequently a number of trusts incurred costs associated with amendments of trust deeds to overcome their implementation difficulties and others incurred costs of explaining the change in presentation for annual reporting periods ending in or after 31 December 2005 to their unitholders.

Having done so the proposed changes render amendments to trust deeds unnecessary and the format of the balance sheet and classification of instruments will again change. The experience of these entities does not reflect well on the activities and reputation of standard-setters.

Q3. *Disclosures*

The Exposure Draft proposes disclosures about financial instruments puttable at fair value classified as equity, including the fair values of these instruments, and the reclassification of financial instruments puttable at fair value and instruments that impose an obligation arising on liquidation between financial liabilities and equity.

- a. *Do you agree that it is appropriate to require additional information about financial instruments puttable at fair value classified as equity, including the fair values of these instruments? If so, do you agree that the fair value disclosures should be required at every reporting date? If not, why? What changes do you propose and why?*
- b. *Do you agree that it is appropriate to require disclosure of information about the reclassification of financial instruments puttable at fair value and instruments that impose an obligation arising on liquidation between financial liabilities and equity? If not, why? What changes do you propose, and why?*

The G100 supports the proposed disclosures.

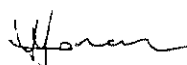
Q4. *Effective date and transition*

The proposed changes would be required to be applied retrospectively, from a date to be determined by the Board after exposure (with one exception permitted relating to compound instruments). Earlier application would be encouraged.

Are the transition provisions appropriate? If not, what do you propose, and why?

As referred to above, Australian entities adopting Australian equivalents to IFRSs from 1 January 2005 made changes to comply with the existing requirements. The G100 believes that in this particular case these entities should be able to apply the proposed changes retrospectively with effect from the first reporting period in which the Australian equivalents to IFRSs was required.

Yours sincerely



Tom Honan
National President