Office of the Chief Executive
Geoff Rankin, FCPA
CPA Australia
ABN 64 008 392 452
CPA Centre
Level 28, 385 Bourke Street
Melbourne VIC 3000 Australia
GPO Box 2820AA
Melbourne VIC 3001 Australia
T +61 3 9606 9689
F +61 3 9602 1163
W www.cpaaustralia.com.au
E geoff.rankin@cpaaustralia.com.au

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IAS 32 and IAS 1 Amendments
International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH
United Kingdom

E-mail: CommentLetters@iasb.org

Dear Sir or Madam

Exposure Draft of Proposed Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements: *Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation*

Thank you for the opportunity to comment on Exposure Draft of Proposed Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements: *Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation*.

Our comments have been prepared in consultation with members through our Asia-Pacific Financial Reporting Advisory Group (APFRAG) which is a Board Committee representing a regional perspective from South-East Asia, Oceania and our Financial Reporting and Governance Centre of Excellence.

CPA Australia is supportive of the proposals. Our detailed comments to your questions are attached to this letter.

Should you have any queries on our comments, please contact Dr Mark Shying, CPA Australia's Financial Reporting and Governance Senior Policy Adviser at mark.shying@cpaaustralia.com.au.

Yours sincerely

Geoff Rankin FCPA
Chief Executive Officer

cc: D Boymal
M Shying

Exposure Draft Amendments to IASs 32 and 1

Question 1 – 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?

CPA Australia supports the proposals that financial instruments puttable at fair value should be classified as equity, provided that specified criteria are met. We consider the specified criteria appropriate.

Question 2 – 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 (e.g., 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?

CPA Australia supports the proposal 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.

Question 3 – 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?

CPA Australia supports the proposal to require:

(a) additional information about financial instruments puttable at fair value classified as equity, including the fair value of these instruments; and

(b) 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.

Question 4 – 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?

CPA Australia understands it is the International Accounting Standards Board's (IASB) intention to implement a policy of a new stable platform in recognition of the quantum of changed financial reporting requirements since the last stable platform - whereby any IFRSs issued will have an effective date for annual reporting periods beginning on or after 1 January 2009. We support the introduction of a new stable platform together with the availability of an earlier application date (subject to the transition provisions). We agree with the paragraph 97A transition provisions that in applying the proposed amendments, if the liability component of a compound financial instrument with an obligation for a pro rata share of the net assets of the entity upon its liquidation is no longer outstanding, an entity need not separate the remaining two portions, both which are equity.

Other

The IASB Update June 2006 reports the Board discussed whether so-called economic compulsion should affect the classification of a financial instrument under IAS 32. The Board confirmed that such a contractual obligation should be established explicitly or indirectly, but it must be established through the terms and conditions of the instrument. We consider that while the IASB is revising IAS 32, a useful addition would be to amend the standard to incorporate the Board's view that the issue of whether an instrument is debt or equity is purely based on contractual requirements, not economic compulsion or promises, expectations or inevitabilities.

Attachment: ED 150:

(a) *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;

(b) *whether the proposals are in the best interests of the Australian economy.*

CPA Australia notes that at the time of making AASB 132 *Financial Instruments: Disclosure and Presentation* (July 2004) the Australian Accounting Standards Board (AASB) deleted paragraphs 97 "This Standard shall be applied retrospectively." as AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* articulated all of the transitional requirements to be applied on first-time adoption. Some of our members have questioned whether absent paragraph 97 the proposed amendments can be applied retrospectively as the proposal intends. We acknowledge that AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* paragraph 19 requires the retrospective application of a change in accounting policy upon initial application of an Australian Accounting Standard (absent specific transitional requirements applying to that change). However, those members opine that the deletion of paragraph 97 must be read as an explicit statement by the AASB that retrospective application of AASB 132 is not possible (notwithstanding AASB 108), an outcome that would not be consistent with IAS 32. We suggest that the AASB either reinstate the deleted paragraph 97 or make clear that the proposed amendments have retrospective application by AASB 108.

CPA Australia considers the proposals in ED 150 are in the best interests of the Australian economy.