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Shane Buggle
Group General Manager Finance

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International Accounting Standards Board
30 Cannon Street
London EC 4M 6XH
UNITED KINGDOM

Dear Sir/Madam

"Embedded Derivatives"

Thank you for the opportunity to provide comments on the Exposure Draft "Embedded Derivatives (Proposed amendments to IFRIC 9 and IAS 39)".

Australia and New Zealand Bank Limited (ANZ) is a bank listed on the Australian Stock Exchange. Our operations are predominantly based in Australia, New Zealand & Asia and our most recent annual results reported profits of USD2.6 billion and total assets of USD376 billion.

From an overall perspective, we agree with proposed amendments, which in our view predominantly provide logical clarifications.

Our responses to specific questions raised in the Exposure Draft are also attached to this letter.

Should you have any queries on our comments, please contact Rob Goss, Head of Financial Policy and Governance at rob.goss@anz.com.

Yours faithfully

SHANE BUGGLE
Group General Manager Finance

Copy:

Australian Accounting Standards Board (AASB)
Australian Bankers' Association (ABA)
Group of 100 (G100)

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?

Yes. IAS 39 requires all derivatives to be carried on the balance sheet at full fair value. It is therefore important that all derivative-like contracts are accounted for in a consistent manner, that is, at full fair value. We note that the original requirement to separate embedded derivatives was purposefully introduced to prevent circumventing recognition and re-measurement of derivative-like contracts.

A reclassification of financial assets out of the fair value through profit or loss category, when use is made of the recently introduced changes that allow such reclassifications, cannot be a means to circumvent the fundamental requirement.

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?

Yes. Where an assessment is triggered by alterations to the terms of the hybrid financial assets, the reassessment should be performed as of the alteration date. In contrast, where an assessment is triggered by a mere change in the classification of the financial assets as decided by the reporting entity, it is reasonable to perform the reassessment based on the circumstances existing as of the asset recognition date. We anticipate this approach (i) increases comparability between reporting entities, and (ii) reduces structuring opportunities in connection with the recently introduced ability to change classification of financial assets.

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?

Yes. This is a logical extension of the already existing requirement in IAS 39.12.

Questions 4 and 5

Do you agree with the proposed effective date? If not, why? What would you propose instead, and why?

Are the transition requirements appropriate? If not, why? What would you propose instead, and why?

Yes to both. However, we note that some local standard setters may be unable to approve changes that apply retrospectively, where prevented by local laws. We are not capable of commenting on the likelihood of divergence arising in practice in relation to the separation of embedded derivatives on reclassifications of financial assets, should the proposed amendments become mandatory applicable at a later date. On the other hand, considering the release of this ED, and relative lack of complexity of the discussed matters, this is likely to be minimal.