

3 November 2006

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

(By email: CommentLetters@iasb.org)

Dear Sir/Madam

RESPONSE TO 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*

1. We are writing to provide our comments on the Exposure Draft of Proposed Amendments to IAS 32 and IAS 1 on *Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation* published by the International Accounting Standards Board (IASB) in June 2006.

2. Our comments below address the specific questions set out in the “Invitation to Comment” section. We have received comments from some of the Singapore constituents. Constituents’ comments are reflected in our responses below.

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?

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?

In principle, we agree with the proposed amendments as they result in a fairer presentation of financial instruments puttable at fair value and arising on liquidation which exhibits stronger characteristics of equity rather than liability.

We are of the view that this exposure draft serves well as a short-term solution in addressing certain structures where classification as equity will be more appropriate.

We note that some of the financial instruments described in the exposure draft as ‘liability’ do exhibit the characteristics of ‘equity’. For example, the proposed amendment does not seem to address structures where more than one type of financial instruments are issued, say structures with a nominal/negligible amount of non-puttable ordinary shares but a significant amount of puttable instruments that rank after the ordinary shares. The puttable instruments have rights to a pro rata share of the net assets of the entity. In this situation, such puttable instruments in substance have the right to the residual interest of the entity but under the proposed amendment will still be classified as a financial liability as it is not the most subordinated class of instrument. In this regard, the scope of the proposed amendment could be widened to address other types of structures which may also exhibit characteristics of equity. For this, we hope that IASB’s comprehensive debt equity project will further refine the definition of liability and equity.

We also note that the proposed amendment does not seem to address certain structures where the shares are puttable but not at fair value. This is quite common for cooperative entities. In these structures, the cooperative shares will be classified as liabilities even though it is the most subordinated class of instrument and there are no other instruments considered as equity in the entity.

The proposed amendment also requires that the issue price is the fair value of the instrument holder's entitlement to a pro rata share of the net assets of the entity. We are of the view that the instrument should not be precluded from the equity status simply because it was issued at a premium or discount to a willing third-party subscriber or issued at a discount in a rights issue to existing holders.

We would also like to comment that criteria for the most subordinated class and an entitlement to a pro rata share of the net assets appear restrictive and different from the current requirements under IAS 32. For example, under the current IAS 32, certain types of preference shares with no contractual obligation for redemption can qualify as equity instruments even though it is not the most subordinated class and it is not entitled to a pro rata share of the net assets.

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?
- (a) We agree that it is appropriate to require additional information on financial instruments puttable at fair value which are classified as equity, including the fair value of these instruments. We agree that the fair value disclosures should be required at every reporting date.**
- (b) We agree that it is appropriate to require disclosure of information on the reclassification of financial instruments puttable at fair value and instruments which impose an obligation arising on liquidation between financial liabilities and equity.**



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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?

We agree that transition provisions are appropriate.

3. Should you require any further clarification, please contact Mr Ramchand Jagtiani, Deputy Director, at the Institute of Certified Public Accountants of Singapore via email at jagtiani@icpas.org.sg. Thank you.

Yours faithfully,

Shirlynn Loo
Secretary, CCDG