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EFRAG
13-14 Avenue des Arts
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25 July 2008

Dear Sirs

PAAinE Discussion Paper: Distinguishing between Liabilities and Equity

Our Association has noted with interest the publication of the PAAinE discussion paper earlier this year. This is a welcome and helpful contribution to the debate on a subject which is now being consulted on by the International Accounting Standards Board.

Our members have a strong interest in ensuring effective accounting both from their perspective as institutional shareholders and therefore as users of accounts, as well as their perspective as preparers of accounts. They support harmonisation of global accounting on the basis of common high quality standards and acknowledge that it is important that the views of European stakeholders are brought fully to bear on the process.

We are currently formulating our views with the intention of responding to the IASB consultation. Accordingly, we feel that it is premature to reach a considered view in respect of the PAAinE paper and for this reason have decided not to respond formally to the consultation on this. In responding to the IASB consultation we shall, however, take into account the views expressed in the PAAinE paper including the preference it expresses for the 'loss-absorption' approach. This is one of the options that the IASB, unfortunately, considers only briefly. It will be important that any consensus from the IASB consultation process as to the right way forward should emerge only after all options have been properly considered.

We understand that, at the PAAinE Working Group Education Session at the IASB Board meeting on 22 July, Sir David Tweedie asked if a note could be prepared identifying the differences between the PAAinE's approach and FASB's and explaining why these differences favour the former. He also asked if this note could set out how the PAAinE's approach would deal with the difficulty IAS 32 has had in dealing with certain puttable

financial instruments. We suggest that it would be helpful if, when finalised, EFRAG/PAAinE were to make this note more widely available.

Yours sincerely

A handwritten signature in black ink, appearing to read 'M W McKersie', with a long horizontal flourish extending to the right.

M W McKersie
Assistant Director
Capital Markets

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