



Mr. Stig Enevoldsen
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E-mail: commentletter@efrag.org

14 September 2009

Ref.: ACC/HvD/LF/ID

Dear Mr. Enevoldsen,

Re: FEE Comments on EFRAG's Draft Comment Letter on IASB Exposure Draft of proposed amendment to IAS 32 *Classification of Rights Issues*

- (1) FEE (the Federation of European Accountants) is pleased to provide you below with its comments on the EFRAG Draft Comment Letter on the IASB Exposure Draft of the proposed amendment to IAS 32 *Classification of Rights Issues* (the "ED").
- (2) Like EFRAG, we agree that accounting for most kinds of foreign currency rights issues as financial liabilities does not reflect the substance of these transactions and that IAS 32 should be amended to account for such rights issues as equity.
- (3) We understand that as a result of the current economic climate, the occurrence of such rights issues has increased significantly, and that on this basis the IASB has decided that the proposed amendment to IAS 32 is needed urgently and has issued the ED with a shortened comment period. As a matter of principle, FEE supports a complete revision of standards rather than an ad hoc piecemeal approach of small changes to accommodate market participants' requests. We believe that a piecemeal approach would further increase complexity rather than reduce it.

- (4) Like EFRAG, we accept the IASB's decision to amend IAS 32 in the manner proposed for implementation in 2009. In general, we agree with the proposals in the ED. However, we would prefer if the IASB explained more clearly the rationale for the change in the accounting of such rights issues. We share EFRAG's concern that the IASB's arguments in the Basis for Conclusions do not appear comprehensive and that the reasoning as set out would need to be expanded in order to present a clearer picture about the objectives behind the proposals.
- (5) We also believe, like EFRAG, that the Basis for Conclusions should make it clearer that the proposals represent an exception to the current equity/model in IAS 32. This should be the case at least until the IASB project on the revision of the accounting for financial instruments is completed.
- (6) We support EFRAG's suggestion to the IASB that further guidance on the nature of the rights issues should be provided, in particular to address the fact that the amendment as currently drafted could potentially apply to a broader range of instruments than envisaged and might be susceptible to structuring risk.

Our responses to the questions in the Invitation to comment of the ED are included as an Appendix to this letter.

For further information on this letter, please contact Ms. Saskia Slomp, Technical Director.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Hans van Damme', is written over a horizontal line. The signature is stylized and includes a large loop.

Hans van Damme
President

Appendix - Comments on the EFRAG draft comment letter including the responses to the questions in the Invitation to comment of the IASB Exposure Draft of proposed amendment to IAS 32 *Classification of Rights Issues*

Question 1 – Specifying the characteristics of the rights issue

The proposed amendment applies to instruments (rights) to be offered pro rata to all existing owners of the same class of equity instruments and the exercise price to be a fixed amount of cash in any currency.

Do you agree with the proposal to limit the amendment to instruments with these characteristics? If not, why? Are there any other instruments that should be included and why?

Should the amendments be limited just to ‘normal’ rights issues?

- (7) Like EFRAG, we agree with the proposal to limit the amendment to instruments (rights) to be offered pro rata to all existing owners of the same class of equity instruments and the exercise price to be a fixed amount of cash in any currency.
- (8) However, we would have preferred if the IASB had explained more clearly the rationale for the change in the accounting of such rights issues. We share EFRAG’s concern that the IASB’s arguments in the Basis for Conclusions do not appear comprehensive and that the reasoning as set out would need to be expanded in order to present a clearer picture about the objectives behind the proposals.
- (9) For instance, as EFRAG notes in paragraph 10 of its draft comment letter, a rights issue that involves existing holders of a class of equity instruments being granted rights to acquire a fixed number of additional shares that is not pro rata to their existing holdings in exchange for a fixed amount of foreign currency would also be a transaction with owners in their capacity as owners, yet under the amendment it would be treated as a financial liability, as would a rights issue that involved only some of the existing holders. We agree with EFRAG that this suggests that there are other factors that the IASB has taken into account in scoping its proposals and that the Basis for Conclusions should explain what those factors are.

Does the wording proposed limit the amendment just to ‘normal’ rights issues?

- (10) We support EFRAG’s suggestion to the IASB that further guidance on the nature of the rights issues should be provided, in particular to address the fact that the amendment as currently drafted could potentially apply to a broader range of instruments than envisaged and might be susceptible to structuring risk. EFRAG mentions in particular long-dated rights issues and rights issues that are disproportionately large compared to the amount of shares outstanding in any particular class.

Appendix - Comments on the EFRAG draft comment letter including the responses to the questions in the Invitation to comment of the IASB Exposure Draft of proposed amendment to IAS 32 *Classification of Rights Issues*

- (11) We also believe, like EFRAG, that the Basis for Conclusions should make it clearer that the proposals represent an exception to the current equity/model in IAS 32. We believe that this should be the case at least until the IASB project on the revision of the accounting for financial instruments is completed.

Question 2 – Specifying the currency of the exercise price

The proposed amendment specifies that the fixed amount of cash the entity will receive can be denominated in any currency. If that currency is not the entity's functional or reporting currency, the proceeds it receives from the issue of its shares will vary depending on foreign exchange rates.

Do you agree with the proposal to permit an entity to classify rights with the characteristics set out above as equity instruments even when the exercise price is not fixed in its functional or reporting currency? If not, why?

- (12) We agree with EFRAG and support this proposal.

Question 3 – Transition

The proposed change would be required to be applied retrospectively with early adoption permitted.

Is the requirement to apply the proposed change retrospectively appropriate? If not, what do you propose and why?

- (13) We agree with EFRAG and support the proposal to apply the amendments retrospectively.