The Association of Corporate Treasurers

Comments in response to
Exposure draft of proposed amendments to IAS 32 and IAS1 re Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation
IASB,
June 2006

October 2006

The Association of Corporate Treasurers (ACT)

Established in the UK in 1979, The Association of Corporate Treasurers is a centre of excellence for professionals in treasury, including risk and corporate finance, operating in the international marketplace. It has over 3,600 members from both the corporate and financial sectors, mainly in the UK, its membership working in companies of all sizes.

The ACT has 1,500 students in more than 40 countries. Its examinations are recognised by both practitioners and bankers as the global standard setters for treasury education and it is the leading provider of professional treasury education. The ACT promotes study and best practice in finance and treasury management. It represents the interests of non-financial sector corporations in financial markets to governments, regulators, standards setters and trade bodies.

General

Whilst the subject of this exposure draft is not an issue that will directly impact most entities, the ACT welcomes the opportunity to comment on this matter. Contact details are provided at the end of this document.

ACT Comments

The Association of Corporate Treasurers is doubtful whether the changes proposed are really an improvement in creating relevant and understandable financial reporting. We recognise that anomalies can arise by classifying the sorts of puttable instrument described as liabilities, since by revaluing to fair value the entire capitalisation of a business can appear as a liability and so create an entity with apparently zero or negative net assets.

However our fundamental concern centres on the difficulty in viewing something as equity if the company is obliged, perhaps not in its own time and not at its option, to make a payment or other transfer of assets otherwise than on its winding up. Equity provides a buffer that protects creditors and the expectation is that this buffer will not be reduced (except in controlled circumstances). A puttable instrument does not fulfil this equity function. In other words classifying these instruments as equity is not consistent with the Framework. As stated in the alternative view AV2 – "Key to the Framework definition of a liability is that it is a present obligation or the entity, the settlement of which would result in an outflow of resources of the entity. Thus, a share puttable at fair value clearly meets the definition of a liability in the Framework." We agree with this alternative view.

It is not apparent that there is a clear principle underlying the proposed changes. Rather the section titled "Principle" is in fact a set of detailed rules. We generally do not favour an excessively rules based form of standard and fear that heading in this direction will leave greater scope for abuses.

To the extent that the definition of an equity instrument in paragraph 16 of IAS 32 is amended to make it clear that the obligation to deliver a pro rata share of net assets on liquidation does not turn the instrument into a financial liability we have no objection to this change. However if the instrument is puttable by the holder it should not be reclassified into equity.

While we are not in favour of the substantive changes proposed, if they are to go ahead then the idea that disclosures of the fair values of these puttable instruments should be provided will be helpful, albeit that this treatment is more like the treatment of a liability than equity, a point made in AV3.

Contacts:	
John Grout, Policy and Technical Director (020 7213 0712; jgrout@treasurers.org) Martin O'Donovan, Assistant Director, Policy and Technical (020 7213 0715; modonovan@treasurers.org) Peter Matza, Policy and Technical Officer (020 7213 2033; pmatza@treasurers.org)	The Association of Corporate Treasurers Ocean House 10/12 Little Trinity Lane London EC4V 2DJ Telephone: 020 7213 9728 Fax: 020 7248 2591 Website: http://www.treasurers.org