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Seema Jamil-O'Neill
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15 May 2008

Dear Madam

ASB ED Amendment to FRS 25 (IAS 32) 'Financial Instruments: Presentation' - Puttable Financial Instruments and Obligations Arising on Liquidation

We are responding to your invitation to comment on the above exposure draft and set out below a summary of our views. Detailed responses to the specific questions asked in the invitation to comment are included in Appendix A to this letter.

As noted in our letter of 23 October 2006 in response to the July 2006 exposure draft, the classification of financial instruments puttable at fair value and obligations arising on liquidation is neither the most widespread nor the most significant problem with IAS 32 and hence FRS 25. However we acknowledge that for a small number of entities in the UK the issue may be of significance.

The IASB's recent amendments to IAS 32 have limited scope whilst adding complexity to the standard. Despite this, however, we agree with the ASB that FRS 25 should be amended in line with the changes made to IAS 32 by the IASB in February 2008 to ensure that no divergence between FRS 25 and IAS 32 occurs.

The proposal to introduce the capital disclosure requirements in Appendix E of FRS 29 would mean that those entities that do not adopt FRS 26, or who do adopt FRS 26 but are not in the scope of FRS 29, would not be required to make any disclosure. We believe that it is important that at least minimum disclosures about puttable financial instruments and obligations arising on liquidation that are classified as equity should be required for all entities that have such instruments.

If you have any questions or comments about this response, please contact Gail Tucker (0117 923 4230) or Marian Scott (020 7212 7922).

Yours faithfully

PricewaterhouseCoopers LLP

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Appendix A: Detailed responses to the questions posed within the ASB Exposure Draft amendment to FRS 25 (IAS 32) 'Financial Instruments: Presentation'

Q1 Do you consider that the proposals will improve the accounting for the instruments within the scope of the proposed amendment?

The detailed criteria for classifying instruments as equity under the proposals ensure that only a limited number of UK entities would be affected by the amendment, even after the slight widening of scope since the 2006 exposure draft.

Despite this, in general the proposals should improve the presentation and measurement basis for those instruments within the scope of the proposed amendment (eg some partnership structures), as it would more appropriately reflect the nature of those instruments.

Q2 Are you aware of any unintended consequences or problems that may arise as a result of the proposed amendments for UK entities?

We are not aware of any unintended consequences or problems that would be specific to the UK, although we do have some general observations about aspects of the amendment that would affect both IFRS and UK GAAP reporters, as already highlighted to the IASB during their exposure draft and subsequent roundtable process.

The problem with the proposed amendment is that it may hinder comparability between funds as their structure will drive the accounting treatment. Thus a fund (such as an Unit Trust in the UK) with an unlimited number of redeemable shares/units of only one class may meet the proposed criteria, in which case its shares would be classified as equity, but similar funds with more than one class of shares (for example shares in sub-funds held in an Open Ended Investment Company (OEIC) in the UK) would not because they do not have identical features and therefore fail paragraph 16A (c). Furthermore, some UK Investment Trusts are structured with two different classes of shares (eg income and capital), one of which may be classified as equity and the other as a liability, which would feel counter-intuitive. In addition, such an Investment Trust would not be comparable with Investment Trusts that had only one class of ordinary share, which would be classified as equity. We recognise that it is not practical to resolve this issue at this stage, but we would urge the ASB to enter into dialogue with the IASB and the investment management industry to deal with concerns of this nature as part of the longer term debt/equity project.

Some aspects of the proposals are unclear or could be difficult to apply in practice. This is particularly so where membership structures are themselves complex and where transactions are entered into by an instrument holder other than as owner of the entity (see proposed paragraphs AG14F-AG14I). Some common features of UK partnerships (limited liability partnerships and limited partnerships) include the provision of services by partners to the partnership. For example, in legal and accountancy partnerships, it may be difficult to determine how much of partners' profit share relates to services provided and how much relates to appropriations as owners of the business. Other examples are found in both the UK private equity industry and real estate fund industry, where it is common for close ended limited partnerships to be set up and the founder partner to receive a greater relative profit share (a 'carried interest') due to services provided by the founder partner.

However, given that these practical interpretation issues would need to be addressed by IFRS reporters as well as UK GAAP entities, we do not believe that they warrant a difference between FRS 25 and IAS 32. We note that the relevant industry-specific SORPs will need to be updated for the amendment.

Q3 Are you aware of any other conflicts with other FRSs that should be addressed at the same time as those stated in the ED?

No. However there should be some minimum disclosure requirement for all entities with such instruments recognised as equity, not just those adopting FRS 26 and in the scope of FRS 29. Reliance cannot be made on the general disclosure requirement in FRS 5 paragraph 31 as this relates to assets and liabilities only and not instruments classified as equity.

In our experience many of the UK GAAP entities likely to be affected by the proposed amendment do not currently apply FRS 26 and even if they did, they may be exempt from FRS 29 if they are subsidiary undertakings, other than banks or insurance companies, 90 percent or more of whose voting rights are controlled within the group. Admittedly, there are some general share capital disclosure requirements in the Companies Act but these, of course, only apply to those entities that are companies and does not extend to instruments which are not legally shares. The proposed amendment needs to consider whether all entities that have puttable instruments classified as equity should be required to make some disclosures in their financial statements.

The minimum disclosure requirements for all entities need not include all the requirements in the equivalent amendment to IAS 1, particularly where those that could be more onerous than the equivalent requirements for financial liabilities. For example, proposed paragraphs E6(c) and (d) could be omitted as they are more onerous than the requirements in FRS 29, which only requires disclosure of the contractual maturity of financial liabilities.

Q4 Do you agree that the benefits of the proposed amendment would outweigh any costs involved? If not, why not? It would be helpful if any significant costs that would arise on implementation of the proposal could be identified and quantified.

We agree with the analysis of costs and benefits made by the IASB, as set out in paragraphs BC69-BC74 of the proposed amendment.

Q5 In line with the IASB's implementation date, the ASB is proposing that the [draft] amendments to FRS 25 be effective for accounting periods beginning on or after 1 January 2009 and it is permitting early adoption. Do you agree with the proposed effective date?

Yes, we agree that the proposed amendment to FRS 25 should be effective for the same accounting periods as the equivalent amendment to IAS 32.

Other minor comments noted during our review

On reviewing the exposure draft, we noticed the following minor typos:

- Proposed paragraphs 96A of FRS 25 and 103F of FRS 26 both refer to the date of issue of the proposed amendment to FRS 25 as being February 2008.
- The first sentence of revised paragraph 3 of FRS 29 refers to ‘IFRS' rather than ‘standard’.
- The footnote to UITF Abstract 39 in the References section states that ‘In February 2008 the IASB amended FRS 25’ rather than the date that the ASB amends FRS 25.
- Paragraph IE1 of FRS 25 refers to ‘IAS 39’ rather than ‘FRS 26’.
- Paragraphs 96A of FRS 25 and E8 of FRS 29 refer to ‘UITF 39’ rather than ‘UITF Abstract 39’.