bankenverband
BUNDESVERBAND DEUTSCHER BANKEN

IAS 32 and IAS 1 Amendments
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ED on Amendments to IAS 32 and IAS 1: Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation

Dear Sir David,

Thank you for the opportunity to comment on the IASB's exposure draft of proposed amendments to IAS 32 and IAS 1: Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation.

Questions relating to the classification of financial instruments as equity or debt are currently the subject of a long-term project which is part of the IASB/FASB convergence programme. The existing IAS 32 requirements result in entities with certain legal structures having to classify as liabilities instruments that were previously accounted for as equity. Requiring instruments puttable by the owner at fair value to be classified as liabilities can lead to distortions in the financial statements. The problems associated with having to recognise an entity's entire market capitalisation as a liability have already been discussed in depth. In view of the strong and broad criticism, particularly of the criteria for distinguishing equity instruments from liabilities, the IASB has decided, despite the ongoing long-term project, to amend IAS 32 "Financial Instruments: Presentation" with the aim of eliminating swiftly the accounting distortions sometimes caused by applying the present rules. We support the fact that the IASB has recognised the specific problems of the European jurisdictions in applying IAS 32 and is now seeking possible solutions. We welcome the fact that the IASB is prepared to take remedial action if a standard turns out not to result in meaningful and intelligible financial reporting.

Concerning the proposed amendments we have the following comments:

The proposed changes will influence the definition of "assets" and "liabilities". These are key terms and covered by the ongoing framework project. In our view, therefore they should also be dealt with in the context of this project in order to avoid subsequent inconsistencies between the framework and individual standards. We therefore consider it important for the findings of the current discussion about the definitions of equity and debt capital under IAS 32 to be incorporated into the framework project.

The exposure draft envisages introducing two exceptions to the distinguishing principle in IAS 32. These will allow instruments puttable at fair value to be classified as equity if a number of criteria are satisfied. In our opinion, the draft fails to make clear why, if the criteria in question are met, these two particular sets of circumstances – and only these – have been singled out by the IASB for exemption.

Furthermore, we would characterise the proposed changes as rule-based. According to our understanding, however, the IASB has stressed repeatedly in the recent past that standards should be principle-based. We strongly support a principle-based approach to standard setting and regard these proposed amendments as totally at odds with the IASB's declared aim.

For these reasons, we consider the exposure draft lacking in its present form and believe its usefulness will be limited.

Yours sincerely,

Katrin Burkhardt
Anke Borchardt