REDOVISNINGSRÅDET

IAS 32 and IAS 1 Amendments
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UK

Dear Sir/Madam

Re: ED of Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements*: Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation

In the ED some problems with the application of IAS 32 are highlighted, e.g. that some entities such as co-operatives and mutual funds may report a negative equity and that a profitable entity will report a loss because of the increase in the value of those financial instruments that are puttable at fair value. The Swedish Financial Accounting Standards Council (SFASC) agrees that these consequences of IAS 32 may not have been intended and that they need to be discussed.

In the ED, a “quick fix” is proposed to solve the problem for those entities that have issued financial instruments that are puttable at fair value. In Sweden, such entities with the exception of mutual funds, are rare. However, we have a number of co-operatives that have issued financial instruments puttable not at fair value but at nominal or at some other value. These entities face the same type of problems as those covered by the ED. The main drawback of the ED according to the SFASC is that the ED does not attempt to undertake a more general discussion of how to account for financial instruments that are puttable.

The amendments proposed would result in deviations from the existing Framework at the same time the IASB is discussing a new Framework together with the FASB. It is not inconceivable that the new Framework will not be able to accommodate the changes proposed in the ED. Therefore the SFASC would prefer that before amending IAS 32, work on the Framework has advanced to such a degree that it is clear that the present inconsistencies will be eliminated.

Therefore, the SFASC does not support the proposals in the ED and would rather support the Alternative View in the document.

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Question 1: Financial instruments puttable at fair value—*The Exposure Draft proposes that financial instruments puttable at fair value should be classified as equity, provided that specified criteria are met. Do you agree that it is appropriate to classify as equity financial instruments puttable at fair value? If so, do you agree that the specified criteria for equity classification are appropriate? If not, why? What changes do you propose, and why? If you disagree with equity classification of financial instruments puttable at fair value, why?*

We do not support what is proposed in the ED for the following reasons:

- In line with what is suggested in the Alternative view, we agree that the above instruments are liabilities according to the Framework and should thus be classified as such. We do not see any convincing arguments in the ED why some financial instruments that meet the definition of a liability should be classified as equity while other similar instruments will be classified as liabilities.

- We share the view that the distinction between equity and liabilities in IAS 32 does not take into consideration all aspects of an equity/liability classification that need to be considered. Therefore the standard may have to be amended. However, we do not think that the proposed amendment is the appropriate solution. It seems to us that if an amendment is to be made, it should be considered in a wider context, starting with the Framework definitions of equity and liabilities.

Question 2: Obligations to deliver to another entity a pro rata share of the net assets of the entity upon its liquidation—*The Exposure Draft proposes that an instrument that imposes on the entity an obligation to deliver to another entity a pro rata share of the net assets of the entity upon its liquidation should be classified as equity, provided that specified criteria are met (e.g. ordinary shares issued by a limited life entity). Do you agree that it is appropriate to classify as equity these types of instruments? If so, do you agree that the specified criteria for equity classification are appropriate? If not, why? What changes do you propose, and why? If you disagree with equity classification for these types of instruments, why?*

We do not agree that an instrument that imposes the entity an obligation to deliver to another entity a pro rata share of the net assets of the entity upon its liquidation should be classified as equity, provided certain criteria are met. The Basis for conclusion, e.g. BC16, makes it clear what the Board proposes, but does not present a clear rationale for the proposed amendment.

Question 3: Disclosures—*The Exposure Draft proposes disclosures about financial instruments puttable at fair value classified as equity, including the fair values of these instruments, and the reclassification of financial instruments puttable at fair value and instruments that impose an obligation arising on liquidation between financial liabilities and equity.*

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(a) *Do you agree that it is appropriate to require additional information about financial instruments puttable at fair value classified as equity, including the fair values of these instruments? If so, do you agree that the fair value disclosures should be required at every reporting date? If not, why? What changes do you propose, and why?*

(b) *Do you agree that it is appropriate to require disclosure of information about the reclassification of financial instruments puttable at fair value and instruments that impose an obligation arising on liquidation between financial liabilities and equity? If not, why? What changes do you propose, and why*

We share the view that additional disclosure of the characteristics of the financial instruments discussed in the exposure draft is required. However, we find that IAS 32, para 18 already deals with this situation and that the disclosures provided in the Illustrative Examples give a reasonble basis for providing the required information.

Question 4: Effective date and transition—*The proposed changes would be required to be applied retrospectively, from a date to be determined by the Board after exposure (with one exception permitted relating to compound instruments). Earlier application would be encouraged. Are the transition provisions appropriate? If not, what do you propose, and why?*

We agree that the proposed changes, if implemented, should be applied retrospectively.

Stockholm 23 October 2006

THE SWEDISH FINANCIAL ACCOUNTING STANDARDS COUNCIL

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