THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

16 May 2008

Our ref: ICAEW Rep 67/08

Your ref:

Seema Jamil-O'Neill
Accounting Standards Board
5th Floor
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London WC2B 4HN

By email: asbcommentletters@frc-asb.org.uk

Dear Seema

PROPOSED AMENDMENT TO FRS 25 'FINANCIAL INSTRUMENTS: PRESENTATION' - PUTTABLE FINANCIAL INSTRUMENTS AND OBLIGATIONS ARISING ON LIQUIDATION

The Institute of Chartered Accountants in England and Wales (the Institute) is pleased to respond to your request for comments on the Exposure Draft *Proposed Amendment to FRS 25 'Financial Instruments: Presentation' - Puttable Financial Instruments and Obligations Arising on Liquidation*.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

Desmond Wright

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THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

ICAEW Representation

ICAEW REP 67/08

PROPOSED AMENDMENT TO FRS 25 'FINANCIAL INSTRUMENTS: PRESENTATION' - PUTTABLE FINANCIAL INSTRUMENTS AND OBLIGATIONS ARISING ON LIQUIDATION

Memorandum of comment submitted in May 2008 by The Institute of Chartered Accountants in England and Wales, in response to Accounting Standards Board Exposure Draft *Proposed Amendment to FRS 25 'Financial Instruments: Presentation' - Puttable Financial Instruments and Obligations Arising on Liquidation*, published in March 2008.

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INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales (the Institute) welcomes the opportunity to comment on Accounting Standards Board Exposure Draft *Proposed Amendment to FRS 25 'Financial Instruments: Presentation' - Puttable Financial Instruments and Obligations Arising on Liquidation*, published in March 2008.

WHO WE ARE

2. The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 130,000 members in more than 140 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.

3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The Institute ensures these skills are constantly developed, recognised and valued.

MAJOR POINTS

4. We opposed the proposals in the original exposure draft from the IASB, and we do not believe that the eventual amendment to IAS 32 was an improvement. The amendment is based on arbitrary rules with no discernable underlying principle, and seeks to classify an instrument by reference to the characteristics of the issuing entity rather than to the characteristics of the instrument itself.

5. Despite our criticisms, we can see no reason why the ASB should not, in order to converge with the international standard, implement the proposed amendment to FRS 25.

ANSWERS TO SPECIFIC QUESTIONS

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

6. In the very limited circumstances in which the proposals apply, we consider that there is the potential for improved accounting by the entities affected. For example, some limited liability partnerships (LLPs) may be able to display a greater proportion of members' capital as equity rather than debt.

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

7. We have been made aware that the amendment could cause problems for authorised funds (unit trusts and open-ended investment companies). At present, units are liabilities and are dealt with satisfactorily by Example 7 (IE32). of FRS 25 and IAS 32 *Entities such as mutual funds and cooperatives*

whose share capital is not equity as defined in IAS 32: Entities with no equity. Reclassifying units as equity is not in itself an issue. However, where funds have a number of classes of unit, the criteria proposed in paragraph 16A could cause some units to be equity and others in the same fund to be liabilities. This would be misleading, because it implies a different level of seniority, whereas the reality is that all units have identical rights on liquidation, and those rights are to a proportionate share of the net asset value.

8. As noted in paragraph 5 above, our preliminary consideration suggests that in certain circumstances some LLPs may be able to display a greater proportion of members' capital as equity rather than debt. We believe that where it can be applied this would generally lead towards a more realistic portrayal of the LLP's capital structure. It seems unlikely that the proposed amendment would have the reverse effect - ie, lead to instruments at present classified as equity being reclassified as debt.

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?

10. No.

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.

11. There will be a significant burden imposed on entities requiring them to determine whether their instruments meet the criteria for applying the amendment. For example, it will be necessary to consider the members' agreements of LLPs in some detail in order to gauge the effect, if any, of the amendment. In the vast majority of instances, no more useful information will result. However, we agree overall that the convergence benefits of the proposed amendment would outweigh the costs.

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?

12. We agree with the proposed effective date, and the option for early adoption, subject to the timing of the EU endorsement process. The amendment should not be mandated in the UK before the equivalent provisions of IAS 32 have been endorsed by the EU.

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