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Mr Robert Garnett
Chair of the
International Financial Reporting Interpretations Committee
30 Cannon Street

Berlin, 13. Dezember 2006

London EC4M 6XH
United Kingdom

Dear Bob

**Comment Letter on the IFRIC Tentative Agenda Decision
IAS 39 *Financial Instruments: Recognition and Measurement* – Financial in-
struments puttable at an amount other than fair value**

(as reported in IFRIC Update November 2006, p. 11, 12)

We welcome the opportunity to comment on the tentative agenda decision. This agenda decision relates to two different issues.

We have some doubts as to whether this agenda decision actually concerns the issue we submitted to IFRIC in July 2006. The reason why we are unsure is that, if the tentative agenda decision refers to our submission, it largely fails to address the issue we deemed in need of an Interpretation, especially with regard to the second issue. Our following comments are therefore based on the assumption that this tentative agenda decision is indeed concerning our submission.

Issue 1

The tentative agenda decision claims that “IAS 32 and IAS 39 do not directly address whether the accounting for financial instruments in the financial statements of the holders should be symmetrical with that in the financial statements of the issuer.”

This view fails to take into account that IAS 39.8, for the definition of an equity instrument and a financial liability refers to IAS 32 and states that “IAS 39 uses these terms with the meaning in IAS 32”.

One may conclude that an instrument classified as a liability in the financial statements of the issuer under IAS 32 must keep that classification under IAS 39 from the perspective of the holder. In our submission, this was referred to as View A. As both



standards use the same terms “equity instruments” and “financial liability” and IAS 39 refers to IAS 32 for their respective meanings, classification would be symmetrical. On the other side, under view B as set out in our submission, the classification of the financial asset from the perspective of the holder as either an equity instrument or a financial liability is determined independently of the issuer’s classification according to IAS 32. Under this view, the classification would be determined by the nature of the financial asset. Although it might be classified as a liability in the statements of the issuer (e.g. due to a put right of the holder), it would, nevertheless, be regarded as an equity instrument under IAS 39, as the payments are discretionary and neither fixed nor determinable (therefore, e.g. no loan under IAS 39).

For example, the definitions contained in IAS 39.9 refer to “investments in equity instruments”, and in certain circumstances the fair value option may not be applied to such instruments. Therefore, the question whether such an instrument, apart from being a financial asset, is an equity instrument, is important. Impairments under IAS 39 are accounted for differently depending on whether the financial asset in question is a debt instrument or an equity instrument. Both may be available-for-sale instruments, but the treatment under paras. 69 (investments in equity instruments) and 70 (investments in debt instruments) is different.

Issue 2

Regarding the second issue, the tentative agenda decision states that “the resulting requirement for a parent to present consolidated financial statements in accordance with IAS 27 (including the requirement to recognise goodwill in accordance with IFRS 3) does not necessarily depend on the parent’s owning equity instruments of the subsidiary.”

We are unable to see the connection to our submission.

An entity may not be able to present any equity under IAS 32, e.g. because all shareholders’ capital is puttable. Consequently, the subsidiary fails to present any equity instruments. Under IAS 27, the parent’s investment would have to be consolidated against the subsidiary’s equity. As explained before, that equity may be zero.

We repeat the relevant section of IAS 27 which states:

“In preparing consolidated financial statements, an entity combines the financial statements of the parent and its subsidiaries line by line by adding together like items of assets, liabilities, equity, income and expenses. In order that the consolidated financial statements present financial information about the group as that of a single economic entity, the following steps are then taken:

*(a) the carrying amount of the parent’s investment in each subsidiary and **the parent’s portion of equity of each subsidiary** are eliminated (see IFRS 3, which describes the treatment of any resultant goodwill); [...].” (IAS 27.22; emphasis added)*



As the subsidiary's equity is zero following classification under IAS 32, the portion of the parent must, by definition, be zero as well. **Consequently, when applying IAS 27, there is no equity of the subsidiary that the carrying amount of the parent's investment may be eliminated against.** One cannot eliminate a carrying amount of an investment against something that does not exist in the subsidiary's financial statements.

However, as set out in our submission, this view depends on whether the classifications in the subsidiary's financial statements (issuer, IAS 32) and in the parent's statements (holder, IAS 39) are supposed to be symmetrical. One could argue that from the perspective of the parent (holder), this instrument evidences a residual interest and is therefore, an equity instrument-type financial asset. One could go on in arguing that from the point of view of the parent, the subsidiary actually does have equity instruments and that these instruments determine the amount that the carrying amount of the parent's investment is eliminated against.

If you would like further clarification of the issues set out in this comment letter, please do not hesitate to contact me.

With best regards

Stefan Schreiber
AIC, Chairman