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Sir David Tweedie
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30 Cannon Street
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Berlin, 20 October 2006

Dear Sir David,

**Exposure Draft of Proposed Amend to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements: Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation**

On behalf of the German Accounting Standards Board (GASB) I am writing to comment on the IASB Exposure Draft of Proposed Amend to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements: Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation. We appreciate the opportunity to comment on the exposure draft.

The distinction between equity and liabilities is of fundamental importance to financial reporting. The current distinction as promulgated in IAS 32 and the IASB Framework is based on the existence of a present or contingent obligation. Due to this principle, a large number of German entities with various legal forms are unable to present capital provided by the legal owners of the entity as equity under IFRS. The German Commercial Code requires such entities to eventually repurchase or redeem the capital. This right to put cannot be waived in the charter and entitles the shareholder in a commercial partnership or a cooperative to put his share in the absence of a market or in case of sales restrictions by the charter of the company. Amongst the entities affected are partnerships, cooperatives and certain financial institutions.

Commercial partnerships and cooperatives are very common legal forms in Germany, as they might be used for any type of business. There are roughly 370,000 commercial partnerships (42% of all German companies) and further 5,600 cooperatives and about 500 public banks (Landesbanken, Sparkassen). Together they account for more than one third of German GDP. A significant number of these entities are currently applying IFRSs or are considering doing so (either full IFRSs or the upcoming IFRS for SMEs). Given the situation that many of these entities cannot present any equity in their financial statements, they refrain from any conversion to IFRSs and have put relevant projects on hold. The German Accounting Standards Board shares many of the concerns raised by these constituents. It is worth noting that the German Minister of Justice also mentioned this issue in her dinner speech at the June IASCF Trustee Meeting in Berlin.

We understand that similar concerns exist in other countries.

The exposure draft of proposed amendments to IAS 32 will help German commercial partnerships, if some clarifications and amendments which are included in our comments are going to be included in the amendment. We added a summary of suggested changes. Including these changes would broaden the very narrow scope of entities for which the current ED may be applicable and eliminate existing anomalies for such partnerships otherwise retained for a longer period of time.

We are aware that IASB and FASB have agreed to reconsider the distinction of equity and liabilities and that the FASB takes the lead in this long-term joint project. One of the most important amendments we suggest for this Exposure Draft on Amendments to IAS 32 and the final standard respectively as discussed herein is related to the ‘level of subordination’. We note that in the joint project similar ideas are considered. We believe that basing the distinction on that criterion is a promising route to pursue and we believe that basing the distinction in particular on that criterion (as well as the others noted above) would be appropriate and sufficient to protect equity classification. In a broader sense, we would also challenge the view whether the criterion "puttable at fair value" is truly one of the decisive factors for equity classification. This might alleviate concerns for other legal forms of entities, e.g. cooperatives and certain financial institutions, existing under the current IAS 32 even when changed by the ED Amendment to IAS 32 as it stands at current.

Yours sincerely

*Harald Wiedmann*

President

### 1 Fair Value of a pro rata share of the net assets

In general, the GASB concurs with the IASB that it is appropriate to present certain puttable instruments as equity. However, there are several aspects that require further clarification in order to evaluate the proposals in their entirety.

#### 1.1 Fair value of a pro rata share of the net assets – reference point

It is unclear whether the term "puttable at the fair value of a pro rata share of the net assets of the entity" refers to the fair value of the (pro rata) *share* (i.e. the single financial instrument) or a *share in the entity's fair value*. Whilst in theory the sum of the single instruments' fair values should equal the total entity value, in reality usually there are differences to the theoretical value even if listed entities' shares are concerned. In addition, as far as partnerships are concerned, there are generally restrictions, as the shares may not be freely tradable and in addition, there is no active market for puttable shares in partnerships and cooperatives. In our view, it would be consistent with other relevant IFRS (IAS 32, IAS 39) to refer to the fair value of the single *financial instrument* only. If the IASB tried to capture instruments similar to ordinary shares (with the only exemption of these shares being puttable), this notion would also require clarifying the wording in a way that the definition of a "financial instrument puttable at fair value" refers to the single (pro-rata) *share's* fair value.

#### 1.2 Fair value measurement – Guidance

Consistent with the relevant fair value measurement guidance in IAS 39.48A, one would have to determine the fair value of the financial instrument by observing a market price on an active market. We note, though, that sometimes the market for such shares will be very narrow, and due to legal or contractual restrictions a share in a partnership may not be freely tradable, or there may not even be an active market for the instruments at all (as is the case in Germany). Transactions prices in lieu of market prices are usually not observable, and if they are in rare circumstances, they might not be comparable and up-to-date. In the absence of an active market, IAS 39.48A requires using a "valuation technique to establish what the transaction price would have been [..] in an arm's length transaction motivated by normal business considerations." Restrictions as mentioned above would influence the instrument's fair value, as market participants under normal business considerations would take such restrictions into account when negotiating a price.

We would like to point out that any adjustments to the instrument's fair value due to restrictions are consistent with SFAS 157. As incorporation of SFAS 157 into IFRSs is planned, we suggest that the Exposure Draft be consistent with the upcoming IFRS equivalent as well. Par. A 29 of SFAS 157 states:

> "The reporting entity holds a security of an issuer for which sale is legally restricted for a specified period. (For example, such a restriction could limit sale to qualifying investors, [..]) The restriction is specific to (an attribute of) the security and, therefore, would transfer to market participants. In that case, the fair value of the security would be based on the quoted price for an otherwise identical unrestricted security of the same issuer that trades in a public market, adjusted to reflect the effect of the restriction. The adjustment would reflect the amount market participants would demand because of the risk relating to the inability to access a public market for the security for the specified period. The adjustment will vary depending on the nature and duration of the restriction, the extent to which buyers are limited by the restriction (for example, there might be a large number of qualifying investors), and factors specific to both the security and the issuer (qualitative and quantitative).

As far as shares in partnerships are concerned, restrictions generally do not apply only for a limited period of time, but are included in the partnership's charter. Usually, the sale of the shares is either subject to approval by all remaining partners or is excluded entirely. Therefore, according to SFAS 157.A29, the adjustment would not vary, but would be permanently inherent in the instrument's fair value.

### *1.3 Fair value measurement – approximation formula*

Another concern is related to the formula that may be used by particular entities according to par. AG14A. We note that this formula is intended to provide relief for unlisted entities.

However, as currently drafted, this would not bring any relief. This is because application of a formula is restricted to situations

(1) in which there is the intent to approximate the fair value of the puttable instrument and
(2) any difference between the amount determined under the formula and the fair value must not be material (i.e. the proxy is a suitable proxy).

To evaluate whether condition (2) is met, affected entities would have to determine the fair value. Since these entities' shares are not traded, the entity would have to determine the fair value using a valuation technique, as mentioned above and consistent with the fair value measurement guidance (IAS 39) and the upcoming equivalent to SFAS 157.

Therefore, in order to provide the intended relief, we suggest that the proposal be redrafted: A formula should be acceptable, provided the holder of the instrument *may be reasonably expected to obtain an approximation of the financial instrument's fair value, based on the terms and conditions of the instrument and the legal requirements, including the determination of the final amount in a potential court case.* The latter might be the case if the contractual agreement would result in a major difference when compared to the approximation of the fair value. That way, a *justified and reasonable expectation* would be sufficient and allow application of a formula in a non active market. Consistent with the fair value measurement guidance, the entity's fair value would be the predominant factor when determining the instrument's fair value, but would also allow for other factors (e.g. a discount because the share is not freely tradable or the market for these shares being very narrow).

### *1.4 Fair Value – condition that instruments puttable at fair value are required to have been issued at fair value*

The Exposure Draft requires a financial instrument puttable at fair value to have been issued at fair value as well. While we see the reasoning behind requiring these financial instruments to be *puttable* at fair value, the logic behind the condition that the instruments have to be *issued* at fair value is unclear to us. We note that the Basis for Conclusions section does not explain this condition either. In our view, the amount at which a financial instrument puttable at fair value has been issued is irrelevant for the questions whether or not such instruments should be classified as equity.

We also note that this condition might be difficult to assess in practice. Some affected entities might have a long history. It might be impractical to evaluate whether, some years or even decades ago, the shares were issued at fair value or not.

In addition, new or bonus shares in public limited companies might also not be issued at fair value. If the IASB believes that similar characteristics with ordinary shares are a decisive factor (par. 6 of the Basis for Conclusion), it would be consistent with this reasoning to delete this condition.

We conclude that the condition is dispensable and suggest deleting it.

## 2 Most subordinated class

### 2.1 Most subordinated class, net assets & residual interest

With respect to the definition of a “pro-rata share of the net assets of the entity”, we suggest another clarification of the wording. We can envisage situations in which the wording could have consequences we feel the IASB might have overlooked and which we deem inappropriate. These stem from the fact that in the *definition* of a pro rata share the IASB uses the term ‘net assets’ and ‘claims’, but when listing the *criteria* for this definition the IASB uses the term ‘residual interest’. The terms ‘net assets’ and ‘claims’ clearly refer only to a positive residual upon liquidation, whereas the term ‘residual interest’ might be read as encompassing situations where there are net liabilities, too. We understand the term “residual interest” as encompassing only (positive) net assets and not negative net assets (net liabilities, negative residual). In addition, we are unsure how the ‘most subordinated class’ criterion would have to be applied in these situations.

The criteria which cumulatively define a “pro rata share of the net assets” are not explained in the Basis for Conclusions, either. We feel that the Board did not consider the implications of these criteria, as currently drafted, for limited liability commercial partnerships and overlooked that the wording might be regarded as restricting.

Upon liquidation, a limited partner has no claim against the general partner. There might be situations upon liquidation of a limited liability partnership in which the assets are not sufficient to honour all liabilities (net residual liability). If one partner has assumed a personal liability, he would be liable towards outside creditors but neither to other partners nor towards the partnership. With regard to the ‘most subordinated class’ criterion, we take the view that the decisive factor is the *equality amongst the partners.*

From a conceptual point of view, an unlimited liability of the general partner might be intrinsic to the characteristics of a general partner, but certainly not to the classification of his investment as equity. Unlimited liability of shareholders is no decisive factor for the shareholders’ or partners’ capital in any other legal form. The unlimited liability of a general partner should not influence the classification of the capital provided by him or the other partners as either equity or liability.

We suggest the exposure draft being clarified and the ‘most subordinated class’ being changed in this respect. We added a suggested wording in the summary section of our letter.

### *2.2 Most subordinated class – comparability*

Whilst the IASB argues in the Basis for Conclusions that the proposed amendments will make financial statements more comparable, there are situations in which two entities that issued identical financial instruments would account for these instruments differently. This is the result of the exposure draft requiring that all financial instruments in the most subordinated class of financial instruments should meet the definition of a 'financial instrument puttable at fair value'. Therefore, the classification of a financial instrument is not only determined based on the terms and conditions of the instrument in question, but also on the possible existence of other instruments. Both entities would possibly account differently for identical instruments, because one entity has other instruments in the most subordinated class that are not puttable (lack of comparability between entities).

When the entity issues new financial instruments, it might be required to re-classify the puttable instruments previously classified as equity. Again, without any change in the terms and conditions of the instrument, the same instrument would be accounted for differently in a later period (lack of comparability over time). This could be regarded as inconsistent with other IFRSs, e.g. IFRIC 9.7, IFRS 4.B30 and IAS 17.13.

While we agree that subordination is essential for equity instruments, we think that the notion of 'most subordinated' should be changed. As we share the IASB's concern related to structuring opportunities, we suggest changing this criterion in a way that would not give rise to structuring opportunities, but would not impair the comparability either. In our view, the criterion should work to prevent any claims related to 'financial instruments puttable at fair value' or 'obligations arising on liquidation' (i.e. the "additional" equity under the Exposure Draft) to be satisfied *before* the creditor's claims. The criterion should ensure that the claims are *subordinated to all obligations as defined in the current IAS 32,* but do not necessarily have to be the *most* subordinated class of instruments. As obligations related to 'instruments puttable at fair value' or 'arising on liquidation' have to meet other, specified conditions, subordination alone would not allow for these obligations to qualify for equity classification.

In the summary section at the end of our comment letter, we added a related suggestion.

### *2.3 Most subordinated class - minority interests*

Liability classification for minority interests as proposed in par. AG29A is based on this criterion and the notion that puttable instruments have to be in this class of instruments.

According to par. AG29A, puttable instruments held by minorities would not receive equity classification in the consolidated financial statements. The IASB argues in its Exposure Draft that, from a group perspective, these instruments would not be in the most subordinated class, since, if the group were to liquidate, the claims of the minority interest holders have to be satisfied first.

We are not convinced by this argument and disagree with this view. We note that the Exposure Draft's proposal is inconsistent with the current version of IAS 27, which is based on the entity theory and minority interests are classified as equity, notwithstanding the requirement to present these interests separately from the controlling interests' equity, but nevertheless within equity. The proposal would also be inconsistent with the current IFRS 3.

Furthermore, the assumption of a liquidation of the group might not be supportable for many countries. It is a question dependant on national law, and in many countries liquidation is carried out on single entities, i.e. an entity by entity basis. In such legal scenarios the liquidation of one entity does not result into the liquidation of any related entities. Whether one group of shareholders' claims (e.g. parent entity) is subordinated to other shareholders' claims (e.g. minority shareholders) is also a legal question. For example, in Germany, the insolvency law ensures that all shareholders' claims are satisfied with equal priority.

Apart from conceptual concerns, we regret that the exposure draft lacks any cost-benefit analysis with regard to this exemption. As shares in a commercial partnership are sometimes puttable (in Germany, they are puttable by law), this exemption would have severe consequences for all entities with a subsidiary in the legal form of a commercial partnership when non-controlling interests exist. This is an extremely common situation in Germany. Affected entities would be required to determine the subsidiaries' fair values on each reporting date just for the consolidated accounts. In addition, anomalies as mentioned in par. 5 of the Basis for Conclusions would still persist in the consolidated financial statements. For example, a loss would still be recognised when the subsidiary performs well and distributions to minority shareholders of the subsidiary would be recognised as expenses.

***3 Disclosures***

We do not agree with the disclosure requirements mentioned under (a). On the contrary, we agree with the alternative views mentioned in paragraph AV3. If the Board believes that these instruments should be appropriately classified as equity, it would be inconsistent with equity classification to require the fair value to be disclosed in the notes. Disclosure of the fair value is not required for any other kind of instrument or other legal forms of entities, e.g. ordinary shares.

We acknowledge that the IASB has analysed benefits and costs of this disclosure requirement. However, we feel that the IASB may not have sufficiently considered three important aspects:

1) Given that puttable shares are common for non-listed entities (e.g. legal form of a commercial partnership), and since such shares are usually not traded in an active market, the fair value would have to be determined at each reporting date using a valuation technique. Regardless of whether the entity relies on a valuation expert or determines the entity's fair value by itself, any such entity will incur significant costs.

2) For first-time adopters, this disclosure requirement would pose an *additional* requirement. We are aware of a large number of entities in Germany that would voluntarily apply IFRSs but refrain from doing or have stopped their conversion projects solely because they are unable to present any equity under IFRSs (since their shares are puttable by law). We believe these companies would still refrain from IFRS application. Even if they would meet the conditions for the exemption under this Exposure draft and would be able to classify their member's capital as equity, they would be faced with a – from their perspective new and additional – burdensome disclosure requirement. In our view, one cannot argue that this disclosure requirement does not impose *additional* costs because all entities are faced by this requirement already.

3) The disclosure requirement would also affect a large number of listed companies, as subsidiaries could have the legal form of e.g. a commercial partnership. In connection with consolidated financial statements, we already mentioned that the classification of puttable instruments held by minority interests would require determining the fair value just for the consolidated accounts.

With regard to subquestion (b) we do not have any objections and agree that the disclosures are appropriate.

***4 Summary: Suggested amendments and clarifications***

*(the summary follows the structure of the Exposure Draft,* new or changed wording is underlined, deleted wording is struck through)

1) In the definition of a 'financial liability', change the wording as follows:

(a) It is a contractual obligation: either
(i) to deliver cash or another financial asset to another entity;, or
(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity;. For this purpose, a contractual obligation does not include:

(i) an obligation to deliver to another entity a pro rata share of the net assets of the entity upon its liquidation~~, provided that all financial instruments (or components of financial instruments) in the most subordinated class of instruments with a claim to the assets of the entity impose such an obligation~~; or
(ii) an obligation to redeem or repurchase a financial instrument puttable at fair value~~, provided that all financial instruments in the most subordinated class of instruments with a claim to the assets of the entity are financial instruments puttable at fair value.~~

**Note:** The 'subordination'-criterion, if changed as suggest above, would still be inherent in both exempted obligations. The definition of the obligation arising on liquidation directly contains the definition of a 'pro rata share of the net assets of the entity', and this definition contains the 'subordination'-criterion in redrafted condition (a). Obligations under a financial instrument puttable at fair value refer to the (separate) definition of a 'financial instrument puttable at fair value' and this definition refers in condition (c) to the entitlement upon liquidation by incorporating the definition of a 'pro rata share of the net assets of the entity', and, as mentioned above, this definition contains the 'subordination'-criterion in redrafted condition (a).

**Reason:** Refer to comment letter, sections 'most subordinated class, net assets and residual interest and 'most subordinated class – comparability''

2) In the definition of 'financial instrument puttable at fair value'

2.1) delete condition (a) (i.e. "its issue price is …")

**Reason:** Refer to comment letter, section 'Fair value – issuance at fair value'

2.2) change condition (b):

> "it entitles the holder to require the entity to repurchase or redeem the instrument for the fair value or approximated fair value [refer to par. AG 14B] of ~~a pro rata share of the net assets of the entity~~ the instrument;"

**Reason:** Refer to comment letter, section 'Fair value – reference point'

3) In the definition of a 'pro rata share of the net assets of the entity'

3.1) change heading to

> A financial instrument that entitles the holder to a *pro rata share of the net assets of the entity* in the event of the liquidation of the entity has all of the following features:

3.2) change wording of condition (a) to:

> ~~the financial instrument is in the most subordinated class of financial instruments with a claim to the assets of the entity.~~ Upon liquidation, the claims under the financial instrument are subordinated to all other obligations as set out in the definition of a 'financial liability' that do not meet the definition of either a
> - 'financial instrument puttable at fair value' or
> - an obligation arising on liquidation.
>
> The claims of a financial instrument with this entitlement have no priority over other claims to the assets of the entity upon liquidation, in terms of either the calculation of the amount due on liquidation or the timing of payment of that amount. A financial instrument that must be converted into another instrument to be in the most subordinated class of financial instruments does not possess this feature.

**Reason:** Refer to comment letter, sections 'most subordinated class, net assets and residual interest and 'most subordinated class – comparability''

3.2) change condition (b) to:

> the financial instrument is entitled to a proportionate share of the ~~residual interest~~ net assets ~~in the assets~~ of the entity that remains after deducting

all other claims to the assets of the entity. A proportionate share is one that is determined by:

(i) dividing the total amount of the ~~residual interest in the assets~~ net assets of the entity into units of equal amount; and
(ii) multiplying that unit amount by the ratio of the number of the units held by the financial instrument holder to the total number of units.

**Reason:** Refer to comment letter, section **'most subordinated class,** net assets and residual interest'

4) AG14A should contain the reference to the relevant fair value measurement guidance only:

"For a financial instrument to be a financial instrument puttable at fair value, the issue price received, or the redemption or repurchase price paid by the entity for the financial instrument is its fair value, determined in accordance with the requirements of IAS 39 paragraph 48A and paragraphs AG69–AG82. For certain shares, the market may not be active. If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations. For example, under normal business considerations, market participants would take into account if there are restrictions in trading a share or if the share may not be traded at all, but can only be traded with or put back to the reporting entity."

**Reason:** Refer to comment letter, section 'Fair Value measurement guidance'

5) After par. AG14A (see above), insert new paragraph and use the wording from the par. AG14A as exposed, but change the wording as follows:

~~However,~~ In addition to par. AG14A, entities that
(a) have not filed, or are not in the process of filing, their financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; or
(b) do not hold assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance company, securities broker/dealer, pension fund, mutual fund or investment banking entity

are permitted to use a formula to determine the fair value of financial instruments puttable at fair value on their ~~issue,~~ redemption or repurchase, provided the holder of the instrument may be reasonably expected to obtain an approximation of the financial instrument's fair value, based on the terms and conditions of the instrument and the legal requirements, including the determination of the final amount in a potential court case. ~~provided that the formula is intended to approximate the fair value of the financial instruments. The instrument's pro rata share of the book value of the net assets of the entity is a formula that would approximate the fair value of the instrument only when there is no material difference between the book value of the entity's net assets and the fair value of its net assets (both recognised and unrecognised).~~ An entity may change the basis [..]

**Reason:** Refer to comment letter, section 'Fair value – formula to approximate fair value'

6) After AG14G, insert a new paragraph:

In certain legal forms, there are some partners that have assumed a personal liability for the entities' debt. This personal liability may be unlimited. Under this personal liability, he may be required to satisfy outside creditors' claims against the entity, and such payments may influence the distribution of the residual interest upon liquidation. However, the personal liability of a some members is not a decisive factor when evaluating whether the criteria of this definition are met.

Reason: Refer to comment letter, section 'most subordinated class, net assets and residual interest'

7) Delete AG 29A.

**Reason:** Refer to comment letter, section 'most subordinated class - minority interests'

8) Change the wording of paras. 124D und E as follows:

124D For financial instruments puttable at fair value classified as equity, an entity shall disclose (to the extent not disclosed elsewhere):
(a) summary quantitative data about the amount classified as equity;

(b) its objectives, policies and processes for managing its obligation to repurchase or redeem the instruments when required to do so by the instrument holders, including any changes from the previous period;
~~(c) the fair value of that class of financial instruments in a way that permits it to be compared with its carrying amount; and~~
~~(d) information about how fair value was determined, consistently with the requirements of IFRS 7 *Financial Instruments: Disclosures* paragraph 27(a)–(c), to the extent applicable.~~

124E If an entity uses a formula to determine the price received or paid by the entity upon issue, redemption or repurchase of financial instruments puttable at fair value that are classified as equity (as permitted by paragraph AG14A of IAS 32), it shall:
(a) disclose that fact; and
(b) disclose information about the formula.

**Reason:** Refer to comment letter, answer to question 3 (Disclosures)

**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?

As set out in our detailed comments, the GASB generally concurs with the IASB that it is appropriate to present certain puttable instruments as equity. However, we think that the scope of the Exposure Draft is very narrow. Therefore, we suggest some amendments that would carefully widen the scope of entities for which the current Exposure Draft may be applicable and eliminate existing anomalies for such partnerships otherwise retained for a longer period of time.

**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 (eg 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 agree with the proposals.

**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.

(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 do not agree with the disclosure requirements mentioned under (a). Please refer to our detailed comments. With regard to subquestion (b) we do not have any objections and agree that the disclosures are appropriate.

**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?

The transition provisions are appropriate. However, if the IASB disagrees with our suggestion to delete the criterion that a financial instrument puttable at fair value is required to have been issued at fair value, we think that some kind of exemption with regard to transition is necessary. As explained in our detailed comments, we are concerned that this criterion may not be evaluated if the instruments in question were issued a long time ago.