



MAZARS

International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Paris, 10 September 2009

Re: Exposure Draft ED/2009/9 – Classification of Rights Issues – Proposed amendment to IAS 32

Dear Sir or Madam,

MAZARS welcomes the opportunity to comment on the IASB Exposure Draft ED/2009/9 – *Classification of Rights Issues* (the ED). We are convinced that the “fixed for fixed” notion in IAS 32 is not suitable for instruments such as the conversion option of a convertible bond denominated in a foreign currency. This has been our position since 2005, when the IFRIC first worked on this issue.

We already expressed this view in our comment letter on the Discussion Paper – *Financial Instruments with Characteristics of Equity* dated 29 September 2008.

Therefore we regret that the Board decided to propose a narrow targeted amendment to IAS 32 instead of addressing the complete issue of conversion or stand alone options with an exercise price denominated in a foreign currency.

We understand that, under the proposed amendment, two instruments identical in any provision should be classified differently if one is offered pro rata to all existing shareholders and the other not.

We believe that this is a rule-based exemption to the principle of IAS 32 to classify an issued instrument within equity or liabilities according to the entity’s obligations created by the instrument. We are convinced that the classification of an instrument should depend upon the characteristics of the instrument, and not to whom it is issued.

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**Praxity**  
MEMBER  
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We agree with the Board that an instrument offered pro rata to all existing shareholders should be accounted against equity as any transaction with equity holders in their capacity of equity holders. This is the case for dividends, to which BC 7 compares rights issues. But against equity does not mean within equity: an instrument with liability characteristics (whether a derivative or not) could be initially recognised by counterpart of a decrease in equity, while its subsequent remeasurements are accounted for through profit or loss. Therefore, we believe that to whom the instruments are offered should not be discriminative for classification purpose.

We have also concerns with the characteristics of rights issues as described in the *Basis for Conclusions*. We do not agree with the assumption that the exercise price is normally below the current market price of the shares. Many entities issue stand alone or embedded rights to acquire a fixed number of their own equity instruments for a fixed amount of any currency that is close to the market price of the shares at the date of issuance.

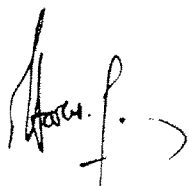
Under French Law, these instruments are issued pro rata to all existing shareholders, unless the shareholders jointly decide to abandon their rights and to reserve the instruments to any third parties. In many operations, the Management decides a fair exercise price and asks the shareholders to abandon their preference right, what they generally accept. We believe that such instruments are also rights issues that should be dealt with by the proposed amendment.

For all theses reasons, we encourage the Board to amend the provisions dealing with the classification of all rights issues denominated in a foreign currency according to the substance of these instruments, instead of adopting a narrow targeted amendment that will introduce inconsistency in the classification of similar instruments.

Our detailed answers are set out in the Appendix.

Do not hesitate to contact us should you wish to discuss our comments.

Best regards,



Michel Barbet-Massin

*Head of Financial Reporting Technical Support*

## Appendix

### Detailed answers to the specific questions raised by the ED

#### Question 1 – Specifying the characteristics of the rights issue

*The proposed amendment applies to instruments (rights) to be offered pro rata to all existing owners of the same class of equity instruments and the exercise price to be a fixed amount of cash in any currency.*

*Do you agree with the proposal to limit the amendment to instruments with these characteristics? If not, why? Are there any other instruments that should be included and why?*

#### **Mazars comments**

No, we do not agree. We strongly believe that the classification of an instrument should depend upon the characteristics of the instrument and not to whom it is offered. The identity of the beneficiaries should only be reflected in the counterpart of the initial recognition of the instrument.

We are of the opinion that all stand alone or embedded instruments that give the holder a right to acquire a fixed number of equity instruments against a fixed amount of any currency are equity instruments in substance, whoever is the holder. That is why we believe that the amendment should include all such instruments.

#### Question 2 – Specifying the currency of the exercise price

*The proposed amendment specifies that the fixed amount of cash the entity will receive can be denominated in any currency. If that currency is not the entity's functional or reporting currency, the proceeds it receives from the issue of its shares will vary depending on foreign exchange rates.*

*Do you agree with the proposal to permit an entity to classify rights with the characteristics set out above as equity instruments even when the exercise price is not fixed in its functional or reporting currency? If not, why?*

### **Mazars comments**

We do not understand why the Board deals with the reporting currency in the same way as the functional currency.

We believe that a reporting currency that is different from the functional currency should be treated as any other foreign currency. The only currency that guarantees a fixed amount of cash from the issue of the shares is the functional currency.

Nevertheless, we agree that an instrument that give its holder a right to acquire a fixed number of shares for a fixed exercise price should be classified within equity even if the exercise price is not denominated in the entity's functional currency.

### **Question 3 – Transition**

*The proposed change would be required to be applied retrospectively with early adoption permitted.*

*Is the requirement to apply the proposed change retrospectively appropriate? If not, what do you propose and why?*

### **Mazars comments**

We agree with the Board that retrospective application is appropriate. Nevertheless, we encourage the Board to adopt simplification provisions similar to IAS 32.97C for no longer outstanding rights.