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Ms Tricia O'Malley
IFRIC Co-ordinator
International Accounting Standards Board
30 Cannon Street
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14 December 2007

Dear Ms O'Malley

IFRIC tentative agenda decision: IAS 39 *Financial Instruments: Recognition and Measurement*—Scope of IAS 39 paragraph 2(g)

We are responding to your invitation to comment on the above Tentative Agenda Decision, published in the November 2007 edition of IFRIC Update, on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the agenda decision. 'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

The IFRIC was asked how widely the scope exception in paragraph 2(g) of IAS 39 should be applied. This question is relevant not only for a straightforward contract agreed between a buyer and seller but also contracts such as options or convertible debt that give the holder the ability to acquire control of the issuer at some point in the future (i.e. not presently exercisable under the definition in IAS 27.14). Any presently exercisable voting rights instruments are covered by the scope exception in paragraph 2(a) of IAS 39.

The proposed rejection of this issue states that the IFRIC does not expect significant diversity in practice in the application of paragraph 2(g). We disagree with this assumption. Our experience is that there is significant diversity in the application of this scope exception.

The diversity in views arises when the contract is anything other than a short-term forward purchase contract for a controlling interest. Those who interpret the application of paragraph 2(g) narrowly point to the apparent intention of the Board when revising IAS 39 in 2003. Those who apply a broader interpretation point to the use of the term 'contract to buy or sell' elsewhere in IAS 39 to refer to option contracts as well as forward contracts. Both interpretations are justifiable but the accounting effects of the two views differ significantly. The lack of any supporting commentary in the basis for conclusions makes it more difficult for the IFRIC to assert with authority that the scope exception can only be read in the narrower sense.

We therefore do not believe that the question should be dealt with by way of a rejection. It should be addressed either by an interpretation or an annual improvement. If you have any questions in relation to this letter please do not hesitate to contact Richard Keys, PwC Global Chief Accountant (+44 20 7802 4555), or Mary Dolson (+44 20 7804 2930).

Yours sincerely

Richard J Keys