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Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

7 September 2009

Dear Sir

IASB Exposure Draft: Proposed amendment to IAS 32 – Classification of Rights Issues

We are pleased to respond to the invitation to comment on the Exposure Draft of the Proposed amendment to IAS 32 - Classification of Rights Issues (the 'Exposure Draft') on behalf of PricewaterhouseCoopers.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of the member firms that commented on this Exposure Draft. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We support the Board in its development of high quality standards based on a framework of sound principles. We believe that this approach to setting accounting standards is most likely to result in entities preparing financial statements that reflect appropriately the financial effects of their transactions and financial position. While we do not support the widespread promulgation of exceptions to the principles, we recognize that information reported by entities that engage in rights issues denominated in a currency other than their functional currency under IAS 32 would not reflect the true equity nature of the transactions.

Rights issues are a method that entities use to raise capital from existing shareholders on a pro rata basis. It is a transaction that is intended to be with the owners in their capacity as owners. Where rights are denominated in currencies other than the entity's functional currency it is typically because the entity is listed in more than one jurisdiction and is required to do so by law or regulation. Because the substance of these transactions is to issue equity to existing shareholders, we do not believe they should be recognised in the financial statements as a derivative liability with changes in fair value included in profit and loss. We therefore support the proposed amendment to IAS 32 to require rights issues, regardless of the currency in which they are denominated, to be treated as equity transactions consistent with their substance.

Making such an amendment, however, calls into question whether denominating the exercise price of other equity-related contracts in a foreign currency should be considered in conflict with the "fixed for fixed" notion in IAS 32. Transactions, such as the embedded conversion option in a foreign currency denominated convertible debt instrument and a written call option sold to third parties with an exercise price denominated in a foreign currency, will continue to be treated as derivative liabilities despite having a similar exposure to a foreign currency. We believe the Board should also address the issue more broadly as part of this project and reassess whether the currency denomination of the exercise price is at all relevant to the determination of the classification of a financial instrument provided the amount of the currency is fixed.

Appendix A to this letter sets out specific responses to each of the additional questions in the Exposure Draft.

If you have any questions on the content of this letter, please do not hesitate to contact Richard Keys, PwC Global Chief Accountant, (+44 20 7212 4555) or John Althoff (+44 20 7213 1175).

Yours faithfully

PricewaterhouseCoopers LLP

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Appendix A: Response to detailed questions outlined in the Exposure Draft

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?

Yes, as stated in our cover letter, we support the proposed amendment due to the unique nature of rights issues as transactions to raise capital from existing shareholders on a pro rata basis.

Making such an amendment, however, calls into question whether denominating the exercise price of other equity-related contracts in a foreign currency should be considered in conflict with the "fixed for fixed" notion in IAS 32. Transactions, such as the embedded conversion option in a foreign currency denominated convertible debt instrument and a written call option sold to third parties with an exercise price denominated in a foreign currency, will continue to be treated as derivative liabilities despite having a similar exposure to a foreign currency. We believe the Board should also address the issue more broadly as part of this project by reassessing whether the currency denomination of the exercise price is at all relevant to the determination of the classification of a financial instrument provided the amount of the currency is fixed.

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?

Yes, we agree with the proposal to permit an entity to classify rights issues for which the exercise price is not fixed in the functional currency as equity. The substance of these transactions is to issue equity to existing shareholders on a pro rata basis, and accordingly, we believe they should be treated as equity transactions consistent with their substance.

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?

We agree with the proposal for retrospective application with early adoption permitted. However, we recommend limiting its application to the beginning of the earliest comparative period presented. We do not believe it is necessary to recognize a reclassification between retained earnings and paid-in capital for rights issues that only affected earlier periods.