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International Accounting Standards Board
30 Cannon Street
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7 September 2009

Dear IASB members

Invitation to comment – Exposure Draft ED/2009/9 *Classification of Rights Issues Proposed amendment to IAS 32*

The global organisation of Ernst & Young is pleased to submit its comments on the above Exposure Draft (ED).

We agree with the proposed amendment, subject to our comments included in the appendix to this letter, as it will provide relief to entities that issue rights fixed in a currency other than their functional currency from treating the rights as derivatives with fair value changes recorded in profit or loss.

Although the objectives of IAS 32 *Financial Instruments: Presentation* were principles based, it is drafted as a series of rules which capture the characteristics of equity instruments imperfectly. The proposed amendment adds an additional rule to the standard, despite the Board's current project on financial instruments with the characteristics of equity. Accordingly, we do not think that small short term fixes are the best way of addressing these issues. However, in this case we believe the amendment is appropriate given the impact of the issue.

Should you wish to discuss the contents of this letter with us, please contact Tony Clifford or James Luke at the above address or on +44 (0)20 7951 2250 or +44 (0)20 7951 4773, respectively.

Yours faithfully

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

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, we agree with the proposal to limit the proposed amendment to instruments with these characteristics, although we have some drafting suggestions noted below.

The proposed paragraph 11 states: '…rights to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments…' To clarify the Board's intention, we believe that paragraph 11(b)(ii) should be amended to specify that it applies only to rights issued for a '…fixed amount of cash, of any currency, …'

The proposed amendment describes rights within its scope broadly. We believe that additional clarification is needed to distinguish rights issues within the scope of the amendment from other transactions whose underlying substance is different, for example, rights with an unusually long exercise period.

It is commonly the case that different jurisdictions would not allow certain shareholders within a class to participate in a rights issue. In such cases, these shareholders may receive a cash alternative in respect of the dilutionary effect of the rights issue. We recommend that the Board should make it clear that in these cases, the inability to participate and the possible cash settlement with these shareholders, would not disqualify application of the proposed amendment to the rights of the remainder of the class.

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, subject to our comments to question 1, we agree with the proposal to allow rights with the characteristics set out above to be classified as equity instruments.

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 disagree with the proposed amendment's transitional provisions, which require full retrospective application. We consider these to be too extensive. In certain circumstances they may result in analysing numerous past transactions to determine the adjustments in equity. Therefore, we recommend retrospective application should only be mandatory to transactions occurring on or after the beginning of the earliest comparative period presented However, an entity should be permitted on a voluntary basis to apply the amendments to all transactions after an earlier date.