International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Grant Thornton International
Regent's Place
7th Floor
338 Euston Road
London NW1 3BG

7 September 2009

Submitted electronically through the IASB Internet site (www.iasb.org)

Exposure Draft ED/2009/9 Classification of Rights Issues - proposed amendment to IAS 32

Grant Thornton International is pleased to comment on the International Accounting Standards Board's (the Board) Exposure Draft ED/2009/9 *Classification of Rights Issues - proposed amendment to IAS 32*. We have considered the ED, as well as the accompanying draft Basis for Conclusions.

Overall, we are in support of the Board's proposal to amend IAS 32 to clarify that a rights issue offered pro rata to all of an entity's existing shareholders at a fixed price is classified as equity regardless of the currency in which the fixed amount of cash to be received is denominated.

The current classification outcome under which a rights issue with an exercise price denominated in a foreign currency is accounted for as a derivative liability at fair value through profit or loss is counter-intuitive. The fact that rights with these characteristics are being issued by a significant number of entities in the current economic environment justifies an urgent amendment of the Standard.

The proposed amendment can however be criticised for adding another rule to IAS 32 and we would ideally liked to have seen the Board propose a broader amendment addressing all instruments denominated in a foreign currency, along the lines of that proposed by IFRIC in 2005.

We recognise however that the Board's ongoing *Financial Instruments with Characteristics of Equity* project is more suited to a more thorough review of this area. We therefore support the proposal as a short term solution to an urgent problem.

We elaborate on this and make certain other observations in our responses to the questions in the ED's Invitation to Comment below.

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?

We agree with the proposal to limit the amendment to instruments with these characteristics. Rights with the characteristics discussed are being issued by many entities around the world in the current economic environment and the proposed amendment is needed urgently to address an accounting anomaly under which an entity's profit or loss is affected by changes in the value of its own share price.

We do however have some concern over the wording used in BC 11 of the ED's Basis for Conclusions. This states: "The fact that the rights are distributed pro rata to existing shareholders is critical to the Board's conclusion that this is a transaction with owners in their capacity as owners". This implies that a transaction with a shareholder that does not involve all shareholders on a pro rata basis is not a transaction with owners in their capacity as owners. Applying the argument in BC11 more widely could be problematic and result in unintended consequences.

For example, an entity may receive a loan from a parent or other controlling shareholder at a preferential rate of interest with no participation by the non-controlling shareholders. IAS 39 requires the loan to be recorded on initial recognition at its fair value, but IFRS does not address how to account for the difference between the loan proceeds and the fair value. We believe however that this difference is commonly treated as an equity contribution by the controlling shareholder even though the other shareholders do not participate. The argument in BC11 might be taken to prohibit this treatment, which is a matter of concern in view of the limited scope of the proposal.

We would prefer then that the Basis for Conclusions makes it clear that (i) the treatment of foreign currency rights issues is an isolated exception to the 'fixed for fixed' rule, and (ii) a pro rata involvement of all existing shareholders is an indicator but not an essential or sufficient feature for a transaction to be treated as being in an 'owner capacity'.

We are not aware of other instruments that need to be addressed in such an urgent manner, and therefore believe the amendment should be limited to rights issues. A more thorough review addressing all instruments denominated in a foreign currency should instead be undertaken as part of the Board's ongoing *Financial Instruments with Characteristics of Equity* project.

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?

We agree with the proposal to classify rights offered to an entity's existing shareholders at a fixed price as equity regardless of the currency in which the fixed amount of cash is to be denominated. To classify such instruments as derivative liabilities at fair value through profit or loss would not reflect the substance of the transaction.

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 believe that it is appropriate to apply the proposed change retrospectively.

****

If you have any questions on our response, or wish us to amplify our comments, please contact our Executive Director of International Financial Reporting, Andrew Watchman (andrew.watchman@gtuk.com or telephone + 44 207 391 9510).

Yours sincerely,

Kenneth C. Sharp

Kenneth C Sharp
Global Leader - Assurance Services
Grant Thornton International