



30 June 2006

To: **Members of the Hong Kong Institute of CPAs**  
**All other interested parties**

**INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB) EXPOSURE DRAFT OF PROPOSED AMENDMENTS TO IAS 32 *FINANCIAL INSTRUMENTS: PRESENTATION* AND IAS 1 *PRESENTATION OF FINANCIAL STATEMENTS—FINANCIAL INSTRUMENTS PUTTABLE AT FAIR VALUE AND OBLIGATIONS ARISING ON LIQUIDATION***

The International Accounting Standards Board (IASB) has issued an exposure draft (ED) of Proposed Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements—Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation* for consultation.

The IASB's Exposure Draft and the related press release have been posted on the website of the Hong Kong Institute of CPAs (Institute) at [www.hkicpa.org.hk/professionaltechnical/accounting/exposedraft/content.php](http://www.hkicpa.org.hk/professionaltechnical/accounting/exposedraft/content.php) which can also be found on-line at: [www.iasb.org](http://www.iasb.org).

IAS 32 requires an instrument to be classified as a liability if the holder of that instrument can require the issuer to redeem it for cash. That straightforward principle works well in most situations. However, many instruments that would usually be considered equity, including some ordinary shares and partnership interests, include provisions that allow the holder to 'put' the instrument (to require the issuer to redeem it) for cash. The instruments are therefore considered liabilities, rather than equity, under the existing provisions of IAS 32.

Under the proposed amendments, the following types of financial instruments would be classified as equity, provided that specified criteria are met:

- ordinary shares that are puttable to (i.e. redeemable from) the issuer at fair value;
- ordinary shares of limited life entities; and
- partners' interests in a partnership that must liquidate upon exit of a partner (e.g. on retirement or death).

The Institute's Financial Reporting Standards Committee (FRSC) invites comments on the IASB Exposure Draft from any interested party and would like to hear from both those who do agree and those who do not agree with the proposals contained in it. Comments should be supported by specific reasoning and should preferably be submitted in written form.

To allow your comments on the IASB Exposure Draft to be considered and included in the Institute's responses to the IASB, comments are invited by **6 October 2006**.



Hong Kong Institute of  
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Comments will be acknowledged and may be made available for public review unless otherwise requested by the contributor.