THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN
COMMENTS ON EXPOSURE DRAFT OF PROPOSED IMPROVEMENTS TO INTERNATIONAL ACCOUNTING STANDARDS 32 and 39

CL 26

Invitation to comment (IAS 32)

Question 1.

Probabilities of different manners of settlement (paragraphs 19, 22, and 22A)

Do you agree that the classification of a financial instrument as a liability or as equity in accordance with the substance of the contractual arrangements should be made without regard to probabilities of different manners of settlement? The proposed amendments eliminate the notion in paragraph 22 that an instrument that the issuer is economically compelled to redeem because of a contractually accelerating dividend should be classified as a financial liability. In addition, the proposed amendments require a financial instrument that the issuer could be required to settle by delivering cash or other financial assets, depending on the occurrence or non- occurrence of uncertain future events or on the outcome of uncertain circumstances that are beyond the control of both the issuer and the holder of the instrument, to be classified as a financial liability, irrespective of the probability of those events or circumstances occurring (paragraph 22A).

ICAP Comments:

We agree though it appears to be somewhat at variance with paragraph 35 of the Framework.

Question 2 .

Separation of liability and equity elements (paragraphs 28 and 29)

Do you agree that the options in IAS 32 for an issuer to measure the liability element of a compound financial instrument initially either as a residual amount after separating the equity element or based on a relative- fair- value method should be eliminated and, instead, any asset and liability elements should be separated and measured first and then the residual assigned to the equity element?

ICAP Comments:

No comments offered.

Question 3.

Classification of derivatives that relate to an entity's own shares (paragraphs 29C --- 29G) Do you agree with the guidance proposed about the classification of derivatives that relate to an entity's own shares?

ICAP Comments

Yes.

Question 4.

Consolidation of the text in IAS 32 and IAS 39 into one comprehensive Standard

Do you believe it would be useful to integrate the text in IAS32and IAS39 into one comprehensive Standard on the accounting for financial instruments? (Although the Board is not proposing such a change in this Exposure Draft, it may consider this possibility in finalizing the revised Standards.)

ICAP Comments

We are not in favour of consolidation IAS 32 and IAS 39. It is too early to consolidate them.

Invitation to Comment (IAS 39)

Question 1.

Scope: loan commitments (paragraph 1(i))

Do you agree that a loan commitment that cannot be settled net and the entity does not designate as held for trading should be excluded from the scope of IAS 39?

ICAP Comments

No comments offered.

Question 2.

Derecognition: continuing involvement approach (paragraphs 35- 57)

Do you agree that the proposed continuing involvement approach should be established as the principle for derecognition of financial assets under IAS 39? If not, what approach would you propose?

ICAP Comments

No comments offered.

Question 3.

Derecognition: pass- through arrangements (paragraph 41)

Do you agree that assets transferred under pass- through arrangements where the cash flows are passed through from one entity to another (such as from a special purpose entity to an investor) should qualify for derecognition based on the conditions set out in paragraph 41 of the Exposure Draft?

ICAP Comments

No comments offered.

Question 4.

Measurement: fair value designation (paragraph 10)

Do you agree that an entity should be permitted to designate any financial instrument irrevocably at initial recognition as an instrument that is measured at fair value with changes in fair value recognised in profit or loss?

ICAP Comments

If the proposed amendment were adopted then there would be no need to have the four classifications of financial assets as proposed in paragraph 68 of IAS 39.

Question 5.

Fair value measurement considerations (paragraphs 95- 100D)

Do you agree with the requirements about how to determine fair values that have been included in paragraphs 95-- -100D of the Exposure Draft? Additional guidance is included in paragraphs A32-- -A42 of Appendix A. Do you have any suggestions for additional requirements or guidance?

ICAP Comments

No comments offered.

Question 6.

Collective evaluation of impairment (paragraphs 112 and 113A-- -113D)

Do you agree that a loan asset or other financial asset measured at amortised cost that has been individually assessed for impairment and found not to be individually impaired should be included in a group of assets with similar credit risk characteristics that are collectively evaluated for impairment? Do you agree with the methodology for measuring such impairment in paragraphs 113A- 113D?

ICAP Comments

No comments offered.

Question 7.

Impairment of investments in available- for- sale financial assets (paragraphs 117--- 119)

Do you agree that impairment losses for investments in debt and equity instruments that are classified as available for sale should not be reversed?

ICAP Comments

In our opinion this existing provisions are appropriate and should be retained.

Question 8.

Hedges of firm commitments (paragraphs 137 and 140)

Do you agree that a hedge of an unrecognised firm commitment (a fair value exposure) should be accounted for as a fair value hedge instead of a cash flow hedge as it is at present?

ICAP Comments

No comments offered.

Question 9.

'Basis adjustments' (paragraph 160)

Do you agree that when a hedged forecast transaction results in an asset or liability, the cumulative gain or loss that had previously been recognized directly in equity should remain in equity and be released from equity consistently with the reporting of gains or losses on the hedged asset or liability?

ICAP Comments

No comments offered.

Question 10

Prior derecognition transactions (paragraph 171B)

Do you agree that a financial asset that was derecognised under the previous derecognition requirements in IAS 39 should be recognised as a financial asset on transition to the revised Standard if the asset would not have been derecognised under the revised derecognition requirements (i.e. that prior derecognition transactions should not be grand fathered)? Alternatively, should prior derecognition transactions be grand fathered and disclosure be required of the balances that would have been recognised had the new requirements been applied?

ICAP Comments

No comments offered.