

# Rådet för finansiell rapportering

The Swedish Financial Reporting Board

RFR-rs 2008:8

International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Sirs

## Re: Discussion Paper – Financial Instruments with characteristics of Equity

The Swedish Financial Reporting Board (Board) is responding to your invitation to comment on the above Discussion Paper (DP).

### General Comments

The alleged purpose of the DP as described by the questions is to improve and simplify IAS 32. By taking its starting-point in the recently published FASB Preliminary Views document the DP fails its purpose. Within the frame of a short term convergence project we do not see it meaningful or a particular need to propose changes to such a fundamental standard as IAS 32 with regard to the present Framework conception of recognising equity as a residual from the difference between Assets and Liabilities.

Our conclusion is based on the following observations.

- 1) The objective of the FASB paper is to replace some 60 pieces of literature within U.S GAAP with one approach for the Liability/Equity issues, according to FASB. This is something very different than a project to improve and simplify IAS 32.

In our view a project with the aim to improve IAS 32 should have a totally different way to approach the subject, than the DP and the FASB Paper. A project to improve IAS 32 should thoroughly analyse and define the IAS 32 shortcomings and based on this explore ways to remediate shortcomings and ways to improve and further develop the present standard.

IAS 32 is a too fundamental Standard for making any big changes starting out from a FASB Paper with a totally other aim than improving IAS 32.

- 2) An unprejudiced project with the aim of improving the IFRS approach to the Liability/ Equity issues would have to go deep into the conceptual issues to develop a robust view on what the notions of liabilities and equity should portrait, how these two concepts should be understood. It has to be established



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what rationale is to be used and what problems are to be solved.

In our view the FASB paper contains grave omissions, taking as its starting point three approaches without presenting any qualifications for its choices and dismissing three other approaches on less than two pages. The European PAAinE paper is commendable, taking its start in the conceptual considerations of what drives the presentation of financial statements.

- 3) The three approaches of the FASB paper, with explicit definitions of equity, are all radically different from the conceptual starting point of IAS/IFRS, where equity is derived as a residual of assets and liabilities. We see this as a fundamental shift that could not be dealt with within the limited scope presented by the DP. We also note that the approach advocated by PAAinE, the loss absorption approach, is mentioned but not discussed by FASB.
- 4) Our view is that the basic model (equity as a residual) of IAS 32 should be maintained. Compound financial instruments should be decomposed according to their character, providing relevant entries for liabilities and equity. This is also to say that we strongly advocate for a “going concern” view as the guiding principle in contrast to the FASB approaches based on an artificial liquidation situation. We acknowledge that there are shortcomings such as they are put forward in the DP. However, we do not exclude that they could be dealt with within the present frame of IAS 32.
- 5) We react to what we see as a deliberate shift from an analysis of the substance to an analysis of contractual terms in classifying financial instruments. We see no basis for such a shift and find no discussion related to it in the DP.

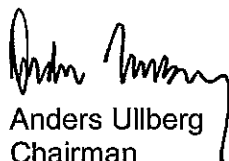
As a consequence of our observations above we refrain from further comment to the questions addressed in the DP.

If you have any questions concerning our comments please address our Executive member Carl-Eric Bohlin by e-mail to: [carl-eric.bohlin@radetforfinansiellrapportering.se](mailto:carl-eric.bohlin@radetforfinansiellrapportering.se)

Stockholm, September 5, 2008

Yours sincerely

THE SWEDISH FINANCIAL REPORTING BOARD

  
Anders Ullberg  
Chairman