

To	David Sidwell, Chairman—Due Process Oversight Committee
From	Alan Teixeira, Senior Director – Technical Activities ateixeira@ifrs.org
Subject	Draft IFRIC Interpretation <i>Put Options Written on Non-controlling Interests</i>
Date	30 May 2012

The IASB is planning to publish on 31 May 2012 a draft IFRIC Interpretation *Put Options Written on Non-controlling Interests*.

In this memorandum I wish to:

- (a) explain to the Due Process Oversight Committee (the DPOC) the steps in the due process that we have taken before the publication of the draft Interpretation (see Appendix A) and to confirm that we have complied with the due process requirements;
- (b) give the DPOC a brief summary of the draft Interpretation;
- (c) confirm to the DPOC that the IFRS Interpretations Committee (the Committee) assessed the issue against the criteria in the IFRS Interpretations Committee Due Process Handbook (updated in December 2010) for adding an issue to its agenda; and
- (d) alert the DPOC of the planned 120-day exposure period, notwithstanding the provisions in the Committee's Due Process Handbook, which permit a 60-day comment period for draft Interpretations.

The document about to be published is an exposure draft. Accordingly, this memo is primarily for information purposes. The comment period is twice the normal comment period for an interpretation. The matter is likely to be controversial. Our initial outreach, and the debates that have taken place in the IASB and Interpretations Committee meetings, highlight that there are strongly held, and opposing, views on this matter.

Due process steps

In Appendix A we have summarised the due process steps that we have taken in developing the draft Interpretation *Put Options Written on Non-controlling Interests*.

For summarising these steps and thereby demonstrating that we have met all the due process requirements, we used the reporting template ‘Development and publication of a draft Interpretation’ in ‘Appendix 4—Due Process Protocol’ of the draft of the revised Due Process Handbook.

The draft Interpretation

The Interpretations Committee received a request to clarify the accounting for the subsequent measurement of the financial liability that is recognised when a parent writes a put option on the shares of its subsidiary held by a non-controlling interest shareholder that obliges the parent to purchase those shares for cash or another financial asset (‘NCI put’). In the consolidated financial statements, the NCI put is a contract to purchase the group’s own equity instruments and thus gives rise to a financial liability for the present value of the option exercise price.

Constituents expressed concerns to the Committee about the diversity in accounting for the subsequent measurement of that financial liability. The issue arises because of a potential inconsistency between:

- (a) the requirements in IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments* for subsequently measuring financial liabilities; and
- (b) the requirements in IAS 27 *Consolidated and Separate Financial Statements* and IFRS 10 *Consolidated Financial Statements* for accounting for transactions with owners in their capacity as owners.

Specifically, some constituents believe that changes in the measurement of the financial liability that is recognised for an NCI put should be recognised in profit or loss in accordance with IAS 39 and IFRS 9 while other constituents believe that those changes should be recognised directly in equity because of the guidance in IAS 27 and IFRS 10.

The Committee decided to publish a draft Interpretation in response to that diversity in practice. The Committee noted that the remeasurement of the financial liability that is recognised for the NCI put does not change the respective ownership interests of the parent or the non-controlling interest shareholder. Consequently the Committee decided that IAS 27 and IFRS 10 are not relevant to this issue. The Committee decided that the financial liability that is recognised for an NCI put should be accounted for consistently with all other financial liabilities that are within the scope of IAS 39 and IFRS 9 and thus changes in the measurement of that financial liability must be recognised in profit or loss.

The Committee discussed this issue in May, July, September and November 2010; January, March, and November 2011; and January and May 2012. Additionally, the

IASB discussed this issue on September and November 2010; September and November 2011; and February 2012.

Adding an issue to the Committee's agenda

The Committee's Due Process Handbook sets out the criteria for assessing proposed agenda items:

- 24 The Interpretation Committees decides after debate in a public meeting whether to add an issue to its agenda.
- 25 The Committee assesses proposed agenda items against the following criteria. An item does not have to satisfy all the criteria to qualify for the agenda.
 - (a) The issue is widespread and has practical relevance.
 - (b) The issue indicates that there are significantly divergent interpretations (either emerging or already existing in practice). The Interpretations Committee will not add an item to its agenda if IFRSs are clear, with the result that divergent interpretations are not expected in practice.
 - (c) Financial reporting would be improved through elimination of the diverse reporting methods.
 - (d) The issue can be resolved efficiently within the confines of existing IFRSs and the Framework, and the demands of the interpretation process.
 - (e) It is probable that the Interpretations Committee will be able to reach a consensus on the issue on a timely basis.
 - (f) If the issue relates to a current or planned IASB project, there is a pressing need to provide guidance sooner than would be expected from the IASB's activities. The Interpretations Committee will not add an item to its agenda if an IASB project is expected to resolve the issue in a shorter period than the Interpretations Committee requires to complete its due process.

At its public meetings in May and November 2010 the Committee assessed the issue against the criteria and concluded that the criteria were met.

Comment period

The Committee's Due Process Handbook states that a draft Interpretation must be made available for not less than 60 days.

Notwithstanding the ability to use a shorter comment period, the Committee decided to use a 120-day comment period for this draft Interpretation. The Committee noted that the proposals are likely to be contentious and wanted to allow sufficient time for respondents to comment. During the deliberations, the Board and the Committee received several unsolicited comment letters voicing opposition to the proposals. These unsolicited comment letters were provided to Board members and Committee members and made available on the IASB public website.

Appendix A

Confirmation of Due Process Steps followed in the development of the draft Interpretation *Put Options Written on Non-controlling Interests*.

The following table sets out the due process steps followed by the Committee in the development of the draft Interpretation:

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Protocol for and evidence provided to DPOC</i>	<i>Actions</i>
Interpretations Committee meetings held in public, with papers available for observers. All decisions are made in public session.	Required	Meetings held to discuss topic. Project website contains a full description with up-to-date information on the project. Meeting papers posted in a timely fashion.	DPOC reviews comments from interested parties on Interpretations Committee due process as appropriate	The issue was discussed by the Committee on the basis of agenda papers at its meetings in May, July, September and November 2010; January, March, and November 2011; and January and May 2012. The Committee also consulted the Board about this issue to seek its advice. The Board discussed this issue on the basis of agenda papers in September and November 2010, September and November 2011 and March 2012 The staff updated the webpage after each meeting.
Drafting quality assurance steps are adequate.	Required	Translations team included in review process.	DPOC receives summary report on due process steps followed before a draft interpretation is issued.	Translations team have been provided with the ballot draft.
Drafting quality assurance steps are adequate.	Required	XBRL team included in review process.	DPOC receives summary report on due process steps followed before a draft Interpretation is issued.	XBRL team have been provided with the ballot draft, although we note that no additional disclosure requirements are proposed by the draft Interpretation.
Drafting quality assurance steps are adequate.	Optional	External reviewers used to review drafts and comments collected and considered by the Interpretations Committee.	DPOC receives summary report on due process steps followed before a draft Interpretation is issued, including the extent to which external reviewers have been used in the drafting process.	N/A
Drafting quality assurance steps are adequate.	Optional	Review draft made available to members of IFASS and comments collected and considered by the Interpretations Committee.	DPOC receives summary report on due process steps followed before a draft Interpretation is issued.	N/A
Drafting quality assurance steps are adequate.	Optional	Review draft posted on project website.	DPOC receives summary report on due process steps followed before a draft Interpretation is issued.	The pre-ballot draft was included in the observer notes for the May 2012 Committee meeting.

Step	Required/ Optional	Metrics or evidence	Protocol for and evidence provided to DPOC	Actions
Draft Interpretation has appropriate comment period.	Required	Interpretations Committee sets comment period for response. Any period outside the normal comment period requires an explanation from the Interpretations Committee to DPOC, and subsequent approval.	DPOC receives notice of any change in comment period length and approval if required	The Committee set a 120-day comment period; please refer to the main body of this memorandum.
IASB members polled to identify any objections to releasing the draft Interpretation.	Required	Poll undertaken.	If sufficient IASB members object the matter is discussed by the IASB and the outcome is communicated to the DPOC.	The ballot draft has been distributed to the IASB.
Due process steps reviewed by Interpretations Committee.	Required	Summary of all due process steps discussed by the Interpretations committee before a draft Interpretation is issued.	DPOC receives summary report on due process steps followed before a draft Interpretation is issued.	Review not performed by Committee as not yet part of current Due Process, however, this report confirms that all Due Process steps have been complied with.
Press release to announce publication of draft Interpretation	Optional	Press release published. Media coverage.	DPOC informed of the release of the draft Interpretation.	Press release will be prepared and published with the draft Interpretation.
Draft Interpretation published.	Required	Draft Interpretation posted on Interpretations Committee website.	DPOC informed of the release of the draft Interpretation.	Draft Interpretation will be made available on publication date.