IFRS

STAFF PAPER

May 2012

IFRS Interpretations Committee Meeting

Project	**Put options written on non-controlling interests**
Paper topic	Draft Interpretation
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in IFRIC *Update*. The approval of a final Interpretation by the Board is reported in IASB *Update*.

The issue

1. Over the course of several meetings, the IFRS Interpretations Committee (the Committee) has discussed the accounting for put options written on shares held by non-controlling interest shareholders in the consolidated financial statements of the controlling shareholder (NCI puts).[1]

2. If the controlling shareholder has a contractual obligation to purchase the shares for cash or another financial asset, paragraph 23 in IAS 32 requires the controlling shareholder to recognize a liability for the present value of the redemption amount (ie the option exercise price) in the parent's consolidated financial statements.[2] Some constituents have expressed concerns to the Committee about the diversity in accounting for the subsequent measurement of that 'grossed up' financial liability.

3. The issue arises because of a potential inconsistency between the requirements for subsequently measuring financial liabilities (IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments*) and the requirements for accounting for transactions with owners in their capacity as

[1] The Committee has discussed this issue at eight meetings—May, July, September and November 2010; January, March and November 2011; and January 2012. If Committee members would like copies of previous agenda papers or other background information, please let us know.

[2] The amount is reclassified (debited) from equity.

owners (IAS 27 *Consolidated and Separate Financial Statements* and IFRS 10 *Consolidated Financial Statements*). Specifically:

(a) Some constituents think that subsequent changes in the liability that is recognized for the NCI put should be recognized in **profit or loss** (P&L) pursuant to the guidance in IAS 39 and IFRS 9.

(b) Other constituents think that subsequent changes in that liability should be recognized directly in **equity** pursuant to the guidance in IAS 27 and IFRS 10.

The Interpretations Committee's discussion in January 2012

4. At the Board's request, in January 2012 the Committee discussed how to address the diversity in accounting. The IFRIC Update for that meeting states (in part):

> …Acknowledging that the Board had decided not to pursue the Committee's preferred solution to exclude NCI puts from the scope of IAS 32, the Committee recommended that the Board should address the diversity in accounting by proposing to amend IAS 27 *Consolidated and Separate Financial Statements* and IFRS 10 *Consolidated Financial Statements* to clarify that all changes in the measurement of the NCI put must be recognised in P&L.
>
> The Committee noted that paragraph 30 in IAS 27 and paragraph 23 in IFRS 10 give guidance on the accounting in circumstances when the respective ownership interests of the controlling shareholder and non-controlling interest shareholder change. The Committee also noted that the NCI put is a financial liability and its remeasurement does not change the respective ownership interests of the controlling shareholder or the non-controlling interest shareholder. Consequently, the Committee thinks that these two paragraphs are not relevant to the issues being considered. The Committee further noted that the

clarification is consistent with the requirements for other derivatives written on an entity's own equity instruments.

However, the Committee asked the staff to consider whether its recommendation has any unintended consequences on related aspects of the accounting for NCI puts, including initial recognition of the NCI put or general consolidation mechanics.

The staff will present the analysis of the two issues, along with the Committee's comments and recommendation, to the Board at a future meeting and will ask the Board how it would like to proceed.

The IASB's discussion on 1 March 2012

5. On 1 March 2012 the Board discussed the Committee's recommendation. The agenda paper for that Board meeting is attached to this paper as Appendix B. (Prior to that board meeting, the Board received two letters that provided comments on the issue of NCI puts. Those letters were distributed to Board members in advance of the board meeting on 1 March. For the Committee's information, we have attached those letters as Appendices C and D.)

6. While the Board agreed that IAS 32, IAS 39 and IFRS 9 provide the relevant accounting requirements for the issues being considered and thus changes in the measurement of the NCI put must be recognized in P&L, the Board decided not to amend IFRS 10.[3] The Board was concerned about the timing of that proposed amendment because IFRS 10 will be effective for annual periods beginning on or after 1 January 2013. Board members also questioned whether an amendment to IFRSs, rather than an Interpretation, was the best mechanism to address the diversity in practice. The Board also acknowledged that the issue is not specific to IFRS 10 but is also relevant to IAS 27 (ie because the relevant requirements had been carried forward unchanged from IAS 27).

[3] The staff's rationale for recommending that the Board amend only IFRS 10 (and not IAS 27) is set out in agenda paper 10 for the 1 March 2012 Board meeting, which is attached to this paper as Appendix B.

7. As a result, the Board voted to ask the Committee to address the diversity by publishing a draft Interpretation to clarify that all changes in the measurement of the financial liability that is recognized for a NCI put must be recognized in P&L, consistent with the Committee's conclusions at its January 2012 meeting. The Board believes that an Interpretation is the most appropriate way to address the concerns that have been raised by constituents.

Purpose of this paper

8. Consistent with the Board's request, we have prepared a draft Interpretation for the Committee's consideration. It is included as Appendix A.

9. We are not asking the Committee to further analyze the alternative views on this issue because the Committee has spent a significant amount of time discussing those views at previous meetings. Rather this paper asks the Committee if it wants to publish a draft Interpretation that is consistent with its previous conclusions.

Other logistics

10. If the Committee decides to proceed with a draft Interpretation, the two items in this section are relevant.

Transition

11. Consistent with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, we recommend retrospective application. We think that entities will have all of the necessary information—ie the draft Interpretation will change where in the financial statements particular amounts are recognized but will not change the computation of those amounts.

12. However, as noted in previous agenda papers, this issue focuses on the accounting for NCI puts that were issued after the application of IFRS 3 *Business Combinations* (2008). In other words, the draft Interpretation would not apply to

NCI puts that had been accounted for as contingent consideration in accordance with IFRS 3 (2004).

13. We think that it is unnecessary to propose any consequential amendments to IFRS 1 *First-Time Adoption of International Financial Reporting Standards* because, as noted in paragraph 11, the effect of this draft Interpretation will be to clarify where in the financial statements particular amounts are recognized.

Comment period

14. We recommend that the draft Interpretation is made available for public comment for 120 days. We are aware that this issue is contentious and want to allow sufficient time for respondents to comment on the proposals.

Question 1: publishing a draft Interpretation
Do Committee members want to publish a draft Interpretation that clarifies that all changes in the measurement of the financial liability that is recognized for a NCI put must be recognized in P&L, consistent with the conclusions at its January 2012 meeting? If so, does the Committee have any comments on the draft Interpretation that is set out in Appendix A? If not, what would the Committee like to do instead and why?

Question 2: transition requirements
If the Committee wants to publish the draft Interpretation described in Question 1, does it agree that the clarification should be applied retrospectively? Does the Committee agree that it is unnecessary to propose any consequential amendments to IFRS 1? If not, what does the Committee want to do instead and why?

Question 3: comment period

If the Committee wants to publish the draft Interpretation described in Question 1, does it agree that the comment period should be 120 days?

If not, what the Committee want to do instead and why?

Appendix A—[Draft] Interpretation X *Put Options Written on Non-controlling Interests*

References

- IAS 27 *Consolidated and Separate Financial Statements*
- IAS 32 *Financial Instruments: Presentation*
- IAS 39 *Financial Instruments: Recognition and Measurement*
- IFRS 3 *Business Combinations*
- IFRS 9 *Financial Instruments*
- IFRS 10 *Consolidated Financial Statements*

Background

1. A parent may write 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. That put option may be written as part of, or separately from, a business combination in which the parent obtains control of the subsidiary.
2. In the consolidated financial statements, that put option 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 in accordance with paragraph 23 in IAS 32. When the financial liability is recognised initially, that amount is reclassified from equity (ie equity is debited). IAS 32 requires that the financial liability is subsequently measured in accordance with IAS 39 or IFRS 9.
3. IAS 39 and IFRS 9 require that all changes in the measurement of such financial liabilities are recognised in profit or loss. However IAS 27 and IFRS 10 require that changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (ie transactions with owners in their capacity as owners).

Scope

4 The [draft] Interpretation applies in the parent's consolidated financial statements to put options that oblige the parent to purchase shares of its subsidiary that are held by a non-controlling interest shareholder for cash or another financial asset (NCI puts).

5 However, the [draft] Interpretation does not apply to NCI puts that were accounted for as contingent consideration in accordance with IFRS 3 *Business Combinations* (2004). IFRS 3 (2008) provides the relevant measurement requirements for those contracts.

Issues

6 This [draft] Interpretation addresses how to account for changes in the measurement of the financial liability that is recognised for a NCI put.

Consensus

7. In accordance with paragraph 23 in IAS 32, a NCI put gives rise to a financial liability that is initially measured at fair value (the present value of the redemption amount) in the parent's consolidated financial statements. Subsequently, the financial liability is measured in accordance with IAS 39 or IFRS 9. Paragraphs 55 and 56 in IAS 39 and paragraphs 5.7.1 and 5.7.2 in IFRS 9 require that changes in the measurement of that financial liability are recognised in profit or loss.

8. The changes in the measurement of that financial liability do not change the parent's or the non-controlling interest shareholder's relative interest in the subsidiary and therefore are not equity transactions (ie they are not transactions with owners in their capacity as owners) as described in paragraph 30 in IAS 27 or paragraph 23 in IFRS 10.

Appendix A

Effective date and transition

This appendix is an integral part of the [draft] Interpretation and has the same authority as the other parts of the [draft] Interpretation.

A1 An entity shall apply this [draft] Interpretation for annual periods beginning on or after [date]. Earlier application is permitted. If an entity applies this [draft] Interpretation for an earlier period, it shall disclose that fact.

A2 This [draft] Interpretation shall be applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Basis for Conclusions on [draft] IFRIC Interpretation X *Put Options Written on Non-controlling Interests*

This Basis for Conclusions accompanies, but is not part of, IFRIC X

Introduction

BC1 This Basis for Conclusions summarises the IFRS Interpretations Committee's considerations in reaching its [draft] consensus. Individual Committee members gave greater weight to some factors than to others.

Background

BC2 The IFRS Interpretations Committee received a request to clarify the accounting for put options written on shares in a subsidiary held by the non-controlling interest shareholders in the consolidated financial statements of the controlling shareholder.

BC3 In accordance with paragraph 23 in IAS 32 *Financial Instruments: Presentation,* if the parent is obliged to purchase the shares for cash or another financial asset, the put option gives rise to a financial liability in the parent's consolidated financial statements for the present value of the redemption amount (the option exercise price). That is because the put option is a contract to purchase the group's own equity instruments in exchange for cash or another financial asset. When the financial liability is recognised initially, the amount is reclassified from equity (ie equity is debited).

BC4 Constituents expressed concerns to the Committee about the diversity in accounting for the subsequent measurement of that financial liability. The issue arises due to a potential inconsistency between the requirements in IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments* for subsequently measuring financial liabilities and 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 subsequent changes in the measurement of the financial liability that is recognised for the put option should be recognised in profit or loss in accordance with IAS 39 and IFRS

9 but others believe that those subsequent changes should be recognised directly in equity because of the guidance in IAS 27 and IFRS 10.

BC5 The Committee decided to develop a [draft] Interpretation in response to that diversity in practice.

Scope

BC6 The [draft] Interpretation applies in the parent's consolidated financial statements to put options that oblige the parent to purchase shares of its subsidiary held by a non-controlling interest shareholder for cash or another financial asset (NCI puts).

BC7 However, the [draft] Interpretation does not apply to NCI puts that had been issued as part of a business combination that occurred before the application of IFRS 3 *Business Combinations* (2008) and were accounted for as contingent consideration in accordance with IFRS 3 (2004). The Committee noted that those put options were excluded from the scope of IAS 32 and IAS 39 because the accounting for contingent consideration was set out in IFRS 3 (2004). When the IASB revised IFRS 3 in 2008, it did not change the accounting for contingent consideration that arose from a business combination that occurred before the application of IFRS 3 (2008). Therefore the Committee decided that this [draft] Interpretation should not change the accounting for those contracts.

Consensus

Subsequent measurement of the liability that is recognised for a NCI put

BC8 The Committee noted that paragraph 30 in IAS 27 and paragraph 23 in IFRS 10 give guidance on the accounting in circumstances when the respective ownership interests of the parent and non-controlling interest shareholder change. The Committee also noted that the NCI put gives rise to a financial liability, which reflects the parent's obligation to pay the option's excise price, and the remeasurement of that financial liability does not change the respective ownership interests of the parent or the non-controlling interest shareholder. Consequently,

the Committee decided that these two paragraphs are not relevant to the remeasurement of the financial liability that is recognised for a NCI put.

BC9 The Committee decided that the financial liability that is recognised for a NCI put should be accounted for consistently with all other such 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.

BC10 The Committee further noted that the [draft] Interpretation is consistent with the accounting requirements for other put options and forward contracts that oblige an entity to purchase its own equity instruments for cash or other financial assets. Paragraph 23 in IAS 32 provides guidance that is specific to these contracts and states that they are subsequently measured in accordance with IAS 39 or IFRS 9.

BC11 The Committee acknowledged that some constituents believe that the requirements in IAS 32 to measure particular derivatives written on an entity's own equity instruments at the present value of the redemption amount does not result in useful information. Those constituents believe that some or all such derivatives should be measured on a net basis at fair value, consistently with other derivatives that are in the scope of IAS 39 and IFRS 9. The Committee has sympathy for that view. However, the IASB decided not to change the measurement basis for derivatives written on an entity's own equity instruments at this time but instead asked the Committee to clarify the existing accounting requirements for the subsequent measurement of the liability that is recognised for NCI puts.

Transition

BC12 The Committee decided that entities will have all of the necessary information to apply this [draft] Interpretation retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The Committee noted that this [draft] Interpretation will change where in the financial statements particular amounts are recognised but will not change the computation of those amounts.

Other issues related to the accounting for NCI puts

BC13 The Committee is aware that there are broader questions related to the requirements in IAS 32 to measure particular derivatives written on an entity's own equity instruments at the present value of the redemption amount, including which component of equity should be debited at initial recognition. The Committee did not add those wider-reaching issues to its agenda because it did not think it could reach a consensus on a timely basis.

STAFF PAPER

27 February – 2 March 2012

REG IASB Meeting

Project	Put options written on non-controlling interests
Paper topic	Resolving the issue

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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Background

The issue

1. Over the course of several meetings, the IFRS Interpretations Committee (the Committee) has discussed the accounting for put options written on shares held by non-controlling interest shareholders in the consolidated financial statements of the controlling shareholder (NCI puts).[1]

2. Some constituents expressed concerns to the Committee about the diversity in accounting for the subsequent measurement of the financial liability that is recognized for those NCI puts. That issue arises because of a potential inconsistency between the requirements for measuring financial liabilities (IAS 32 *Financial Instruments: Presentation*; IAS 39 *Financial Instruments: Recognition and Measurement*; and IFRS 9 *Financial Instruments*) and the requirements for accounting for transactions with owners in their capacity as owners (IAS 27 *Consolidated and Separate Financial Statements* and IFRS 10 *Consolidated Financial Statements*).

[1] The Committee has discussed this issue at eight meetings—May, July, September and November 2010; January, March and November 2011; and January 2012. We have updated the Board on the Committee's discussions at four Board meeting—September and November 2010 and September and November 2011. If Board members would like copies of previous Committee or Board agenda papers or other background information, please let us know.

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3. Specifically:

   (a) Some constituents think that subsequent changes in the liability that is recognized for the NCI put should be recognized in **profit or loss** (P&L) pursuant to the guidance in IAS 32, IAS 39 and IFRS 9.

   (b) Other constituents think that subsequent changes in that liability should be recognized in **equity** pursuant to the guidance in IAS 27 and IFRS 10.

A potential short-term solution and subsequent discussions

4. At the Board's request, the Committee discussed several possible short-term solutions to this issue. In March 2011 the Committee concluded that excluding NCI puts from IAS 32 through a narrow scope amendment was a viable solution. That scope exclusion would have changed the measurement basis of NCI puts to that used for other derivative contracts (ie a net basis at fair value with all changes recognized in P&L[2]).

5. In September 2011 the Board discussed the Committee's recommendation and decided not to proceed with the proposed amendment to the scope of IAS 32. However, the Board expressed support for considering the potential inconsistency that was raised by constituents—not by changing the measurement basis of NCI puts but by clarifying the accounting for subsequent changes in their measurement.

6. At its meeting in November 2011 the Committee confirmed that it was willing to continue discussing this issue but asked that the Board provide clear instructions on what matters the Board would like the Committee to discuss.

[2] For simplicity, we have assumed that the cost exception described in paragraph 47(a) of IAS 39 for derivatives on unquoted equity instruments is not applied.

7. Later in November the Board voted to ask the Committee to analyze the following two issues:

   (a) whether changes in the measurement of the NCI put should be recognized in

      (i) P&L or

      (ii) equity

      At the time, nine Board members expressed a preliminary preference for P&L.

   (b) whether the clarification described in (a) should be applied to

      (i) only NCI puts or

      (ii) both NCI puts and NCI forwards.

      At the time, ten Board members expressed a preference for applying the clarification to both NCI puts and NCI forwards.

8. The Board discussed, but decided not to pursue, two other alternatives:

   (a) Recognizing the changes in the measurement of the NCI put in other comprehensive income (OCI)—The Board noted that using OCI is inconsistent with both the guidance for measuring financial liabilities and the guidance for accounting for transactions with owners. Moreover, it would raise difficult questions about whether those amounts should be recycled (and, if so, when). Therefore the Board decided that the Committee should not analyze this alternative any further.

   (b) Applying the clarification to all derivatives written on an entity's own equity that are currently grossed up in accordance with paragraph 23 of IAS 32—Although several Board members noted that the concerns raised to the Committee about NCI puts are applicable to all derivatives written on an entity's own equity, the Board noted that this alternative suggests a significantly wider scope than the original submission. The Board also observed that the accounting for derivatives written on own equity has been a fundamental issue in the Board's project on financial

instruments with characteristics of equity (FICE) and this alternative likely could not be addressed on a timely basis. Moreover at least one Board member noted that this alternative would raise difficult questions about the requirements for puttable shares and stated that the Board should not address the accounting for puttable shares at this time. Therefore the Board decided that the Committee should not analyze this alternative any further.

Purpose of this paper

9. In response to the Board's request, at its meeting in January 2012 the Committee discussed how to address the diversity in accounting for the subsequent measurement of NCI puts.

10. Following from that meeting, this paper sets out:

    (a) an analysis of the two issues;

    (b) a summary of the Committee's discussion and recommendation; and

    (c) our recommendation for moving forward.

11. At this meeting we will ask the Board to decide how it wishes to proceed.

Analysis of the two issues

12. Consistent with the Board's instructions in November 2011, we analyzed the two issues that are set out in paragraph 7. To ensure that it was accurate and complete, we discussed the analysis with the Committee at its meeting in January 2012.

Issue 1—recognizing changes in the measurement of NCI puts

13. This was the issue that was submitted to the Committee—ie how to recognize subsequent changes in the measurement of the liability that is recognized for NCI puts. Consistently with the diversity in practice set out in that submission, the Board requested an analysis of whether those changes should be recognized in:

    (a) P&L or

    (b) equity.

Alternative (a): P&L

14. Supporters of alternative (a) believe that changes in the measurement of the NCI put should be recognized in P&L. They generally do not think that there is a conflict in IFRSs because they believe that the guidance in paragraph 30 of IAS 27 and paragraph 23 of IFRS 10 is not relevant to the remeasurement of the NCI put. That is because the remeasurement of the put does not change the controlling shareholder's and the non-controlling interest shareholder's relative ownership interest in the subsidiary.

15. More specifically, supporters of alternative (a) put forward the following rationale:

    (a) The NCI put is a financial liability—not an equity instrument. The liability reflects the issuer's obligation to pay the exercise price. Therefore it should be accounted for consistently with all other financial liabilities within the scope of IAS 32, IAS 39 and IFRS 9—ie with changes in measurement recognized in P&L. Moreover, paragraph 23 of IAS 32 provides guidance that is specific to the grossed-up liability that is recognized for a derivative on an entity's own equity—and that paragraph is clear that the liability is subsequently measured in accordance with IAS 39 or IFRS 9.

    (b) Paragraphs 4.47 and 4.49 of the IASB's *Conceptual Framework for Financial Reporting* state that income (or expense) is recognized when a liability balance decreases (or increases).

(c) Only transactions with owners are recognized in equity—and re-measuring an NCI put is not a transaction with an owner. As noted above, paragraph 30 in IAS 27 and paragraph 23 in IFRS 10 are describing a circumstance in which the controlling shareholder's and the non-controlling interest shareholder's respective ownership interest has changed—and that is not the case when the NCI put is remeasured.

(d) The controlling shareholder and the non-controlling interest shareholder may enter into a variety of financial instrument contracts that are not transactions with an owner (in the capacity of an owner) and thus are not accounted for by adjusting equity. Just because the NCI put is measured on a gross basis does not mean that remeasuring that liability becomes a transaction with an owner (in the capacity of an owner). In other words, when the NCI put is measured on a net basis (eg because it must be net settled in cash), no one has asserted that the changes in that NCI put liability are recognized in equity—and different accounting (ie being measured on gross versus net basis) would not seem to justify a change in NCI put's nature (ie whether it is a transaction with an owner in the capacity of an owner).

(e) The accounting requirements for NCI puts should be consistent with the requirements for puttable shares (ie if the subsidiary issues puttable shares, those shares are classified as liabilities in the consolidated financial statements and re-measured with changes recognized in P&L). That consistency was the Board's objective when it required physically-settled put options to be measured on a gross basis (please see paragraph BC11 in IAS 32).

(f) Creating another exception to IAS 32 decreases comparability and increases complexity in financial reporting. There is no compelling reason to account for NCI puts differently than other derivatives written on an entity's own equity.

Specifically (and related to (e) above), if changes in the measurement of NCI puts are recognized in equity, that would create a third method for accounting for physically-settled put options written on own equity

and puttable shares (and, as we noted above, the Board's objective was to require the same accounting treatment for both types of instruments):

(i) Most puttable shares and physically-settled put options on own equity would be classified as liabilities with changes in measurement recognized in P&L.

(ii) As an exception, some puttable shares would be classified as equity and not remeasured (pursuant to the amendments to IAS 32 in February 2008).

(iii) As a second exception, NCI puts would be classified as liabilities with changes in measurement recognized in equity.

16. At the Board meeting in November 2011, one Board member noted that it would be inappropriate to recognize changes in the measurement of the NCI put in equity if those changes are caused by a factor other than the underlying equity instruments (eg if the ultimate cash pay-out is linked to something other than the fair value of the shares held by the non-controlling interest shareholder). That Board member expressed a preference for recognizing all changes in the measurement of the NCI put in P&L but felt particularly strongly about NCI puts with such formulaic cash pay-outs. We agree that making an exception for NCI puts could create structuring opportunities or have unintended consequences—and, thus, highlights the importance of Issue 2.

Alternative (b): equity

17. Supporters of alternative (b) believe that changes in the measurement of the NCI put should be recognized directly in equity. They put forward the following two primary views:

(a) Existing IFRSs are not clear. Some supporters of alternative (b) believe that there is a conflict between the requirements for measuring financial liabilities and the requirements for accounting for transactions with owners. Given that conflict, paragraph 30 in IAS 27 and paragraph 23 in IFRS 10 should 'trump' the requirements for measuring financial liabilities and changes in the measurement of the NCI put should be recognized in equity because:

(i) IAS 27 and IFRS 10 are clear that the non-controlling interest balance is a component of equity. Recognizing a grossed-up liability to reflect the put option written on those shares is an accounting construct and should not affect the Board's conclusion that non-controlling interest shareholders are owners at the consolidated level. Therefore all transactions that affect that NCI balance are transactions with owners and should not affect P&L.

(ii) For accounting purposes, the requirements in IAS 32 to gross up the NCI portrays the transaction as if the controlling shareholder has purchased shares held by the non-controlling interest shareholder—ie the controlling shareholder's and the non-controlling interest shareholder's relative ownership of the subsidiary has indeed changed. Any re-measurements are simply re-estimations of that transaction and therefore should be recognized in equity. [Some supporters of alternative (a) agree that the requirement to gross up the NCI put is akin to a transaction with an owner and note that the original entry decreases (debits) equity. However, they believe that subsequent changes in the measurement of that grossed-up liability are not further transactions with an owner and, thus, should not be recognized in equity.]

(iii) When the grossed-up liability for the NCI put is initially recognized, equity is decreased (debited). Changes in that liability should also be recognized in equity because it is inappropriate to treat the initial recognition separately from any subsequent changes. They are not two separate transactions, but just one (ie the possible future purchase of the shares held by the non-controlling interest shareholder).

(iv) The treatment described in (ii) above is analogous to the requirements in IFRIC 17 *Distributions of Non-cash Assets to Owners*, which requires that an entity adjust the carrying amount of the dividend payable and recognize any changes directly in equity as adjustments to the amount of the distribution.

(b) Existing IFRSs do not result in useful information. Some supporters of alternative (b) agree that existing IFRSs require changes in the measurement of NCI puts to be recognized in P&L but believe that it would improve financial reporting if the Board made an exception (ie amended IFRSs) to recognize such changes directly in equity.

(i) The Board has made exceptions to IFRSs in the past to improve financial reporting. Some argue that recognizing changes in the measurement of NCI puts in P&L does not result in useful information. For example, recognizing volatility in P&L related to a put that is exercisable at the fair value of the underlying shares (ie a 'fair value NCI put') is counter-intuitive and results in misleading information. That is because the fair value of that NCI put is close to zero (because if the put is exercised and the issuer is required to deliver cash, it will receive shares with an equal value in exchange). [We note that this is true only if the ultimate cash pay-out is linked solely to the fair value of the underlying shares. Please refer to the concern described in paragraph 16.]

(ii) The grossed-up liability that is recognized for the NCI put is an accounting 'abnormality'. The NCI put is a very different type of liability than a 'plain vanilla' contract to deliver cash to a third party. Therefore, the accounting requirements for NCI puts should not necessarily be driven by the general requirements for financial liabilities. Rather, the accounting should be based on the economics of the circumstances, which in this case, have the characteristics of equity (ie the shares are still outstanding and held by the non-controlling interest shareholder).

Issue 2—the scope of the clarification (ie the instruments to which the clarification should be applied)

18. The concerns raised to the Committee were related to the accounting for NCI puts. However some Board members have observed that there is no compelling reason to treat NCI puts differently than forward contracts written on shares held

by non-controlling interest shareholders in the consolidated financial statements of the group (NCI forwards).

19. Therefore, the Board requested an analysis of whether the clarification should be applied to:

    (a) NCI puts; or

    (b) NCI puts and NCI forwards

20. At least one Board member noted at the November 2011 Board meeting that if the Board decides to clarify that all changes in the measurement of the NCI put must be recognized in P&L—ie the Board decides to pursue alternative (a) in Issue 1—then there is no need to discuss Issue 2. That is because the clarification would be consistent with the existing requirements for all derivatives written on own equity. The issue of scope is relevant only if the Board decides to make an exception to existing IFRSs. We agree with that Board member and think that scope should only be discussed in the context of recognizing changes in the measurement of the NCI put directly in equity (ie alternative (b) in Issue 1).

21. The rationales for the two alternatives are set out below.

Alternative (a): only NCI puts

22. Constituents expressed concerns only about the accounting for NCI puts, not NCI forwards. The primary benefit of alternative (a) is that it would develop a narrow, short-term solution that responds to the specific concerns raised by constituents.

23. Moreover, NCI forwards are different than NCI puts because the cash outflow will definitely occur under the former whereas it will not necessarily occur under the latter. Some have questioned whether widening the scope of the clarification to include NCI forwards could have unintended consequences. Others have questioned whether NCI forwards (particularly those that are exercisable at the fair value of the underlying shares) are common in practice.

24. However, while it may be possible to address this population more quickly than alternative (b) because the clarification would affect fewer instruments and

presumably have fewer unintended consequences, it may be difficult to explain why NCI puts should be treated differently than NCI forwards. One Board member noted that he did not see why a put option that is deeply 'in the money' should be treated differently than a forward contract.

Alternative (b): both NCI puts and NCI forwards

25. Supporters of alternative (b) point out that constituents' concerns are the result of a potential conflict between the requirements for measuring financial liabilities (IAS 32, IAS 39, and IFRS 9) and the requirements for accounting for transactions with owners in their capacity as owners (IAS 27 and IFRS 10) and that potential conflict applies equally to NCI forwards. Therefore, alternative (b) addresses the potential conflict more comprehensively than alternative (a)—and does not raise questions about why the clarification is restricted to one particular group of derivatives written on NCI balances.

26. However, as noted above, forward contracts are different than option contracts and the Committee was asked to address a very specific instrument—an NCI put. Extending the scope to NCI forwards would create a larger exception and some have expressed a preference for keeping any exception as narrow as possible. They question the benefits of extending the exception to instruments beyond the population submitted to the Committee.

The Committee's discussion and recommendation

27. As requested by the Board, the Committee discussed the analysis of the two issues at its meeting in January 2012. Acknowledging that the Board had decided not to pursue the Committee's preferred solution to exclude NCI puts from the scope of IAS 32, the Committee recommended that the Board should address the diversity in accounting by proposing to amend IAS 27 and IFRS 10 to clarify that all changes in the measurement of the NCI put must be recognised in P&L.

28. As discussed above in paragraph 17(a), the most commonly cited cause for confusion about the appropriate accounting for changes in the measurement of NCI puts is paragraph 30 of IAS 27 (which is now included as paragraph 23 of

IFRS 10). The Committee noted that paragraph 30 in IAS 27 and paragraph 23 in IFRS 10 give guidance on the accounting in circumstances when the respective ownership interest of the controlling shareholder and non-controlling interest shareholder change. The Committee also noted that the NCI put is a financial liability and its remeasurement does not change the respective ownership interest of the controlling shareholder or the non-controlling interest shareholder. Consequently, those two paragraphs are not relevant to the issues being considered. The Committee further noted that the clarification is consistent with the requirements for other derivatives written on an entity's own equity instruments and, thus, did not vote on the second issue.

29. However the Committee asked the staff to consider whether its recommendation has any unintended consequences on other aspects of the accounting for NCI puts, particularly on the initial recognition of the liability (ie what component of equity is debited when the NCI put is initially grossed up) or general consolidation mechanics.

Our recommendation for moving forward

30. We agree with the Committee's recommendation. However, we think that the Board should propose an amendment only to IFRS 10. That IFRS is effective for annual periods beginning on or after 1 January 2013 and, at that time, it will supersede the guidance in IAS 27 on consolidated financial statements, including paragraph 30. Therefore we think that the period between when the amendment is finalized and IAS 27 is superseded will be short. And since paragraph 30 in IAS 27 and paragraph 23 in IFRS 10 are the same[3], we think that if the Board amends IFRS 10, constituents will apply that amendment by analogy to IAS 27. Therefore we think that there is little added benefit of amending both Standards. If the Board agrees, the rationale for amending only IFRS 10 can be included in the amendment's basis for conclusions.

[3] As noted in paragraph BC9 of IFRS 10, the Board did not reconsider that guidance when it deliberated IFRS 10.

31. If the Board decides to pursue that approach, the clarification could be achieved by proposing to add a short paragraph to the application guidance in IFRS 10. For example, the following paragraph could be added after paragraph B96:

> If a parent writes a put option on shares held by a non-controlling interest shareholder, the put option is a financial liability and therefore is recognised and measured in the parent's consolidated financial statements in accordance with IAS 32 *Financial Instruments: Presentation*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments*. Changes in the measurement of the put option do not change the parent's or the non-controlling interest shareholder's relative interest in the subsidiary and, therefore, are not equity transactions (ie they are not transactions with owners in their capacity as owners).

32. We think it is unnecessary to propose any amendments to IAS 32, IAS 39, or IFRS 9 because those Standards are clear that changes in the measurement of a financial liability are recognized in P&L.

Potential unintended consequences of that recommendation

33. As noted above, the Committee asked us to consider whether its recommendation has any unintended consequences on other aspects of the accounting for NCI puts or general consolidation mechanics.

Previous discussions

34. The proposed clarification focuses specifically on how to account for the remeasurement of an NCI put. Over the last 20 months, the Committee has discussed several other aspects of the accounting for NCI puts—including which component of equity should be debited when the grossed-up liability is initially recognized (ie whether the non-controlling interest balance should be derecognized).

35. In July and September 2010 the staff considered several alternative views and ultimately recommended that the Committee propose that the non-controlling

interest balance is debited. That recommendation was based primarily on concerns about 'double counting'—both on the balance sheet and in P&L—if the debit is recognized in another component of equity (ie controlling interest equity).[4]

36. The Committee also discussed several other related issues such as accounting for dividends paid to non-controlling interest shareholders when an NCI put has been written and accounting for the expiration or settlement of the NCI put. Views on those issues generally depended on which component of equity was debited when the NCI put was initially recognized—eg a person's opinion on whether the dividend is an expense or a distribution generally follows from her opinion on whether the non-controlling interest balance is debited (derecognized) when the NCI put is recognized.

37. However, the Committee did not reach a consensus on those other aspects of accounting for NCI puts. Shortly thereafter, at the Board's request, the Committee began discussing other potential solutions for addressing the diversity in accounting for NCI puts, such as excluding NCI puts from the scope of IAS 32 (and, thus, measuring them on a net basis).

38. Also, some of those other aspects of accounting for NCI puts were considered by the Committee (at that time called the IFRIC) in 2006 but were not added to the agenda because the Committee did not think that it could reach a consensus on a timely basis.

Two agenda decisions—one final and one tentative

39. Although the Committee did not reach a consensus on those other aspects of accounting for NCI puts, the Committee did publish

    (a) a tentative agenda decision in September 2010 and

    (b) a finalized agenda decision in November 2006

[4] Double-counting would occur in the consolidated statement of comprehensive income because P&L would be (1) affected by changes in the carrying amount of the grossed-up liability **and** (2) reduced by the portion of the subsidiary's profit that is attributable to the non-controlling interest.

that addressed the issue of how to account for changes in the measurement of NCI puts. For the Board's convenience, both of those agenda decisions are reproduced in the appendix to this paper.

40. The tentative agenda decision published in September 2010 noted that IAS 32 and IAS 39 provide the relevant guidance for measuring NCI puts. The finalized agenda decision published in November 2006 came to the same conclusion (except, at that time, IFRS 3 *Business Combinations* (2004) was applicable in some circumstances). In both cases, the Committee noted that there were other aspects related to the accounting for NCI puts, such as those described above, but did not provide guidance on those topics.

Our observations

41. The recommendation in this paper is consistent with the Committee's previous conclusions in 2006 and 2010—that is, the **scope** of the proposed clarification is narrow (ie it is limited to how to account for changes in the measurement of the NCI put) and the **consensus** is that all changes must be recognized in P&L.

42. We reviewed all of the relevant agenda papers (discussed by the Committee in 2010 and 2011) and the responses received on the Committee's September 2010 tentative agenda decision to determine whether any unintended consequences of that conclusion had been identified.

43. Almost all respondents to the tentative agenda decision agreed with the Committee's proposal not to take the issue onto its agenda. Those respondents preferred that the Board comprehensively address the topic of NCI puts in the FICE project —ie that the Board discuss the narrow issue submitted to the Committee (how to recognize changes in the measurement of the NCI put) **and** the other related aspects at the same time.

44. In addition, almost all respondents raised concerns about the wording of the Committee's tentative agenda decision. They questioned whether it was appropriate to imply that current IFRSs are clear when there is significant diversity in practice. They also expressed concern about whether appropriate due process had been followed by issuing a tentative agenda decision that could be read as an Interpretation.

45. Despite those comments, respondents did not raise any technical concerns about the Committee's conclusion (although some expressed general disagreement with it, as described in alternative (b) in Issue 1).

46. Therefore, we think that the Committee's recommendation that the Board amend IFRSs to clarify that changes in the measurement of NCI puts must be recognized in P&L:

    (a) addresses the narrow issue that was raised to the Committee;

    and

    (b) responds to constituents concerns about appropriate due process;

    but

    (c) focuses solely on the primary question of how to account for changes in the measurement of NCI puts thus avoiding any broader effect on the other aspects of the accounting for NCI puts. [We note that the Board could consider addressing those other issues as part of its FICE project (depending on if (and how) it decides to proceed with that project). In fact, many of the questions are applicable to all derivatives on own equity—not only NCI puts.]

47. If the Board agrees with the Committee's recommendation, we think it is imperative that the proposed amendment and the accompanying basis for conclusions are clear that the Board is only addressing the narrow issue of whether changes in the measurement of NCI puts are recognized in P&L or equity—and are not providing a view on the other aspects of the accounting for NCI puts.

Other logistics

48. If the Board wishes to proceed with a proposal to clarify IFRS 10, the two items in this section are relevant to that exposure draft.

Transition

49. Consistent with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, we recommend retrospective application. We think that entities will

have all of the necessary information—ie the amendment will only change where in the financial statements particular amounts are recognized (but will not change the computation of those amounts).

Comment period

50. The Due Process Handbook says that the IASB normally allows a period of 120 days for comment on an exposure draft. However, in particular circumstances, the Board may consider a shorter comment period (but not less than 30 days).

51. We recommend a comment period of 120 days. Although the proposed amendment to IFRS 10 described in this paper is short, we do not think that it meets all the criteria for a shorter comment period. For example, on the basis of the Committee's and Board's extensive discussions on this issue, we think it is unlikely that there will be broad consensus in some jurisdictions on the proposal.

Question 1: Proposed amendment to IFRS 10
Does the Board want to propose an amendment to the application guidance in IFRS 10 to clarify that changes in the measurement of NCI puts must be recognized in P&L? If not, what does the Board want to do instead and why?

Question 2: Proposed transition requirements
If the Board wants to propose the amendment described in Question 1, does it agree that the clarification should be applied retrospectively? If not, what does the Board want to do instead and why?

Question 3: Comment period
If the Board wants to propose the amendment described in Question 1, does it agree that the comment period should be 120 days? If not, what does the Board want to do instead and why?

APPENDIX

A1. Below is the Committee's tentative agenda decision that was published in September 2010:

> **IAS 32 Financial Instruments: *Presentation*—put options written over non-controlling interests**
>
> The Committee received a request for guidance on how an entity should account for changes in the carrying amount of a financial liability for a put option, written over shares held by a non-controlling interest shareholder ('NCI put'), in the consolidated financial statements of a parent entity. The request focuses on the accounting for an NCI put after the 2008 amendments were made to IFRS 3 *Business Combinations*, IAS 27 *Consolidated and Separate Financial Statements* and IAS 39 *Financial Instruments: Recognition and Measurement*.
>
> The Committee observed that paragraph 23 of IAS 32 requires the financial liability recognised for a NCI put to be subsequently measured in accordance with IAS 39. The Committee also observed that paragraphs 55 and 56 of IAS 39 require changes in the carrying amount of financial liabilities to be recognised in profit or loss. However, the Committee noted that additional accounting concerns exist relating to the accounting for NCI puts.
>
> The Committee noted that these additional accounting concerns would be best addressed as part of the Board's Financial Instruments with Characteristics of Equity (FICE) project. Consequently, the Committee [decided] not to add this issue to its agenda but to recommend that the Board should address these additional accounting concerns as part of the FICE project. The Committee also observed that it would expect entities to apply the guidance in IAS 1 *Presentation of Financial Statements* in determining whether additional information relating to the accounting for NCI puts should be disclosed in the financial statements, including a description of the accounting policy used.

A2. Below is the agenda decision that was published by the IFRIC in November 2006:

IAS 32 *Financial Instruments: Presentation* – Puts and forwards held by minority interests

The IFRIC considered a request for clarification of the accounting when a parent entity has entered into a forward to acquire the shares held by the [non-controlling] minority interest in a subsidiary or the holder of the [non-controlling] minority interest can put its shares to the parent entity.

Paragraph 23 of IAS 32 states that a parent must recognise a financial liability when it has an obligation to pay cash in the future to purchase the minority's shares, even if the payment of that cash is conditional on the option being exercised by the holder. After initial recognition any liability to which IFRS 3 is not being applied will be accounted for in accordance with IAS 39. The parent will reclassify the liability to equity if a put expires unexercised.

The IFRIC agreed that there is likely to be divergence in practice in how the related equity is classified. However, the IFRIC did not believe that it could reach a consensus on this matter on a timely basis. Accordingly, the IFRIC decided not to add this item to its agenda.

IASB
International Accounting Standards Board

IFRIC
International Financial Reporting Interpretations

30 Cannon Street
London EC4M 6XH
United Kingdom

24 February 2012

Dear Sir or Madam,

Re: Put options written on non-controlling interests

We are writing regarding the IASB agenda paper 10, "Put options written on non-controlling interests: Resolving the issue". We are concerned that the paper recommends the Board to amend IFRS 10 such that subsequent measurement of the put option liability will be recognised through profit or loss.

We believe that the arguments for this approach do not reflect the economics of the transaction, but are rather based on a very strict interpretation of existing literature, ignoring that the accounting of such transactions is an exception to the general IAS 32 requirements, and therefore we address each of these arguments used by the IFRS staff in the appendix to this letter.

In this connection, we would appreciate if the IASB could clarify what kind of work the IFRS Interpretation Committee ("Committee") has been doing and how that fits into the IFRIC due process handbook, and what type of due process should have been followed.

We remain at your disposal should you wish to discuss this further.

Yours sincerely,

Jérôme P. Chauvin
Director
Legal Affairs Department
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APPENDIX
Put options written on non-controlling interests

Recognising changes in the measurement of NCI puts through profit or loss

For the avoidance of doubt, the transaction in question is one in which an entity writes a put option over non-controlling interests and the settlement is gross in cash, i.e. illustrative example 30 in IAS 32. We note that in most cases this transaction arises because the NCI shareholder is looking to sell the remainder of his business at some point in the future and will often negotiate the terms of the written put at the same time or just after the majority shareholder has taken control of the business. Our comments below are written in the context of this type of transaction.

With the focus of our comments below clearly stated, we would like to indicate that we believe that there are related questions in connection with the treatment of such puts on NCI in the accounting for business combinations, if the target company had already such puts on its subsidiaries. We therefore believe that it would be inappropriate to make any changes to existing literature, before all aspects and consequences of such transactions have been investigated.

Paragraph 15a/b of agenda paper 10

"*The NCI put is a financial liability and according to IAS 39 subsequent changes are recognised in profit or loss*".

We agree that by strictly following current IAS 32 and IAS 39 guidance this is the outcome that would be arrived at. However, and as stated above, the guidance on written put options on NCI follows an "as if" approach, as it requires the option to be accounted for as if the future transaction had already occurred in substance creating a synthetic liability, and being inconsistent with the general accounting for derivatives.

We therefore believe that the accounting for such a "synthetic liability" should not follow necessarily the same accounting as the accounting for "normal liabilities", as the underlying economics are different. Consequently, many preparers choose to follow guidance in IAS 27 and IFRS 10 instead of IAS 32 and IAS 39 as they believe booking the changes through equity better reflects the economics of the transaction.

The point made above is further supported by the current IAS 32.23 guidance on how to treat written options on NCI which eventually are not exercised. Completely in line with the "as if" approach, the standard requires a simple reclassification from liability to equity.

We therefore believe that IFRS should be modified to better reflect the economics of the transaction rather than just considering what is currently written in IFRS.

Paragraph 15c of agenda paper 10

"*Re-measuring an NCI put is not a transaction with an owner as there is no change in ownership interest*".

This statement is misleading and counter-intuitive. The transaction with the owner occurs when the NCI option agreement is signed between both parties. At this stage there is no change in ownership interest, however, IAS 32 requires a liability to be booked at the present value of the redemption amount with the debit taken to equity, i.e. a transaction with an owner has occurred (see our comments above with respect to the "as if" approach). Consequently, it does not make sense to then take subsequent changes through profit or loss on the basis that there has not been a transaction with an owner.

Paragraph 15d of agenda paper 10

"*....when the NCI put is measured on a net basis (e.g. because it must be net settled in cash), no one has asserted that the changes in that NCI put liability are recognised in equity – and different accounting (i.e. being measured on gross versus net basis) would not seem to justify a change in NCI put's nature (i.e. whether it is a transaction with an owner in the capacity of an owner).*"

We do not understand this logic. We can only assume that the paper is referring to net cash settlement as illustrated in IE28 of IAS 32. In such a case there is no liability booked on signing the option agreement (other than the premium received) and consequently, there is no financial liability as the written put is treated as a derivative with changes to profit or loss. This is obviously due to the fact that the accounting for physically settled written put options on own equity instruments are an exception to the normal accounting for derivatives, as pointed out above. Accounting for a net cash settlement as a derivative is appropriate as there is no exchange of shares, only cash and therefore no transaction with the NCI shareholder. Hence, net cash settlement is a different transaction whereby both parties are essentially "trading" rather than selling the remaining shares in the business.

Paragraph 15f of agenda paper 10

"*Creating another exception to IAS 32 decreases comparability and increases complexity in financial reporting. There is no compelling reason to account for NCI puts differently than other derivatives written on an entity's own equity.*"

First of all, we believe that it would be only consequent to follow the creation of an exception that was included into IAS 32 also in e.g. IAS 39 and therefore believe that allowing a different accounting is not an exception, but rather a logical consequence.

With regard to the "Complexity" - we do not want to increase complexity in financial reporting; quite to the contrary, we would aim for the financial statements reflecting economic reality. As the current accounting does not reflect the economics of the transaction then this in itself is increasing complexity as the layman will not be able to make sense of the transactions recorded in the financial statements.

Example:
Consider the case where a financial liability is recorded on writing a put over NCI in year 1, say EUR 50 million. Then in year 2 the liability is significantly reduced by EUR 10 million as the strike was based on a formula using EBITDA estimates which are now replaced by actual results which are significantly lower than forecast. As a result of the inaccurate forecasting the entity will be rewarded by a material gain of EUR 10 million to the income statement in year 2. In year 3 the option can be exercised, however, the NCI shareholder decides not to exercise because he believes it is better to let the option lapse and start negotiations again with the aim of getting better terms than the put option. This is plausible since the majority shareholder would like to own 100% and the future economic outlook is now more favourable than at the time the written put was signed 3 years ago. In year 3 the liability (EUR 40 million) is removed when the option lapses as IAS 32.23 states that "If the contract expires without delivery, the carrying amount of the financial liability is reclassified to equity." Consequently, the credit entry of EUR 40 million would appear to flow to equity. In such a case the result would be that the company has booked a gain of EUR 10 million in year 2 on the basis of a written put agreement which lapsed and for which there was no cash flows (assuming there was no premium received).

The above situation would be difficult to explain to management and shareholders who would not understand that the P&L volatility was caused by changes in a "fictional" liability which in the end did not exist and resulted in no cash flows. The justification would be that IAS 39 requires changes in financial liabilities through profit or loss, in all circumstances for the sake of comparability with other derivatives over NCI and to reduce complexity in financial reporting, albeit the fact that the economics are completely different. We are not sure management and users would accept this reasoning.

"No compelling reason to account for written puts differently than other derivatives written on an entity's own equity"

Written puts over NCI which are settled net in cash are clearly derivatives as explained above and are appropriately addressed by IAS 32 IE28. However, written puts over NCI which are settled gross (cash for shares) exist because the NCI shareholder wants to have the possibility of selling his/her remaining shareholding at some point in the future. Likewise, the majority shareholder is willing to enter into the written put as he wants to take full ownership of the subsidiary. This is not a trading transaction but a transaction with an NCI shareholder to buy the remainder of the business. Consequently, as the example above illustrates, it does not make sense to have P&L

volatility impacting the entity's operating result for a transaction which is to purchase the remaining shares in one of its subsidiaries.

Paragraph 16 of agenda paper 10

"*...we agree that making an exception for NCI puts could create structuring opportunities or have unintended consequences...*"

If the changes in the liability flow through profit or loss then we believe this can only increase (not decrease) the incentive for structuring. As shown in the example above, the initial booking of the liability can be very subjective (based on future results) and therefore recording the changes through equity would be the more sensible approach, in terms of reducing structuring opportunities.

Conclusion

In summary, we believe that the accounting for puts on NCI should not follow the general accounting for liabilities, as the "as if" accounting and creation of a synthetic liability itself is an exception to the general IAS 32 guidelines and as such warrants also a consequential special guidance on the subsequent measurement.

* * *

IASB

Mr Hans Hoogervorst

30 Cannon Street

London EC4M 6XH

UK

Paris, February 29th, 2012

Re: Variation in financial liabilities –put options on shares held by non-controlling interest shareholders

We note that the IFRIC has been working on the recognition of put options on shares held by non-controlling interest shareholders for some time and we are monitoring this work with great interest considering the importance of this subject for our Groups.

Moreover, while we have followed carefully the discussions back and forth between the IFRS Interpretation Committee and the Board, we are unsure about the stage this issue is at, in term of due process. Although there will surely be a comment period for any decision of amendment the Board will take, the purpose of this letter is to make you aware ahead of time about our concerns. We consider that economically speaking, recognizing the subsequent variation of the liability in the P&L does not make sense:

- We understand that you are opting for a recognition of such variations in the P&L. Yet, in our opinion such an option is not compatible with the economic substance of a put option written on shares held by non-controlling interest shareholders. There is certainly a potential buyback obligation, however such a buyback can under no circumstances be considered as having already been made. Indeed, we have neither the underlying interests, nor the associated voting rights, nor the dividends rights corresponding to the share the put enables us to acquire after it has been exercised.
- Moreover, this variation in liabilities will create future income. Recognizing in the reporting period P&L the variation in liabilities concerning put options written on shares held by non-controlling interest shareholders would lead to a distortion in periods and disturb the legibility of the P&L as a performance indicator.
- Furthermore, when the put is settled, whether exercised or not, the recognition of the variation of liability in the P&L will create an income. There is no more

economic basis for such an income on the P&L at this stage than the recognition of an expense in case of an increase in the value of the liability.

- Otherwise, the finalization of the put may result in a failure at which point nothing has to be recognized, or a success thus leading to a transaction between shareholders. Yet no transaction between shareholders may under any circumstances impact the P&L under the terms of IAS 27R.
- Finally, it doesn't make sense if there is a recognition discrepancy between a company which signs a put, then exercises it and an entity which has acquired a subsidiary without a put.

As a consequence, an equity recognition for a put on shares held by non-controlling interest shareholders is the only appropriate solution, compatible with its economic substance.

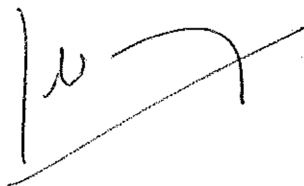
Moreover, we consider that this issue should not be considered by itself, but in connection with other discussions related to the subsequent measurement of financial liabilities.

Consequently, we urge the board not to hurry on this matter and to consider the issue of subsequent variations of financial liabilities as a whole.

We remain at your disposal to discuss this issue if you so wish.

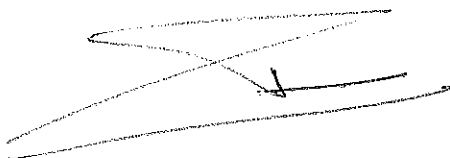
Yours faithfully

AXA
Gérald Harlin
Group Chief Financial Officer



SAINT-GOBAIN
Laurent Guillot
Group Chief Financial Officer

CASINO
Bernard Petit
Group Deputy Finance Director



PPR
Jean-Marc Duplaix
Chief Financial Officer

ESSILOR

Géraldine Picaud
Group Chief Financial Officer