Australian Government

Australian Accounting Standards Board

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Mr Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear Wayne

Draft IFRIC Interpretation DI/2012/2
Put Options Written on Non-Controlling Interests

The Australian Accounting Standards Board (AASB) is pleased to provide comments on Draft IFRIC Interpretation DI/2012/2 *Put Options Written on Non-Controlling Interest*. In formulating these comments, the AASB sought and considered the views of Australian constituents. The comment letters received are published on the AASB's website.

Overall, the AASB supports the conclusions reached by the IFRS Interpretations Committee (the 'Committee') in the draft Interpretation. The Interpretation's conclusion is consistent with the requirements of paragraph 23 in IAS 32 *Financial Instruments: Presentation* in respect of 'a contract that contains a contractual obligation for an entity to purchase its own equity instruments for cash or another financial asset', that

i) such a contract gives rise to a financial liability for the present value of the redemption amount which is reclassified from equity, and
ii) the financial liability is subsequently measured in accordance with IFRS 9 *Financial Instruments*, or IAS 39 *Financial Instruments: Recognition and Measurement*.

However, the AASB has concerns about the narrow scope of the draft Interpretation and encourages the IASB to address classification of financial instruments more comprehensively. The AASB's concerns relate to Question 1 in the draft Interpretation and are expanded upon in the attachment.

If you have any queries regarding any matters in this submission, please contact Sue Lightfoot (slightfoot@aasb.gov.au).

Yours sincerely

Kevin M. Stevenson
Chairman and CEO

AASB's Specific Comments on Draft IFRIC Interpretation DI/2012/2
Put Options Written on Non-Controlling Interests

The AASB's views on the questions in the draft Interpretation are as follows:

Question 1—Scope

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

Do you agree with the scope proposed in the draft Interpretation? If not, what do you propose and why?

The AASB supports the scope proposed by the Committee in the draft Interpretation. However we have the following concern:

<u>Classification of Financial Instruments as Liability or Equity</u>

The Interpretation's conclusion highlights potential inconsistencies concerning classification of financial instruments as liability or equity.

For example, the AASB notes that paragraph 23 in IAS 32 requires that a contract that contains a contractual obligation for an entity to purchase its own equity instruments for cash or another financial asset gives rise to a financial liability even if the contract itself is an equity instrument, for example a written put option that gives the counterparty the right to sell an entity's own equity instruments for a fixed price. Paragraph 23 overrides paragraph 22 of IAS 32 which states that 'a contract that will be settled by an entity receiving a fixed number of its entity's own equity instruments in exchange for a fixed amount of cash or another financial asset is an equity instrument'. As a result, an NCI put which meets the definition of an 'equity instrument' under paragraph 22 of IAS 23, would not be eligible to be accounted for as equity.

If the terms of an NCI put are "fixed for fixed", or the strike price of the NCI put is equivalent to the fair value of the underlying equity, characterising the NCI put as a liability may not provide the most meaningful information to users of the financial statements.

Furthermore, paragraph 13 of [1]IFRIC 17 *Distributions of Non-Cash Assets to Owners* requires changes in the carrying amount of dividends payable which give owners a choice of receiving a non-cash asset or cash alternative to be recognised in equity.

It is not clear what the principle is in determining that an NCI put, which in effect gives the NCI a choice of continuing to hold equity instruments or receive a cash alternative, is in all circumstances a financial liability.

[1] The scope of IFRIC 17 is limited to distributions in which all owners of the same class are treated equally.

The AASB acknowledges that classification of financial instruments is a complex, controversial and broad ranging topic. We note that in its May 2012 meeting the IASB unanimously supported initiating a research programme on financial instruments with the characteristics of equity (amongst a broad range of other topics). The AASB concurs with the view of the IASB and encourages the IASB to address the topic more comprehensively.

Question 2—Consensus

The consensus in the draft Interpretation (paragraphs 7 and 8) provides guidance on the accounting for the subsequent measurement of the financial liability that is recognised for an NCI put. Changes in the measurement of that financial liability would be required to be recognised in profit or loss in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments*.

Do you agree with the consensus proposed in the draft Interpretation? If not, why and what alternative do you propose?

The AASB agrees that the consensus proposed in the draft Interpretation is consistent with the requirements of paragraph 23 in IAS 32 *Financial Instruments: Presentation*.

Subject to its concern regarding the scope of the draft Interpretation, as discussed in its response to Question 1 above, the AASB agrees with the consensus proposed in the draft Interpretation.

Question 3—Transition

Entities would be required to apply the draft Interpretation retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Do you agree with the proposed transition requirements? If not, what do you propose and why?

The AASB agrees with the proposed transition requirements.