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The Chairman
Australian Accounting Standards Board
PO BOX 204
Collins Street
West Victoria 8007

3 October 2012

Dear Mr Stevenson

Ernst & Young's global submissions to the IFRS Interpretation Committee on the Invitation to Comment -Draft IFRIC Interpretation DI/2012/2 *Put Options Written On Non- controlling Interests*

Please find enclosed Ernst & Young's global submission to the IFRS Interpretation Committee on the above Draft Interpretation.

Yours sincerely

A handwritten signature in black ink, appearing to read 'L. J. Henderson'.

Ernst & Young

Encl:

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

1 October 2012

Dear IFRS Interpretations Committee members

Invitation to comment - Draft IFRIC Interpretation DI/2012/2 *Put Options Written On Non-controlling Interests*

The global organisation of Ernst & Young is pleased to respond to Draft IFRIC Interpretation DI/2012/2 *Put Options Written on Non-controlling Interests* (the Draft Interpretation).

We support the IFRS Interpretations Committee ('the Committee') in its efforts to address the diversity in accounting for put options written on non-controlling-interests. We agree with the proposed treatment of changes in the measurement of the financial liability that is recognised for an NCI put, as we believe it will reduce diversity in practice.

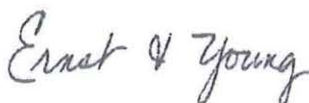
However, the Draft Interpretation is very narrow in scope, as accounting for changes in the measurement of the financial liability is just one element of the accounting for NCI puts. Whilst we welcome clarification on that issue, we believe there needs to be an ongoing project to address a number of other issues that continue to cause diversity in practice. Those issues include:

- ▶ On initial recognition of the financial liability, which element of equity is reduced?
- ▶ Forward contracts written on the shares held by NCI shareholders
- ▶ Financial liabilities arising from the settlement of a put option in a variable number of equity instruments of the parent
- ▶ The treatment of dividends due to the NCI shareholders
- ▶ Derecognition of the financial liability when the put option expires without being exercised

Further detail on these issues and our responses to specific questions for respondents are set out in the appendix to this letter.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas on +31 88 407 5035 or Victoria O'Leary on +44 (0) 20 980 0515.

Yours faithfully



**Appendix - Responses to the questions in the Draft IFRIC Interpretation DI/2012/2
Put Options Written on Non-controlling Interests**

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 proposed scope? If not, what do you propose and why?

We have some concerns that the Draft Interpretation is very narrow in scope and does not address a number of issues, where diversity in practice exists. We explain those issues in more detail as follows:

i) Initial recognition of the put option

The Draft Interpretation only addresses the subsequent measurement of the NCI put liability, but does not address questions regarding the initial recognition of the instrument. When an entity writes a put option on the shares of a subsidiary held by an NCI shareholder, some entities debit the NCI balance, whilst other entities debit other components of equity. This will impact the financial statement presentation as only those entities that recognise the NCI will attribute income to the NCI shareholders. Given the impact of this diversity, we believe it would be helpful if the Committee also addressed which component of equity should be debited when the financial liability is initially recognised. If the Committee decides that this guidance will not be provided, then we believe that the rationale for that decision should be explained in the Basis for Conclusions, and that the Committee should continue their work on the accounting for NCI puts to address this, after the Draft Interpretation has been finalised.

ii) Forward contracts

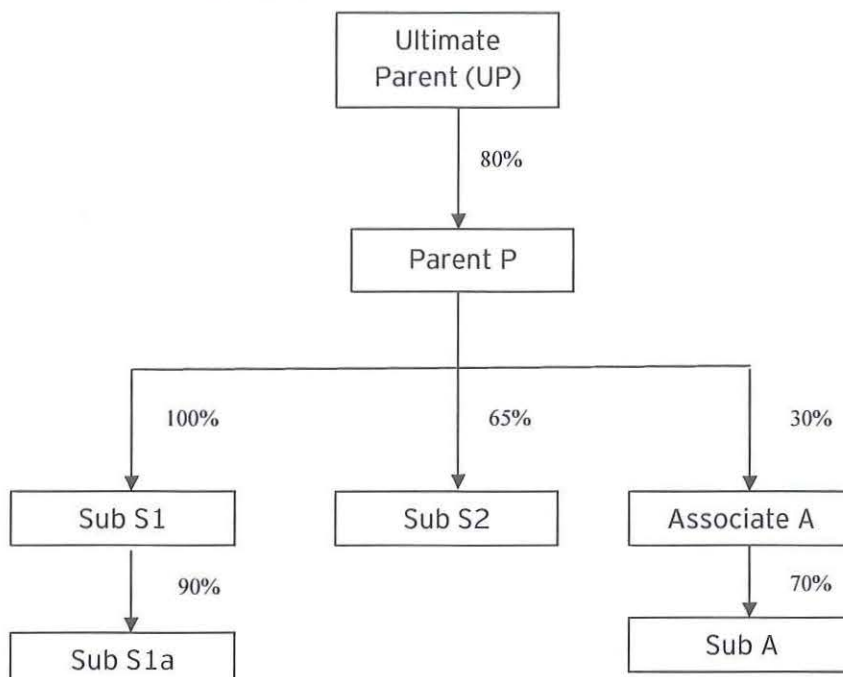
The scope of the Draft Interpretation does not address similar contracts issued on non-controlling interests, such as forward contracts. The Committee considered whether forward contracts should be included in the scope of the Draft Interpretation and decided not to do so. However, the Basis for Conclusions does not explain why these contracts are not addressed. Without explanation, diverse treatments are likely to occur and we believe that the Committee should address this issue in the Draft Interpretation. If the Committee decides not to do so, the rationale should be clearly explained in the Basis for Conclusions and the Committee should continue their work on the accounting for contracts issued to NCI shareholders to address this, after the Draft Interpretation has been finalised.

**Appendix - Responses to the questions in the Draft IFRIC Interpretation DI/2012/2
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- iii) **Financial liability arising from settlement in shares of the parent**
Paragraph 1 of the Draft Interpretation refers to a put option 'that obliges the parent to purchase those shares for cash or another financial asset'. It is not clear whether the Committee considered situations where a put option can, or must be, settled in a fixed or variable number of equity instruments of the parent. We are aware of diverse accounting treatments in practice, whereby some entities are accounting for the financial liability on a gross basis but other entities are recording a liability for the net derivative. We believe that these transactions are relatively common and as there is diversity, they should also be considered by the Committee.
- iv) **Puts that were not contingent consideration under IFRS 3 (2004) but which were accounted for in the same way**
Paragraph 5 of the Draft Interpretation states that '...the [draft] Interpretation does not apply to NCI puts that were accounted for as contingent consideration in accordance with IFRS 3 (2004). IFRS 3 (2008) provides the relevant measurement requirements for those contracts.' [emphasis added]. However, BC 7 states that the Draft Interpretation does not apply to NCI puts issued 'as part of a business combination' that occurred before the application of IFRS 3 (2008) and were accounted for as contingent consideration. Therefore, BC 7 indicates a narrower scope than the wording in paragraph 5. We agree with the scope and wording used in paragraph 5 and recommend that the Committee amend BC 7 to be consistent with paragraph 5.
- v) **Does the scope apply to put options issued by other entities in the group, in addition to the ultimate parent?**
Paragraph 4 of the Draft Interpretation states that '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.' [emphasis added] We believe that the Draft Interpretation is very narrow as it is currently drafted and should be amended to include put options written by any entity in the group (as defined in the IFRS Glossary of Terms) that may issue put options to NCI in the group.

**Appendix - Responses to the questions in the Draft IFRIC Interpretation DI/2012/2
Put Options Written on Non-controlling Interests**

Consider the following group structure:



We have considered a number of scenarios regarding different entities writing put options to NCI shareholders and whether they are within the scope of the Draft Interpretation, from the perspective of the group accounts of the Ultimate Parent.

Scenario	In scope of Draft Interpretation?	Comments
1. Ultimate parent (UP) writes a put on the shares held by the non-controlling (NCI) shareholders of P	Yes	None
2. UP writes a put on the shares held by the NCI shareholders of Sub S2	Yes	We assume the Draft Interpretation applies to indirect holdings of UP. However, this should be clarified for the avoidance of doubt.
3. UP writes a put on the shares held by the NCI shareholders of Sub S1a	Yes	We assume the Draft Interpretation applies to indirect holdings of UP. However, this should be clarified for the avoidance of doubt.
4. Parent (P) writes a put on the shares held by the NCI shareholders of Sub S2	No	We believe this should be included in the scope.

**Appendix - Responses to the questions in the Draft IFRIC Interpretation DI/2012/2
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Scenario	In scope of Draft Interpretation?	Comments
5. P writes a put on the shares held by the NCI shareholders of Sub S1a	No	We believe this should be included in the scope
6. Sub S1 writes a put on the shares held by the NCI shareholders of Sub 1a	No	We believe this should be included in the scope
7. Sub S1 writes a put on the shares held by the NCI shareholders of Sub S2.	No	We believe this should be included in the scope
8. P writes a put on the shares held by the NCI shareholders of Sub A.	No	We do not believe that this should be in the scope as the parent entity does not have a controlling interest in Associate A and the NCI in Sub A is not NCI of UP.

We believe that the scope of the Draft Interpretation should include put options written by any group entity, as indicated in the table above. If this is what the Committee intended, then the wording of paragraph 4 should be amended to make this clear, perhaps by using wording such as:

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

Where consolidated financial statements are prepared elsewhere in the group, similar questions arise as to whether put options written by the parent of the reporting entity over subsidiaries of the reporting entity are in scope. In the above example, if P was preparing consolidated financial statements, would a put option held by UP over the NCI of S2 be in scope? We understand that such options should not be in scope, as they are not liabilities of P. However, we believe that the Committee should clarify this.

vi) Other issues not addressed by the Draft Interpretation

There are a number of other accounting issues regarding NCI put options that are not addressed by the Draft Interpretation. These include how dividends attributable to the NCI should be treated, how any premium received from the NCI shareholders should be dealt with, and how the financial liability should be derecognised if the put expires unexercised. We do not believe that these issues should delay the process of issuing the Draft Interpretation. However, we believe the Committee should continue their work on the accounting for NCI puts to address these issues, after the Draft Interpretation has been finalised.

**Appendix - Responses to the questions in the Draft IFRIC Interpretation DI/2012/2
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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?

We agree with the proposal that changes in the subsequent measurement of NCI put liabilities should be recognised in profit or loss. This treatment is currently adopted by many entities and we believe that requiring one treatment would be helpful in reducing diversity in practice.

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?

We agree with retrospective application of the Draft Interpretation. We believe that if an entity has been recognising and re-measuring the financial liability in accordance with IAS 32 and IAS 39/IFRS 9, it will already have the information to hand, although there may need to be a reclassification of the movements out of equity and into profit or loss.

However, we believe that the Committee should consider whether retrospective application should be limited to put options that are outstanding at the beginning of the comparative period. If entities are required to apply the Draft Interpretation retrospectively to options that have expired or been exercised, there may be equity adjustments that would be required, but the benefit of determining this may be outweighed by the cost and effort of doing so.

We believe the Committee should consider simplifying transition by applying a similar concession to that used in IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*. This is described in paragraph 33 of the Basis for Conclusions of IFRIC 19 as, '... However, to simplify transition, the IFRIC also concluded that it should require retrospective application only from the beginning of the earliest comparative period presented because application to earlier periods would result only in a reclassification of amounts within equity.'

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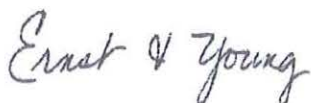
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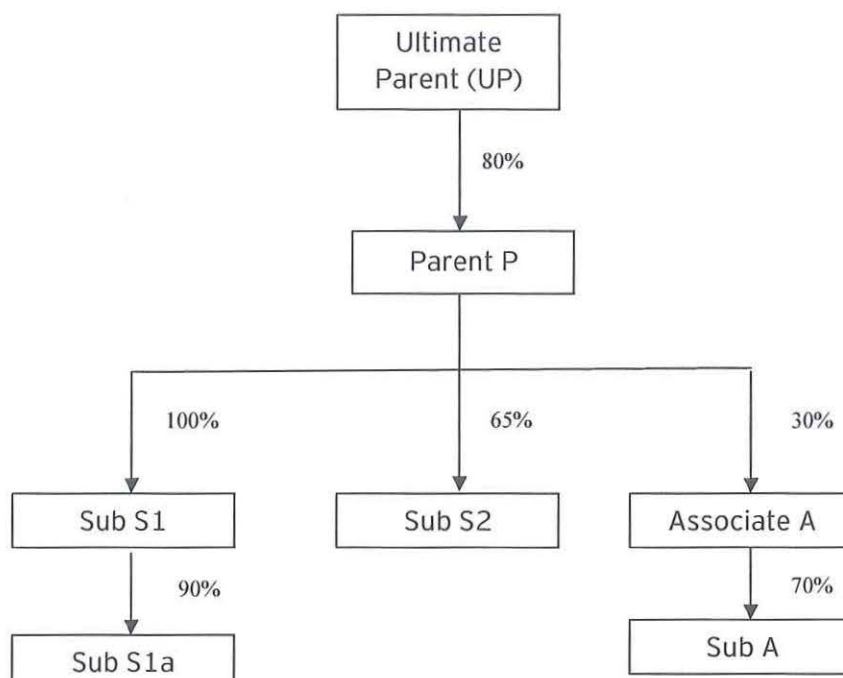
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