Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

via email: standard@aasb.gov.au

17 October 2012

Dear Kevin

Re: AASB ED 225, IFRS IC DI/2012/1 and DI/2012/2

I am enclosing a copy of PricewaterhouseCooopers' responses to the following International Accounting Standards Board's (IASB) and IFRS Interpretation Committee (IFRS IC) exposure drafts:

- AASB ED 225 *Annual Improvements to IFRSs 2010—2012 Cycle*
- IFRIC Interpretation DI/2012/1 *Levies Charged by Public Authorities on Entities that Operate in a Specific Market*
- IFRIC Interpretation DI/2012/2 *Put Options Written on Non-controlling Interests*

The letters reflect the views of the PricewaterhouseCoopers (PwC) network of firms and as such include our own comments on the matters raised in the exposure draft. PwC refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

AASB specific matter for comment – ED 225
We are not aware of any regulatory or other issues that could affect the implementation of either of the proposals for not-for-profit and public sector entities.

Subject to our concerns about specific matters as expressed in our submissions to the IASB, the proposals would result in financial statements that would be useful to users. Should the proposed amendments be approved by the IASB, we are not aware of anything that would indicate that the proposals are not in the best interests of the Australian economy.

We agree with the AASB's conclusions in relation to the proposed Tier 2 disclosures, being to exclude the new disclosures proposed under AASB 136 but not to provide any exemption for the new AASB 8 disclosures for the reasons set out in ED 225.

PricewaterhouseCoopers, ABN 52 780 433 757
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
DX 77 Melbourne, Australia
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

Interpretation DI/2012/1 – *Levies on entities that operate in a specific market*
Our submission does not support the draft interpretation DI/2012/1 for various reasons set out in the enclosed letter. Amongst others, we are concerned about the accounting for levies that are subject to volume thresholds.

An example for such levies are payments for carbon emissions that will be required under the Clean Energy Legislation (*Clean Energy Act 2011* and supporting legislation). We agree with the AASB staff's view that an emissions liability should be recognised as the emissions are made. If the draft interpretation was approved by the IASB in its present form, it would appear that a liability could only be recognised once the volume threshold is exceeded in a particular year.

I would welcome the opportunity to discuss our firm's views at your convenience. Please contact me on (03) 8603 5371 if you would like to discuss our comments further.

Yours sincerely

Margot Le Bars
Partner, PricewaterhouseCoopers

Private & Confidential
International Accounting Standards Board
1st Floor
30 Cannon Street
London
EC4M 6XH

27 September 2012

Dear Sir/Madam

Re: Draft IFRIC Interpretation DI/2012/2 Put Options Written on Non-controlling Interests (NCI puts)

We are responding to the invitation of the IFRS Interpretation Committee (the Committee) to comment on the draft interpretation DI/2012/2 'Put Options Written on Non-controlling Interests' (the draft interpretation) on behalf of PricewaterhouseCoopers. Following consultation with members of the PwC network of firms, this response summarises the views of those member firms who commented on the draft interpretation. 'PwC' refers to the network of firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We appreciate the efforts of the Committee, as instructed by the IASB, to develop a short-term solution not involving the amendment of the accounting standards regarding the subsequent measurement of put options written on non-controlling interests ("NCI puts") since there is diversity in their accounting treatment in practice. However, the proposed accounting for their subsequent measurement may not reflect the economics of NCI put transactions and may result in counterintuitive outcomes for NCI puts exercisable at fair value (or at an amount determined by a formula, such as a multiple of earnings). For example, when the controlled subsidiary's expected cash flows improve, a loss is recognised in the parent's consolidated financial statement due to the requirement to increase the gross liability. This counterintuitive result is not dissimilar to the own credit risk issue for financial liabilities that the Board decided to exclude from profit or loss in IFRS 9.

Accounting for NCI puts is clearly a very complex issue and there are broader questions that need to be addressed. Therefore, we do not believe the Committee should proceed with this interpretation. Instead, the Board should address the accounting for NCI puts on a comprehensive basis. In undertaking such a project, the Board should consider:

- The accounting for all types of transactions creating an obligation to purchase own shares held by the NCI shareholders (on a consolidated level), regardless of whether they are options, forwards or similar transactions;

- How the entry at initial recognition should be recognised (if any), that is, what component of equity should be reclassified, either NCI or non-NCI;

PricewaterhouseCoopers LLP, 80 Strand, London WC2R 0AF
T: +44 (0) 20 7583 5000, F: +44 (0) 20 7212 4652, www.pwc.co.uk

PricewaterhouseCoopers LLP is a limited liability partnership registered in England with registered number OC303525. The registered office of PricewaterhouseCoopers LLP is 1 Embankment Place, London WC2N 6RH. PricewaterhouseCoopers LLP is authorised and regulated by the Financial Services Authority for designated investment business.

- The diverse scenarios frequently found in practice since NCI puts can be with fixed price, formula-based price and fair value price;
- How to account for dividends and the respective allocation of profits to NCI and non-NCI;
- Whether the accounting would be different if written NCI puts are entered into as part of a business combination;
- The potential tension with IFRS 2, for example, where shares (with put rights) in a subsidiary are granted to employees; and
- What disclosures entities should provide in notes to the financial statements to enhance transparency.

We recognise that by not issuing this interpretation diversity in practice will continue to exist and we therefore suggest the Committee repeats its recommendation to the Board for it to make, as a short term solution, an amendment to IAS 32 to incorporate a scope exception for NCI puts from paragraph 23. As a result, NCI puts would be accounted for on a net basis similar to other derivative contracts in accordance with IAS 39 at fair value through profit or loss. The proposed short-term solution would eliminate the requirement of accounting for NCI puts on a 'gross' basis, which is an accounting treatment that is not consistent with the economics of the transaction. This would reflect the substance that these are not financing instruments but rather contingently exercisable contracts to exchange cash at a future date and would reduce the income statement volatility for NCI puts with a fair value price. This accounting would also be more similar to the requirements under U.S. GAAP and be directionally consistent with the Board's preliminary discussions in the FICE project.

We are aware that the Committee had previously proposed the aforementioned short-term solution to the Board and that such proposal was rejected, but at that point the timing of the Financial instruments with characteristics of equity ("FICE") project was uncertain. Given that the FICE project is no longer on the Board's current agenda, we suggest that the Board should reconsider the suggested scope exclusion in the short term in order to reduce diversity in practice and produce a result that better reflects the economics of the transaction.

We have commented specifically on the questions raised in the draft interpretation in the appendix to this letter.

If you have any questions, please contact John Hitchins, PwC Global Chief Accountant (+44 207 804 2497) or Gail Tucker (+44 117 923 4230).

Yours faithfully,

PricewaterhouseCoopers LLP

pwc

APPENDIX

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 do not believe the Committee should proceed with this interpretation for the reasons described in the attached covering letter. If the Committee decides to proceed with an interpretation, however, we recommend that the scope should be amended.

The proposed scope is very narrow and we believe that, instead, the Board should develop guidance that applies to put options that oblige *any* entity in the consolidated group to purchase shares held by the NCI shareholders, not just the parent entity. In addition, the scope should be expanded to include not only put options but other type of contracts, e.g. forward contracts.

We agree with the Committee's proposal of grandfathering NCI puts accounted for as contingent consideration in accordance with IFRS 3 Business Combinations (2004).

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 do not support the draft interpretation for the reasons described in the attached covering letter. There is currently diversity in practice in the accounting for NCI puts. Some consider it appropriate to account for their subsequent measurement in profit or loss, while others view NCI puts as transactions with owners in their capacity as owners and therefore they consider it appropriate to account for them as equity transactions. They argue that a 'change in ownership' is not clearly defined under IAS 27 and in the past transactions have been accounted for in equity even when there is not a change in ownership, for example in IFRIC 17 *Distributions of Non-cash Assets to Owners*.

We therefore believe that the Board should undertake a more comprehensive project to address the accounting for NCI puts which should consider the items as outlined in our covering letter. In the short term we recommend that the Board makes an amendment to IAS 32 to incorporate a scope

exclusion for NCI puts from paragraph 23 of IAS 32 so that they would be accounted for on a net basis similar to other derivative contracts.

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 do not believe the Committee should proceed with this interpretation for the reasons attached in the covering letter. However, if the Committee decides to proceed with an interpretation, we recommend that similar to other interpretations (e.g. IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments) retrospective application should be required *only* from the beginning of the earliest comparative period presented because application to earlier periods would result only in a reclassification to amounts within equity.