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

Grant Thornton International Ltd is pleased to comment on the IFRS Interpretations Committee's Draft Interpretation DI/2012/2: *Put Options Written on Non-controlling Interests* (the DI). We have considered the DI, as well as the accompanying draft Basis for Conclusions.

We agree that diversity in practice exists in how entities account for the remeasurement of the carrying amount of the financial liability recognised for put options written on non-controlling interests (NCI), and that there is therefore a need for guidance in this area. We also agree that the DI is a conceptually sound interpretation of the requirements of IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments*, being consistent with the treatment of other financial liabilities within the scope of those Standards. We are therefore generally supportive of its proposals.

We do have some doubts as to whether the proposals will produce the most useful information in some situations however. In particular, we are aware of concerns over the effect that the proposals in the DI would have on the accounting for put options written on NCI where the exercise price is set to equal fair value on exercise or is based on a formula that is intended to achieve a similar outcome.

In addition, there are wider issues relating to put options written on NCI that we believe should be addressed. These include whether gross or net presentation provides the most meaningful information for such instruments, and which component of equity should be debited at initial recognition. We acknowledge that the Interpretations Committee is already aware of these issues and is not currently in a position to address them. We suggest then that it asks the IASB to once again consider conducting a wider review in the future of the guidance in IAS 32 *Financial Instruments: Presentation* relating to put options written on NCI.

We expand on these comments in our responses to the specific questions in the DI's Invitation to Comment below.

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 agree with the proposed scope. We recommend however that the Interpretations Committee uses the Basis for Conclusions to further expand on the explanation of the scope out in paragraph 5 of the DI.

At present the DI explicitly scopes out put options written on NCI accounted for as contingent consideration in accordance with IFRS 3 (2004), with the Basis for Conclusions explaining the reason why those options are excluded. The Basis for Conclusions does not however discuss the reasons why there is no equivalent scope out for put options written on NCI accounted for under IFRS 3 (2008). We believe that the Interpretations Committee should clarify the reasons why such options are not also scoped out. Otherwise there is a risk that readers of the DI may draw unintended inferences as to whether put options written on NCI can be accounted for as contingent consideration under both IFRS 3 (2004) and IFRS 3 (2008).

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 consensus proposed in the DI, which is consistent with our guidance on how to account for this issue. As noted in our opening comments, however, we are aware of concerns that the proposals will not result in the most meaningful information in some specific situations.

In particular, concerns have been raised over the effect of the DI's proposals on the accounting for put options written on NCI where the exercise price of the option is set to equal fair value or is based on a formula that is intended to achieve a similar outcome. For such options, it is arguable whether recognising the remeasurement of the present value of the redemption amount of such options in profit or loss during the period up to exercise will produce the most meaningful information, given that it is known from the outset that the option will be exercised at fair value. It furthermore has the effect that an increase in the value of the subsidiary controlled by the parent results in an increase in the financial liability recognised for the put option written on NCI and recognition of an expense in profit or loss. This seems a counter-intuitive outcome.

Despite this, we would prefer not to see a rules-based exception being introduced to the proposed consensus in the DI in order to specifically address the needs of this sub-category

of put options written on NCI. We believe such an exception would add complexity. It would also be hard to apply in practice due to the difficulty of defining the boundaries that would determine which options would and would not be eligible to use it. We believe however that the IASB should undertake a wider project relating to put options written on NCI which would address whether gross or net presentation provides the most meaningful information for such instruments in general, and which component of equity should be debited at initial recognition. Such a project could also address when it is appropriate to derecognise NCI associated with shares subject to a written put option. We therefore recommend the Interpretations Committee to once again ask the IASB to consider prioritising such a project.

Question 3—Transition

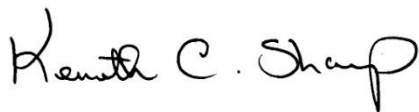
Entities would be required to apply the draft Interpretation retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

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

We agree that the DI should be implemented retrospectively. As the DI will not affect the computation of the movement in the financial liability that is recognised for a put option written on NCI, we do not believe that specific transition provisions are needed.

If you have any questions on our response, or wish us to amplify our comments, please contact our Executive Director of International Financial Reporting, Andrew Watchman (andrew.watchman@uk.gt.com or telephone + 44 207 391 9510).

Yours sincerely,



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