IFRS

STAFF PAPER

November 2016

IFRS® Interpretations Committee Meeting

Project	**IAS 32 *Financial Instruments: Presentation*—Accounting for written puts over non-controlling interests to be settled by the variable number of parent's shares**		
Paper topic	Comment letter analysis and finalisation of agenda decision		
CONTACT(S)	Jooeun Chung	jchung@ifrs.org	+44 (0)20 7246 6453
	Manuel Kapsis	mkapsis@ifrs.org	+44(0) 20 7246 6459

Introduction

1. The IFRS Interpretations Committee (Interpretations Committee) received a request from two submitters regarding how an entity accounts for a written put option over non-controlling interests (NCI put) in its consolidated financial statements. The NCI put has a strike price that will, or may, be settled by the exchange of a variable number of the parent's own equity instruments (a share-settled NCI put).

2. The question is whether the parent accounts for the share-settled NCI put:

    (a) as a financial liability at the present value of the option's strike price on a gross basis; or

    (b) as a derivative liability at fair value on a net basis.

3. In May 2016, the Interpretations Committee discussed this issue and observed that in the past it had discussed issues relating to NCI puts that are settled in cash (a cash-settled NCI put).[1] Those issues were referred to the Board and are being considered

[1] The paper discussed at the Interpretations Committee meeting in May 2016 can be found at: http://www.ifrs.org/Meetings/MeetingDocs/Interpretations%20Committee/2016/May/AP09-IAS_32-NCI_puts.pdf

as part of the Financial Instruments with Characteristics of Equity (FICE) project (see Appendix C to this paper).

4. The Interpretations Committee noted that:

   (a) on the basis of its previous discussions, it would be unable to resolve the issue without expanding the scope of the issue to a broader range of similar arrangements. Consequently, the issue is too broad for the Interpretations Committee to address efficiently within the confines of existing IFRS Standards and the *Conceptual Framework for Financial Reporting*; and

   (b) the Board is currently considering the requirements for all derivatives on an entity's own equity comprehensively as part of the FICE project.

5. For these reasons, the Interpretations Committee published a tentative agenda decision not to add this issue to its agenda.[2]

6. The purpose of this paper is to:

   (a) provide the Interpretations Committee with an analysis of the comments received on the tentative agenda decision; and

   (b) ask the Interpretations Committee whether it wishes to (i) finalise that agenda decision, or alternatively (ii) address the narrow question of whether paragraph 23 of IAS 32 *Financial Instruments: Presentation* applies to variable share settlement.

Comment letter summary

7. The comment period for the tentative agenda decision ended on 22 July 2016. We received five comment letters, which are reproduced in Appendix B to this paper.

8. The Canadian Accounting Standards Board (AcSB) agreed with the tentative agenda decision on the ground that:

   (a) the issue is too broad for the Interpretations Committee to deal with in an efficient manner; and

[2] The tentative agenda decision can be found at: https://s3.amazonaws.com/ifrswebcontent/2016/IFRIC/May/May-IFRIC-2016.html#F

(b) in the light of the diversity in practice, the Board should consider this issue together with the requirements for all derivatives on an entity's own equity comprehensively as part of the FICE project.

9. However, the Accounting Standards Committee of Germany (DRSC), Deloitte and the European Securities and Markets Authority (ESMA) did not support the tentative agenda decision. They all expressed concerns that finalising the agenda decision:

(a) would result in the issue remaining unresolved for an unknown period of time; and

(b) would increase diversity in practice, creating a risk of entities engaging in structuring opportunities.

10. They each suggested a different way of addressing the issue as follows:

(a) (Deloitte) the Interpretation Committee could address the issue through an agenda decision that refers to the existing requirements in paragraphs 21[3] and 23[4] of IAS 32. In its view, the issue is not as broad as the issue of whether, conceptually, an entity should recognise and measure an instrument at the amount of cash to be paid (gross) or at fair value (net). It is not necessary to address all of the conceptual issues surrounding obligations over an entity's own equity instruments to address the specific question raised.

(b) (DRSC) a resolution through issuance of an Interpretation would probably be best because it would reduce uncertainty until the Board develops a long-term solution as part of the FICE project.

(c) (ESMA) the Interpretations Committee should address the specific question raised expeditiously *without* expanding the scope to a broader range of instruments, in addition to a comprehensive, but far distant, solution. If the Interpretations Committee maintains its tentative agenda decision, it should

[3] Paragraph 21 of IAS 32 states that when an entity's shares are used as currency to settle an obligation, the entity reports that obligation as a financial liability in the same way as it does an obligation to be settled in cash.

[4] Paragraph 23 of IAS 32 states that a contract that contains an obligation for an entity to purchase its own equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount.

recommend to the Board that it address the issue as part of its maintenance activities as a matter of some urgency.

11. Ernst & Young Global Limited (EY) supported the tentative agenda decision. However, in its view, the agenda decision could be read to apply by analogy to similar instruments, not only to NCI puts. EY also said that, because the agenda decision could be applied by analogy and may potentially lead to diversity, this highlights the importance of the Board addressing the issue as part of the FICE project as soon as possible.

Staff analysis

12. This staff analysis discusses:

    (a) whether the issue is sufficiently narrow to be addressed efficiently (paragraphs 13–29 of this paper); and

    (b) whether to amend the agenda decision to address application to other instruments by analogy (paragraphs 30–34 of this paper).

Whether the issue is sufficiently narrow to be addressed efficiently

13. The question the Interpretations Committee was asked was whether an entity accounts for a share-settled NCI put:

    (a) as a financial liability for the present value of the option’s strike price on a gross basis; or

    (b) as a derivative liability on a net basis.

14. In May 2016, we did not present a technical analysis for the Interpretations Committee’s consideration. Instead, we assessed the issue against the agenda criteria on the basis of the previous discussions of the Interpretations Committee on cash-settled NCI puts.

15. There are two ways to view the question asked in terms of deciding upon whether to address it:

    (a) the issue is not limited to the narrow question of whether paragraph 23 of IAS 32 applies to variable share settlement. It also encompasses issues covered in previous discussions on cash-settled NCI puts (paragraphs 16–27 of this paper); or

    (b) the issue is limited to the narrow question of whether paragraph 23 of IAS 32 applies to variable share settlement, without the need to address other questions raised about NCI puts (paragraphs 28–29 of this paper).

The issue is too broad to be addressed efficiently

16. As the Interpretations Committee and the Board discovered during its past discussions on cash-settled NCI puts, the question of whether to account for a written put on a gross or net basis can have a significant effect on those issuing such instruments, and raises a number of follow-on questions. These include the following:

    (a) if accounted for on a gross basis applying paragraph 23 of IAS 32, then an entity reclassifies the present value of the redemption amount from equity. If the strike price of the written put is equal to the fair value of the underlying equity instrument, then questions arise as to how an entity accounts for the changes in the redemption amount.

    (b) if accounted for on a net basis as a derivative, then the underlying equity instrument continues to be classified as equity. If the strike price of the written put is equal to the fair value of the underlying equity instrument, then the fair value of the standalone written put would be zero.

17. We acknowledge that cash-settled NCI puts are different from share-settled NCI puts. However, as noted in May 2016, discussions about this issue may repeat similar discussions on cash-settled NCI puts, and thus the issues might be better addressed as part of the Board's FICE project. That project is considering not only the classification of derivatives on own equity, but also their presentation and disclosure. In short, the staff note that, even if the issue addressed were limited to the question of the 'scope' of paragraph 23 of IAS 32, past discussions on cash-settled NCI puts

indicate that it may be difficult to avoid discussing the broader NCI puts issues that might arise.

18. The rest of this section provides further information about:

    (a) the previous discussions on cash-settled NCI puts (paragraphs 19–24); and

    (b) the current discussions as part of the FICE project (paragraphs 25–27)

Previous discussions of cash-settled NCI puts

19. The question raised in the previous submissions on cash-settled NCI puts was about the subsequent accounting for the liability. However, that question soon led to a discussion of whether it would be more useful to account for NCI puts as a financial liability on a gross basis at the present value of the redemption amount, or as a derivative liability on a net basis.

20. The Interpretations Committee discussed possible short-term solutions to the issue and recommended to the Board to exclude NCI puts from the scope of IAS 32 through a narrow-scope amendment. The results of doing so would have been to require an entity to measure NCI puts on a net basis at fair value, with changes in fair value recognised in profit or loss. In September 2011, the Board decided not to proceed with a narrow-scope amendment to IAS 32 because of concerns about treating NCI puts differently from other derivatives written on an entity's own equity instruments. The concerns included the following:

    (a) the Board should not amend IAS 32 until it decides how to proceed on the FICE project.

    (b) constituents had raised other issues related to the requirements in IAS 32 (eg the accounting for convertible debt denominated in a foreign currency). It is not clear why the Board would address the NCI puts issue more urgently than others.

    (c) there would be significant confusion about the 'scope of the scope exclusion'—ie what would be the basis for treating NCI puts differently from other contracts written on an entity's own equity? The criticisms about the usefulness of the information provided by the current 'gross' measurement basis are equally applicable to all put options and forward contracts written on an entity’s own equity.

21. The Board then asked the Interpretations Committee to consider addressing the identified diversity in practice by clarifying the accounting for subsequent changes in the measurement of NCI puts.

22. As a result, the Interpretations Committee published a draft Interpretation in October 2012. The draft Interpretation proposed that, applying IAS 32, cash-settled NCI puts give rise to financial liabilities on a gross basis, and an entity would recognise changes in the measurement of those financial liabilities in profit or loss applying IAS 39 *Financial Instruments: Recognition and Measurement*. However, the majority of respondents said that the scope of the Interpretation would have been too narrow. They suggested that the Interpretation should also apply to:

    (a) forward contracts that oblige the parent to purchase shares of its subsidiary held by a non-controlling-interest shareholder for cash or another financial asset (NCI forwards); and

    (b) puts (and forwards) that oblige any entity in the consolidated group to purchase shares of a subsidiary held by a non-controlling-interest shareholder for cash or another financial asset.

23. Having considered the feedback on the draft Interpretation, the Interpretations Committee referred the issue to the Board with the following recommendation:

    (a) an entity would provide better information if it were to measure NCI puts on a net basis at fair value; and

    (b) the Board should address all derivatives written on an entity’s own equity, including NCI puts, comprehensively.

24. In March 2013, the Board disagreed with the conclusion that an entity would provide better information if it were to measure NCI puts on a net basis at fair value. However, the Board decided to address all derivatives written on an entity’s own equity, including NCI puts, comprehensively as part of the FICE project.

Discussions as part of the FICE project

25. The Board's plan to achieve the objectives of the FICE project can be summarised as follows:

    (a) identify, and reinforce, the underlying rationale for the distinction between liabilities and equity in IAS 32;

    (b) provide better information through presentation and disclosure; and

    (c) improve consistency, completeness and clarity of the requirements.

26. The Board has made progress on:

    (a) developing the underlying rationale for the distinction between liabilities and equity on the basis of three possible approaches.

    (b) how financial statements might provide better information through:

        (i) the presentation of sub-classes of liabilities, in particular the presentation of income and expenses that arises from liabilities that depend on the residual amount (eg fair value of the share).

        (ii) the presentation of sub-classes of equity, in particular the attribution of income and expenses to classes of equity other than ordinary shares.

    (c) improving disclosure requirements to provide information that is not provided through classification and presentation

    (d) improving the consistency, completeness and clarity of the requirements for derivatives on own equity.

27. The Board has been focusing on one of the possible approaches—the approach for which classification is most consistent with IAS 32. The presentation that complements classification is an integral part of the overall solution to address some of the existing challenges in applying IAS 32, including those relating to NCI puts.

The issue is sufficiently narrow to be addressed efficiently

28. As noted in paragraphs 16-24, the Interpretations Committee has in the past considered a number of questions related to the application of paragraph 23 of IAS 32.

As Deloitte notes, the question addressed could be limited to whether paragraph 23 of IAS 32 applies to share-settled NCI puts. If the Interpretations Committee thinks that it can answer just that question, without the need to address other related questions and issues that might arise, then the staff think that it would be sufficiently narrow to be addressed efficiently.

29. In that case, we would bring a further analysis to a future meeting of potential ways that the Interpretations Committee could answer only that narrow question, such as through an Interpretation or an Annual Improvement.

Amend the agenda decision to address application to other instruments by analogy

30. If the Interpretations Committee decides to finalise an agenda decision, then it needs to consider one further issue raised in the comment letters.

31. EY expressed a concern that:

> "If the Interpretations Committee believes that [paragraph 23 of IAS 32] is unclear as to whether NCI puts to be settled in a variable number of the parent's shares should be accounted for as gross liabilities, then it would seem by analogy that it would also be unclear whether equity instruments of the parent to be settled in a variable number of [the parent's] own shares should be accounted for as gross liabilities."

32. EY therefore suggested amending the agenda decision to make clear that the Interpretations Committee's conclusions could be applied by analogy to similar issues, not only to NCI puts.

33. If the Interpretations Committee does not add an issue to its agenda because the issue is too broad to be addressed efficiently, then there is no interpretation or requirement to be applied by analogy. Agenda decisions explain the reasons for not adding the particular question asked to the Interpretations Committee's agenda considered in the context of the facts pertaining to that particular question. In doing so the agenda decision does not refer (directly or indirectly) to other transactions or facts by analogy. Indeed, we would generally view it as inappropriate to read agenda

decisions, by analogy or otherwise, beyond the scope of the facts and observations noted within the agenda decision.

34. Consequently, we recommend that the Interpretations Committee does not make any statement in the agenda decision about application by analogy. In addition, to address the concern raised, we have proposed a few amendments to the wording of the agenda decision to reduce the risk of it being read more widely than in the context of the question asked (see Appendix A to this paper).

Summary and question for the Interpretations Committee

35. As noted in paragraph 15, there are two answers to the question of whether the issue is sufficiently narrow for the Interpretations Committee to address it efficiently.

36. As noted in paragraphs 16–27:

(a) the issue regarding whether to account for *share-settled* NCI puts on a net basis at fair value, or on a gross basis at the present value of the redemption amount, might lead to discussions similar to those on *cash-settled* NCI puts in the past. The short-term solution that the Interpretations Committee tried to achieve regarding cash-settled NCI puts culminated in referring the issue to the Board.

(b) the history of discussions on cash-settled NCI puts might indicate that the issue is too broad to address efficiently. The Board is considering the issue as part of the FICE project—that project is addressing not only the classification of derivatives on own equity comprehensively, but also their presentation in the statements of financial position and performance.

37. However, as noted in paragraphs 28–29, if the Interpretations Committee thinks that it can limit the question to be answered to whether paragraph 23 of IAS 32 applies to share-settled NCI puts, without addressing other questions and issues that have previously arisen, then the staff think that it would be sufficiently narrow to be addressed efficiently.

38. If the Interpretations Committee decides to finalise the agenda decision, Appendix A to this paper sets out the draft wording of a final agenda decision.

Questions for the Interpretations Committee

1. Does the Interpretations Committee think that the issue is sufficiently narrow for the Interpretations Committee to address it efficiently—ie the issue can be limited to address only whether paragraph 23 of IAS 32 applies to variable share settlement? If yes, the staff will bring further analysis to a future Interpretations Committee meeting.

2. If the Interpretations Committee thinks that the issue is too broad to address efficiently, does it agree with the staff recommendation to finalise the agenda decision as set out in Appendix A to this paper?

Appendix A—Proposed wording for final agenda decision

A1. We propose the following wording to finalise the agenda decision, with changes compared to the tentative agenda decision marked (new text is underlined and deleted text is struck through).

IAS 32 *Financial Instruments: Presentation*—Accounting for a written put option over non-controlling interests to be settled by a variable number of the parent's shares

The Interpretations Committee received a request regarding how an entity accounts for a written put option over non-controlling interests (NCI put) in its consolidated financial statements. The NCI put has a strike price that will, or may, be settled by the exchange of a variable number of the parent's own equity instruments.

Specifically, the Interpretations Committee was asked to consider whether, in its consolidated financial statements, the parent ~~recognises~~:

a. applies paragraph 23 of IAS 32 and, therefore, recognises a financial liability representing the present value of the option's strike price—in other words, a gross liability; or

b. does not apply paragraph 23 of IAS 32 and, therefore, recognises a derivative financial liability presented on a net basis measured at fair value.

The Interpretations Committee was also asked whether the parent applies the same accounting for NCI puts for which the parent has the choice to settle the exercise price either in cash or a variable number of its own equity instruments to the same value.

The Interpretations Committee observed that in the past it had discussed issued relating to NCI puts that are settled in cash. Those issues were referred to the Board and are being considered as part of the Financial Instruments with Characteristics of Equity (FICE) project.

The Interpretations Committee noted that:

a. on the basis of its previous discussions, ~~it would be unable to resolve the issue without expanding the scope of the issue to a broader range of similar arrangements. Consequently,~~ the issue is too broad for the Interpretations Committee to address efficiently within the confines of existing IFRS Standards ~~and the Conceptual Framework~~; and

b. the Board is currently considering the requirements for all derivatives on an entity's own equity comprehensively as part of the FICE project.

For these reasons, the Interpretations Committee ~~[~~decided~~]~~ not to add this issue to its agenda.

Appendix B—Copies of comment letters

Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

DRSC

ASCG • Zimmerstr. 30 • 10969 Berlin

Wayne Upton
Chairman of the
IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH

United Kingdom

IFRS Technical Committee

Phone: +49 (0)30 206412-12

E-Mail: info@drsc.de

Berlin, 15 July 2016

Dear Wayne,

IFRS IC's (tentative) agenda decisions in its May 2016 meeting

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on the tentative agenda decisions and on one (final) agenda decision, taken by the IFRS Interpretations Committee (IFRS IC) and as published in the May 2016 *IFRIC Update*. Please find our detailed comments in the appendix to this letter.

If you would like to discuss our views further, please do not hesitate to contact Jan-Velten Große (grosse@drsc.de) or me.

Yours sincerely,

Andreas Barckow
President

Appendix A – Comments on tentative agenda decisions

IFRIC 12 – Combined service concession & lease arrangements

The IFRS IC received our request to clarify how an operator accounts for a service concession arrangement for which the infrastructure is leased. We asked the IFRS IC to clarify whether the arrangement is within the scope of IFRIC 12 (scope issue). With respect to this issue, we welcome the IFRS IC's observation that the operator is not required to provide construction or upgrade services with respect to the infrastructure for the arrangement to be within the scope of IFRIC 12 and, in this case, the lease of the infrastructure is not within the scope of IFRS 16 Leases (IAS 17 Leases) for the operator.

Consequently, this lead to our subsequent question as to how the operator should account for any assets and liabilities arising from the arrangement with the lessor (recognition and presentation issues). With respect to this issue, we share the IFRS IC's view that it is the grantor, and not the operator, who controls the right to use the infrastructure. Accordingly, the operator assesses whether it is obliged to make payments to the lessor for the lease or whether the grantor has this obligation.

Finally, the IFRS IC noted that the issues and assessments require consideration of all facts and circumstances and, in the end, concluded that the requirements in IFRS Standards provide an adequate basis to enable an entity to determine how to account for the arrangement. Whilst following the IFRS IC's line of thinking and technical arguments in the light of the existing requirements in IFRS Standards, we would have preferred had the IFRS IC provided a clarification to IFRIC 12 that would have enhanced the practical application of the assessment on the recognition and presentation issue.

IFRS 9 / IAS 39 – Fees/cost included in 10 per cent test for derecognition

We do not agree with the tentative decision, and our concern is more one of process than of substance. The IFRS IC's conclusion effectively leads to an interpretation of how IAS 39.AG62 and IFRS 9.B3.3.6 should (have) be(en) read and applied – without issuing an interpretation though. Given diversity in practice that led to the submission to the IFRS IC in the first place, IAS 39 has obviously been interpreted and applied in different ways.

We disagree with the IFRS IC's conclusion that the standard is (and has always been) sufficiently clear and that there is only one way of reading IAS 39. (If this were the case, a different reading of the standard that has so far been deemed appropriate, but that is now deemed erroneous, would lead to potential restatements of prior periods).

We believe that setting GAAP by means of an agenda decision is inappropriate in this regard and urge the IFRS IC to reconsider its process as follows: If the IFRS IC wanted to reduce diversity in practice and enhance consistent application, it should do so by issuing an interpretation or by amending the standard(s). Whilst this would also lead to a change in accounting policies, it would not deem prior practice erroneous per IAS 8, which could lead to unintended consequences for the preparer and its auditor – something we feel is neither warranted nor appropriate.

IAS 32 – Written puts over NCI

We do not agree with the tentative decision in substance. Whilst we acknowledge that

- the IFRS IC would be unable to resolve the issue without expanding the scope and considering a broader range of arrangements, and
- the IASB is currently considering the respective requirements within its FICE project,

we disagree with leaving the issue hanging and everyone in the dark for a considerable period of time. Given the amounts involved when dealing with written puts over NCI, the decision to do nothing creates (or extends, respectively) uncertainty over the ‘correct’ accounting treatment – uncertainty that only the IASB or the IFRS IC can take away.

Taking into account that the issue has been lodged with the IFRS IC repeatedly over the last ten years (the first rejection was issued in November 2006, the last in September 2010) and has been bounced back and forth between the IFRS IC and the IASB, we believe that *still* pointing at the ongoing IASB’s research project on FICE (which has already been the explanation for not taking the issue onto the agenda in 2010!) is neither responsive nor appropriate, as the earliest answer one could reasonably expect to come out of that project is at best several years away. Whilst we acknowledge that no easy answer pleasing everyone exists, we note that over the years, a number of different scenarios and possible solutions have been considered by the IFRS IC and/or the IASB.

Hence, we fail to see what would hinder the IFRS IC to ‘expand the scope and broaden the range of arrangements’, as this would not mean starting from scratch but building on a huge amount of research that has already been carried out over the years. We believe that an interim solution should exist that does provide clarity to preparers, auditors and enforcers and does contribute to reducing diversity and fostering consistent application.

We therefore urge the IFRS IC to reconsider its tentative decision not to take up the issue, but engage in a dialogue with the IASB as to how an interim solution could best be implemented and by whom. In our view, a resolution through issuance of an interpretation would probably be best, as it would reduce uncertainty until a longer-term solution has been developed in the FICE project, whilst at the same time would not bind the IASB in developing this long-term solution, as the interpretation could be withdrawn upon issuance of a successor standard to IAS 32.

Appendix B – Comments on (final) agenda decisions

IFRS 9 / IAS 39 – Derecognition of modified financial assets

We continue to disagree, and flag our disappointment, with the decision not to take the issue onto the agenda, as the issue is seen frequently and is of high importance to practice (esp. in times where several economies around the globe are experiencing levels of increased significant difficulty, resulting in modifications becoming more frequent). Whilst we take note of the limited mandate of the IFRS IC leading to this decision, we believe that a decision to acknowledge the significance of the issue yet doing nothing is, again, neither appropriate nor responsive to concerns of the organisation's stakeholders.

As we see it, the issue should be taken up by the IFRS IC, with a robust mandate by the IASB, and should lead to an interpretation to the standard(s). This would effectively contribute to fostering consistent application of the standard(s), especially for IFRS 9, which entities are in the process of implementing now (so they could get it right in the first place rather than having to change afterwards).

Accounting Standards Board
AcSB
CNC
Conseil des normes comptables

277 Wellington Street West, Toronto, ON Canada M5V 3H2 Tel: (416) 977-3222 Fax: (416) 204-3412 www.frascanada.ca

277 rue Wellington Ouest, Toronto (ON) Canada M5V 3H2 Tél: (416) 977-3222 Téléc: (416) 204-3412 www.nifccanada.ca

July 22, 2016

By e-mail to ifric@ifrs.org

IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs:

Re: Tentative agenda decision on IAS 32 *Financial Instruments: Presentation*—Accounting for a written put option over non-controlling interests to be settled by a variable number of the parent's shares

This letter is the response of the staff of the Canadian Accounting Standards Board (AcSB) to the IFRS Interpretations Committee's tentative agenda decision regarding how an entity accounts for a written put option over non-controlling interests in its consolidated financial statements. This tentative agenda decision was published in the May 2016 IFRIC Update.

The views expressed in this letter take into account comments from individual members of the AcSB staff.

We agree with the Committee's decision not to add this item to its agenda because the issue is too broad for the Interpretations Committee to deal with in an efficient manner. Further, in light of the diversity in practice, we agree that the IASB should consider this issue along the requirements for all derivatives on an entity's own equity comprehensively as part of the Financial Instruments with Characteristics of Equity project.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me at +1 416 204-3464 (e-mail rvillmann@cpacanada.ca), or, alternatively, Katharine Christopoulos, Principal, Accounting Standards (+1 416 204-3270 or email kchristopoulos@cpacanada.ca).

Yours truly,

Rebecca Villmann, CPA, CA
CPA (Illinois)
Director, Accounting Standards

Deloitte Touche Tohmatsu Limited
2 New Street Square
London
EC4A 3BZ

Phone: +44 (0)20 7936 3000
Fax +44 (0)20 7583 1198
www.deloitte.com/about

Direct phone: +44 20 7007 0884
Direct fax: +44 20 7007 0158
vepoole@deloitte.co.uk

Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
London
United Kingdom
EC4M 6XH

22 July 2016

Dear Mr Upton

Tentative agenda decision – IAS 32 *Financial Instruments: Presentation*: Accounting for a written put option over non-controlling interests to be settled by a variable number of the parent's shares

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the May IFRIC Update of the tentative decision not to take onto the Committee's agenda the request for guidance on written puts over non-controlling interests that will, or may, be settled by the exchange of a variable number of the parent's own equity instruments.

We do not agree with the reason given for the IFRS Interpretations Committee's decision not to add this item onto its agenda, as reliance on the Financial Instruments with the Characteristics of Equity (FICE) project would mean resolution of this issue being left to an uncertain future time. Until that time, this would promote structuring and increase diversity in practice over what is likely to be a significant period of time before the FICE project is completed. Furthermore, the general comments on NCI puts in the tentative agenda decision could give rise to 'contamination' and bring uncertainty and diversity into what is now a largely consistent practice around more traditional, cash-settled, NCI put arrangements. This would be a highly undesirable unintended consequence of the proposed wording.

The core issue raised by the circumstances described in the tentative agenda decision is not isolated to puts over non-controlling interests (it could equally arise in respect of a forward or put option over an entity's own shares) and is not as broad as the issue of whether, conceptually, an instrument should be recognised at the amount of cash to be paid (gross) or fair value (net). The issue is whether a provision that requires or permits settlement in a variable number of shares equal to a specified monetary value relieves an entity from recording an obligation of that value. Paragraph 23 of IAS 32 states, in part, that "a contract that contains an obligation for an entity to purchase its own equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount." In addition, paragraph 21 of IAS 32 clearly expresses the principle that when an entity's shares are used as currency to settle an obligation, that obligation should be reported as a financial liability in the same way as if the obligation were to be settled in cash.

As such, we believe that a focused and clean resolution can be achieved through a rejection notice because it is not necessary to address all of the conceptual issues surrounding obligations over an entity's own equity instruments to address the specific request for guidance. This could (and we believe should) be addressed by highlighting the existing provisions of paragraphs 21 and 23 of IAS 32 as described above.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

Veronica Poole
Global IFRS Leader

European Securities and Markets Authority

The Chair

Date: 22 July 2016
ESMA/2016/1161

Wayne Upton
IFRS Interpretations Committee
30 Cannon Street
London
EC4M 6XH
United Kingdom

Ref: The IFRS Interpretations Committee's tentative agenda decision on IAS 32: Accounting for a written put option over non-controlling interests to be settled by a variable number of the parent's shares

Dear Mr Upton,

The European Securities and Markets Authority (ESMA) thanks you for the opportunity to respond to the IFRS Interpretations Committee's (IFRS IC) publication in the May 2016 IFRIC Update of the tentative agenda decision related to the application of IAS 32 *Financial Instruments: Presentation.* We are pleased to provide you with the following comments with the aim of improving the consistent application and enforceability of IFRSs.

ESMA has considered the IFRS IC's tentative decision not to clarify the guidance in IAS 32 about how an entity accounts in its consolidated financial statements for a written put option over non-controlling interests (NCI) with a strike price that will, or may, be settled by the exchange of a variable number of the parent's own equity instruments. We noted that the IFRS IC concluded that it would be unable to resolve the issue without expanding the scope of the issue to a broader range of similar arrangements and that consequently the issue would be too broad for the Interpretations Committee to be addressed efficiently within the confines of the existing IFRS and the Conceptual Framework. Furthermore, the International Accounting Standards Board (IASB) is currently considering the requirements for all derivatives on an entity's own equity comprehensively as part of the Financial Instruments with Characteristics of Equity (FICE) project.

ESMA agrees with the two submitters' analysis that IAS 32 does not provide sufficient guidance on accounting for written put options over non-controlling interests to be settled by a variable number of the parent's shares. Although ESMA understands that the issue is complex, we are of the view that the issue should be addressed expeditiously in order to avoid diversity in accounting for this type of transaction. ESMA appreciates and welcomes that the Board is currently considering the requirements for all derivatives on an entity's own equity comprehensively as part of the FICE project. As also indicated in ESMA's response to the

IASB's 2015 Agenda Consultation,[1] we are of the opinion that this research project should have high priority as the distinction between liability and equity is fundamental to financial reporting. Yet, the improvements in financial reporting that can be expected from this project will most likely not be achieved soon. ESMA is not only concerned that diversity in practice exists regarding this issue, but also that the perceived lack of accounting guidance in this area opens up the real risk of issuers engaging in structuring opportunities.

ESMA is of the opinion that it is necessary to strike an appropriate balance between the long-term need to fundamentally re-think existing standards on a holistic basis through research projects and the need to provide timely guidance to narrow application issues identified in practice. The existence of a long-term research project should not prevent the IASB or the IFRS IC from addressing the existing diversity in practice through maintenance activities. Considering the existence of diversity in practice and the risk of issuers engaging in structuring opportunities, ESMA is of the opinion that addressing the specific issue at hand expeditiously without expanding the scope to a broader range of arrangements would be desireable in addition to a more comprehensive, but far distant solution.

Therefore, in order to promote consistent application of IFRS and to set standards that are enforceable, ESMA does not agree with the IFRS IC's tentative agenda decision not to add the issue to its agenda. Furthermore, if the IFRS IC maintains its tentative decision that the issue would be too broad to be addressed by the IFRS IC, ESMA urges the IFRS IC to recommend to the Board to address this issue as part of its maintenance activities as a matter of some urgency.

We would be happy to discuss these issues further with you.

Yours sincerely,

Steven Maijoor

[1] Letter to the IASB: ESMA response to the IASB's Request for Views: 2015 Agenda Consultation, December 2015, ESMA, ESMA/2015/1740

Ernst & Young Global Limited
6 More London Place
London
SE1 2DA

Tel: +44 [0]20 7980 0000
Fax: +44 [0]20 7980 0275
ey.com

Building a better working world

INVESTOR IN PEOPLE

International Financial Reporting Standards Interpretations Committee
30 Cannon Street
London
EC4M 6XH

25 July 2016

Dear IFRS Interpretations Committee members,

Invitation to comment - Tentative Agenda Decision: IAS 32 Financial Instruments: Accounting for a written put option over non-controlling interests to be settled by a variable number of the parent's shares (IFRIC Update May 2016, Agenda Paper 9)

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the above Tentative Agenda Decision (TAD) discussed by the IFRS Interpretations Committee (the IFRS IC) in May 2016.

We understand the rationale for the above TAD not to take this item onto the Agenda, given the issues being considered in the Financial Instruments with Characteristics of Equity (FICE) project, and the inability of the IFRS IC to resolve this issue in the context of IAS 32.23. We are, however, concerned that if the agenda decision is issued in its present form, it may be applied by analogy to similar issues.

An example is that of equity instruments that are directly issued by the parent which are settled in a variable number of its own shares. If the IFRS IC believes that IAS 32.23 is unclear as to whether written put options over non-controlling interests to be settled in a variable number of the parent's shares should be accounted for as gross liabilities, then it would seem by analogy that it would also be unclear whether equity instruments of the parent to be settled in a variable number of its own shares should be accounted for as gross liabilities. We believe that the Agenda Decision should be adjusted to make clear that it could be applied by analogy to similar issues, not just NCI puts.

As the Agenda Decision may be applied by analogy and may potentially lead to diversity, this highlights the importance of the issue being dealt with by the International Accounting Standards Board as part of the FICE project as soon as possible.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas at the above address or on +44 (0)20 7951 3152.

Yours faithfully

Ernst & Young Global Limited

Appendix C—Summary of past discussions related to NCI puts

The Interpretations Committee's discussions

A1. In 2006, the Interpretations Committee discussed a request for clarification of the accounting related to NCI puts or NCI forwards to be settled for cash. The Interpretations Committee did not add this issue to its agenda because:

(a) IAS 32, paragraph 23 states that a parent recognises a financial liability when it has an obligation to pay cash in the future to purchase the non-controlling interest's shares, even if the payment is conditional on the option being exercised by the holder;

(b) after initial recognition, an entity accounts for any liability to which IFRS 3 *Business Combinations* is not applied applying IAS 39 *Financial Instruments: Recognition and Measurement*; and

(c) there is likely to be divergence in practice in how an entity classifies the related equity. However, the Interpretations Committee did not think that it could reach a consensus on this matter on an efficient basis.

A2. In 2010, the Interpretations Committee received a request regarding how a parent accounts for changes in the carrying amount of a financial liability for NCI puts to be settled *for cash* in the consolidated financial statements. The submission considered whether there was a potential conflict between the amendments to IFRS 3 and IAS 27 *Consolidated and Separate Financial Statements* in 2008 and IAS 39.

A3. Although the request focused on subsequent measurement, the issue necessarily led to a discussion on initial recognition—whether the parent recognises a financial liability for the present value of the option exercise price (on a gross basis) or a derivative liability (on a net basis).

A4. The Interpretations Committee and the Board discussed this issue over the period from May 2010 to March 2013. The summary of those meetings follows:

(a) the Interpretations Committee issued a tentative agenda decision in September 2010, which explained that:

(i) IAS 32, paragraph 23 requires an entity to subsequently measure the financial liability recognised for a NCI put applying IAS 39; and

(ii) additional accounting concerns relating to the accounting for NCI puts would be best addressed as part of the Financial Instruments with Characteristics of Equity (FICE) project.

(b) the Interpretations Committee received a significant number of comments on the September 2010 tentative agenda decision, which highlighted significant diversity in practice in the accounting for NCI puts. Accordingly, at its March 2011 meeting, the Interpretations Committee recommended that the Board issue a scope exclusion from IAS 32 for NCI puts as a short-term solution. Applying that proposal, the requirements in IAS 39 for derivative contracts would have applied to NCI puts.

(c) at its September 2011 meeting, however, the Board voted not to amend the scope of IAS 32 before deciding how to proceed with the FICE project. The Board was concerned about treating NCI puts differently from other derivatives on an entity's own equity instruments. Instead, the Board asked the Interpretations Committee to clarify the accounting for subsequent changes in the measurement of NCI puts.

(d) the Interpretations Committee published Draft IFRIC Interpretation DI/2012/2 *Put Options Written on Non-controlling Interests* in May 2012, which explained the following:

(i) an entity remeasures the financial liability recognised for an NCI put applying IAS 39 (IFRS 9), which requires the entity to recognise changes in measurement in profit or loss; and

(ii) the changes in measurement of that financial liability do not change the relative interests in the subsidiary held by the parent and the non-controlling-interest shareholder, and therefore are not equity transactions.

(e) at its January 2013 meeting[5], the Interpretations Committee discussed the analysis of the comments on the draft Interpretation, and reaffirmed that the draft consensus published in May 2012 is the correct interpretation of existing Standards. However, the Interpretations Committee expressed the view that an entity would provide better information if NCI puts were measured on a net basis at fair value, consistently with derivatives that are within the scope of IAS 39. It also noted that:

(i) many respondents to the draft Interpretation think that either the Interpretations Committee or the Board should address the accounting for NCI puts—or all derivatives written on an entity's own equity—more comprehensively. Those respondents said that many aspects of the accounting for those contracts have resulted in diversity in practice; and

(ii) some of the respondents think that the requirements—to measure particular derivatives written on an entity's own equity instruments on a gross basis at the present value of the redemption amount—do not result in useful information.

(f) consequently, at the January 2013 meeting, the Interpretations Committee decided to ask the Board to reconsider the requirements in IAS 32, paragraph 23 for put options and forward contracts written on an entity's own equity. The Interpretations Committee noted that such work should consider whether an entity accounts for NCI puts and NCI forwards differently from other derivatives written on an entity's equity.

The Board's discussions on NCI puts

A5. In March 2013[6], the Board discussed the Interpretations Committee's views and the feedback received on the draft Interpretation published in May 2012. At that meeting, the Board decided to reconsider the requirements in IAS 32, paragraph 23, including whether an entity measures put options and forward contracts written on an entity's own equity on a net basis at fair value.

[5] Refer to *IAS 32 Financial Instruments: Presentation–Put options written on non-controlling interests* in IFRIC Update from January 2013.

[6] Refer to *Put options written on non-controlling-interests* in IASB Update from March 2013.