afme/
Finance for Europe

28 September 2012

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH
United Kingdom

Submitted via the "Comment on a proposal" page at www.ifrs.org

Dear Sirs

Draft IFRIC Interpretation (D1/2012/2)
Put Options Written on Non-controlling Interests

I am writing on behalf of AFME (the Association for Financial Markets in Europe) to respond to the Draft IFRIC Interpretation (DI/2012/2): Put Options Written on Non-controlling Interests ("the DI"). AFME is, as you know, the leading European trade association for firms active in investment banking and securities trading and thus represents the shared interests of a wide range of participants in the wholesale financial markets.

General Comments

We agree with the consensus within the DI that a technical interpretation of the current standard would mean that subsequent changes in the liability recognised for a Non-Controlling Interest ("NCI") put option should be recognised in profit and loss in accordance with IAS 39 and IFRS 9.

In our view, this interpretation will ensure consistent application of relevant IFRS in this area. However, we believe that there are other important related areas that also need to be addressed by the IASB, such as the treatment of NCI forwards, and would encourage the IASB to develop guidance in these areas.

Many of the issues raised by constituents in the process of producing this interpretation highlight issues with the overall equity-liability framework and the treatment of certain instruments as creating gross liabilities. We note in particular that recent changes to accounting standards are moving away from the recognition in profit and loss of gains and losses related to own credit, while the requirements clarified by the DI suggest a move in the opposite direction; we believe the IASB should address this inconsistency in the reasonably near future.

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 understand IFRIC has restricted its interpretation to this narrow area in order to respond to the specific question that was asked, and to obtain consensus.

However, we believe that forward contracts on NCIs should also be considered, particularly given the structuring opportunities that they present.

We also believe the scope of the DI should include contracts of this nature written by any group company included in the same consolidated financial statements.

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 alternatives do you propose

We agree with the consensus in the DI.

Under IAS 32 the put option creates a financial liability and hence its re-measurement should be taken to profit and loss in accordance with IAS 39 and IFRS 9. We do not believe the guidance in IAS 27 and IFRS 10, which requires changes in a parent's ownership interest in a subsidiary to be treated as equity transactions when they do not result in the parent losing control, to be relevant in this situation as the re-measurement does not result from changes in ownership interest.

Furthermore, the proposed treatment ensures that shares issued with a separate put option are treated in the same way as puttable shares, with which they are economically equivalent.

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 the proposed transition requirements.

****

I hope the above comments are helpful. We would of course, as always, be pleased to discuss any points which you may find unclear, or where you believe AFME members might be able to assist in other ways.

Yours faithfully

Ian Harrison
Managing Director
Direct phone: 020 7743 9349
Email: ian.harrison@afme.eu