financial executives international canada

October 1, 2012

International Accounting Standards Board's IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH
UNIITED KINGDOM

Via "Open to Comment" page, www.iasb.org

Draft IFRIC Interpretation "Put Options Written on Non-controlling Interests", May 2012

Dear Sir or Madam:

The Committee on Corporate Reporting of Financial Executives International Canada (FEI Canada) is responding to the International Accounting Standards Board's IFRS Interpretations Committee's Draft Interpretation "Put Options Written on Non-controlling Interests", dated May 2012. We appreciate the opportunity to provide comments

FEI Canada is the all-industry professional membership association for senior financial executives. With eleven chapters across Canada and 1,800 members, FEI Canada provides professional development, thought leadership and advocacy services to its members. The association membership, which consists of Chief Financial Officers, Audit Committee Directors and senior executives in the Finance, Controller, Treasury and Taxation functions, represents a significant number of Canada's leading and most influential corporations.

The Committee on Corporate Reporting ("CCR") is one of two national advocacy committees of FEI Canada, CCR is devoted to improving the awareness and educational implications of the issues it addresses, and is focused on continually improving the standards and regulations impacting corporate reporting.

Overall, we agree with a number of the considerations raised in the November 2011 IASB staff paper *Put options written on non-controlling interests – possible paths forward* and would prefer that this issue be considered in a broader context such as the active project *Financial Instruments with Characteristics of Equity*.

With respect to the draft interpretation, the majority of FEI Canada members transitioned to IFRS since January 1, 2011, and the proposals included in the draft interpretation are consistent with members' conclusions on transition, i.e. that put options written on non-controlling interests (NCI puts) should be fair valued with the change in fair value after

acquisition or issuance reported through profit and loss. The Committee also supports the conclusion that changes in the fair value of a NCI put do not constitute an ownership change.

Thank you for allowing us the opportunity to respond to this proposal.

Yours very truly,

Gord Heard
Chair
Committee on Corporate Reporting
FEI Canada

1201-170 University Ave. Toronto, ON M5H 3B3 416.366.3007 416.366.3008 feicanada@feicanada.org
www.feicanada.org

Appendix: CCR's responses to the specific questions raised in the draft interpretation

<u>Question 1 - Scope:</u>

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 assets (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?

The proposed scope with the differentiation between IFRS 3 (2004) and (2008) is generally not relevant for Canadian preparers who only recently transitioned to IFRS. However, we question whether an interpretation is required for such a narrow type of transaction, i.e. why only address NCI puts written by the parent when it is obliged to pay cash or another financial asset and not other types of puts? Other issues that may arise and are excluded from this interpretation include NCI puts written by group entities other than the reporting parent or NCI puts settled by delivery of non-financial assets or own equity.

For clarification, we suggest that the word "parent" be replaced by "entity" as this is consistent with the wording in paragraph 23 of IAS 32 and would therefore cover all NCI puts written by entities within a group.

<u>Question 2 - Consensus:</u>

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 recognized for an NCI put. Changes in the measurement of that financial liability would be required to be recognized in profit or loss in accordance with IAS 30 *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 generally agree with the consensus proposed in the draft Interpretation that recording the fair value change through profit and loss is the appropriate accounting treatment, despite the subjectivity involved with determining the fair value of instruments that often require Level 3 valuation techniques. However, we question the Committee's decision not to address wider issues involved in the accounting for NCI puts and similar contracts without considering the guidance in existing IFRS literature that addresses accounting and transactions with owners, including IFRS 10 and IAS 27, as well as the active project *Financial Instruments with Characteristics of Equity.*

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?

Again, although we don't expect the transition to have a significant impact for Canadian preparers who recently transitioned to IFRS, we agree with the proposed transition requirements.