

STAFF PAPER

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IFRS Interpretations Committee Meeting

Project	Put options written on non-controlling interests	
Paper topic	Ballot draft: [draft] Interpretation, clean version	
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in IFRIC *Update*. The approval of a final Interpretation by the Board is reported in IASB *Update*.

[Draft] Interpretation X Put Options Written on Non-controlling Interests**References**

- IAS 27 *Consolidated and Separate Financial Statements*
- IAS 32 *Financial Instruments: Presentation*
- IAS 39 *Financial Instruments: Recognition and Measurement*
- IFRS 3 *Business Combinations*
- IFRS 9 *Financial Instruments*
- IFRS 10 *Consolidated Financial Statements*

Background

1. A parent may write a put option on the shares of its subsidiary held by a non-controlling interest shareholder that obliges the parent to purchase those shares for cash or another financial asset. That put option may be written as part of, or separately from, a business combination in which the parent obtains control of the subsidiary.
2. In the consolidated financial statements, that put option is a contract to purchase the group's own equity instruments and thus gives rise to a financial liability for the present value of the redemption amount in accordance with paragraph 23 in IAS 32. When the financial liability is recognised initially, that amount is

reclassified from equity. IAS 32 requires that the financial liability is subsequently measured in accordance with IAS 39 or IFRS 9.

3. IAS 39 and IFRS 9 require that all changes in the measurement of such financial liabilities are recognised in profit or loss. However IAS 27 and IFRS 10 require that changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (ie transactions with owners in their capacity as owners).

Scope

- 4 The [draft] Interpretation applies 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).
- 5 However, the [draft] Interpretation does not apply to NCI puts that were accounted for as contingent consideration in accordance with IFRS 3 *Business Combinations* (2004). IFRS 3 (2008) provides the relevant measurement requirements for those contracts.

Issues

- 6 This [draft] Interpretation addresses how to account for changes in the measurement of the financial liability that is recognised for a NCI put.

Consensus

7. In accordance with paragraph 23 in IAS 32, a NCI put gives rise to a financial liability that is initially measured at the present value of the redemption amount in the parent's consolidated financial statements. Subsequently, the financial liability is measured in accordance with IAS 39 or IFRS 9. Paragraphs 55 and 56 in IAS 39 and paragraphs 5.7.1 and 5.7.2 in IFRS 9 require that changes in the measurement of that financial liability are recognised in profit or loss.

8. The changes in the measurement of that financial liability do not change the parent's or the non-controlling interest shareholder's relative interest in the subsidiary and therefore are not equity transactions (ie they are not transactions with owners in their capacity as owners) as described in paragraph 30 in IAS 27 or paragraph 23 in IFRS 10.

Appendix A

Effective date and transition

This appendix is an integral part of the [draft] Interpretation and has the same authority as the other parts of the [draft] Interpretation.

- A1 An entity shall apply this [draft] Interpretation for annual periods beginning on or after [date]. Earlier application is permitted. If an entity applies this [draft] Interpretation for an earlier period, it shall disclose that fact.
- A2 This [draft] Interpretation shall be applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Basis for Conclusions on [draft] IFRIC Interpretation X *Put Options Written on Non-controlling Interests*

This Basis for Conclusions accompanies, but is not part of, IFRIC X

Introduction

BC1 This Basis for Conclusions summarises the IFRS Interpretations Committee's considerations in reaching its [draft] consensus. Individual Committee members gave greater weight to some factors than to others.

Background

BC2 The IFRS Interpretations Committee received a request to clarify the accounting for put options written on shares in a subsidiary held by the non-controlling interest shareholders in the consolidated financial statements of the controlling shareholder.

BC3 In accordance with paragraph 23 in IAS 32 *Financial Instruments: Presentation*, if the parent is obliged to purchase the shares for cash or another financial asset, the put option gives rise to a financial liability in the parent's consolidated financial statements for the present value of the redemption amount (the option exercise price). That is because the put option is a contract to purchase the group's own equity instruments in exchange for cash or another financial asset. When the financial liability is recognised initially, the amount is reclassified from equity.

BC4 Constituents expressed concerns to the Committee about the diversity in accounting for the subsequent measurement of that financial liability. The issue arises due to a potential inconsistency between the requirements in IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments* for subsequently measuring financial liabilities and the requirements in IAS 27 *Consolidated and Separate Financial Statements* and IFRS 10 *Consolidated Financial Statements* for accounting for transactions with owners in their capacity as owners. Specifically, some constituents believe that changes in the measurement of the financial liability that is recognised for the put option should be recognised in profit or loss in accordance with IAS 39 and IFRS 9 but

others believe that those changes should be recognised directly in equity because of the guidance in IAS 27 and IFRS 10.

BC5 The Committee decided to develop a [draft] Interpretation in response to that diversity in practice.

Scope

BC6 The [draft] Interpretation applies in the parent's consolidated financial statements to put options that oblige the parent to purchase shares of its subsidiary held by a non-controlling interest shareholder for cash or another financial asset (NCI puts).

BC7 However, the [draft] Interpretation does not apply to NCI puts that had been issued as part of a business combination that occurred before the application of IFRS 3 *Business Combinations* (2008) and were accounted for as contingent consideration in accordance with IFRS 3 (2004). The Committee noted that those put options were excluded from the scope of IAS 32 and IAS 39 because the accounting for contingent consideration was set out in IFRS 3 (2004). In accordance with IFRS 3 (2004), changes in the measurement of contingent consideration were treated as an adjustment to the cost of the business combination. When the IASB revised IFRS 3 in 2008, it did not change the accounting for contingent consideration that arose from a business combination that occurred before the application of IFRS 3 (2008). Therefore the Committee decided that this [draft] Interpretation should not change the accounting for those contracts.

Consensus

Subsequent measurement of the liability that is recognised for a NCI put

BC8 The Committee noted that paragraph 30 in IAS 27 and paragraph 23 in IFRS 10 give guidance on the accounting in circumstances when the respective ownership interests of the parent and non-controlling interest shareholder change. The Committee also noted that the NCI put gives rise to a financial liability, which

reflects the parent's obligation to pay the option's exercise price, and the remeasurement of that financial liability does not change the respective ownership interests of the parent or the non-controlling interest shareholder. Consequently, the Committee decided that these two paragraphs are not relevant to the remeasurement of the financial liability that is recognised for a NCI put.

- BC9 The Committee decided that the financial liability that is recognised for a NCI put should be accounted for consistently with all other such financial liabilities that are within the scope of IAS 39 and IFRS 9 and thus changes in the measurement of that financial liability must be recognised in profit or loss.
- BC10 The Committee further noted that the [draft] Interpretation is consistent with the accounting requirements for other put options and forward contracts that oblige an entity to purchase its own equity instruments for cash or other financial assets. Paragraph 23 in IAS 32 provides guidance that is specific to these contracts and states that they are subsequently measured in accordance with IAS 39 or IFRS 9.
- BC11 The Committee acknowledged that some constituents believe that the requirements in IAS 32 to measure particular derivatives written on an entity's own equity instruments on a gross basis at the present value of the redemption amount does not result in useful information. Those constituents believe that some or all such derivatives should be measured on a net basis at fair value, consistently with derivatives that are in the scope of IAS 39 and IFRS 9. The Committee agreed with that view and recommended that the IASB should propose a narrow scope amendment to IAS 32 that would change the measurement basis of NCI puts in the parent's consolidated financial statements. Under the Committee's recommendation, IAS 32 (including the requirement in paragraph 23 to recognise a financial liability at the present value of the redemption amount) would not apply to such NCI puts. Instead the requirements in IAS 39 or IFRS 9 for derivatives would apply and, as a result, such NCI puts would be measured on a net basis at fair value. However, the IASB decided not to proceed with the Committee's recommendation. The Board questioned whether NCI puts should be treated differently from other derivatives written on an entity's own equity instruments. The Board noted that the criticisms about the usefulness of the

information provided by the gross measurement basis required by paragraph 23 in IAS 32 are equally applicable to all put options and forward purchase contracts written on an entity's own equity (not only NCI puts). The Board noted that ideally the accounting for derivatives written on an entity's own equity instruments should be addressed comprehensively within the context of its project on Financial Instruments with Characteristics of Equity. Although the Board decided not to amend IAS 32 to change the accounting for NCI puts at this time, it asked the Committee to address the issue that was submitted by clarifying the existing accounting requirements for the subsequent measurement of the financial liability that is recognised for a NCI put.

Transition

BC12 The Committee decided that entities will have all of the necessary information to apply this [draft] Interpretation retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The Committee noted that this [draft] Interpretation will change where in the financial statements particular amounts are recognised but will not change the computation of those amounts.

Other issues related to the accounting for NCI puts

BC13 The Committee is aware that there are broader questions related to the requirements in IAS 32 to measure particular derivatives written on an entity's own equity instruments at the present value of the redemption amount, including which component of equity should be debited at initial recognition. The Committee did not address those wider-reaching issues because the IASB asked the Committee to address only the narrow issue that was submitted by clarifying the accounting for subsequently measuring the financial liability that is recognised for a NCI put.