Rådet för finansiell rapportering

The Swedish Financial Reporting Board

RFR-rs 2012:08

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

Dear Sirs,

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

The Swedish Financial Reporting Board is responding to your invitation to comment on the draft interpretation regarding Put Options Written on Non-Controlling Interests.

In summary we have the following views:

- The Committee should refrain from publishing this interpretation and instead urge the IASB to prioritize the equity/liability project as the proposed interpretation does not consider the wide range of issues related to derivatives on non-controlling interests.
- We disagree with the Committee's conclusion that there is no support to remeasure the liability through equity. We believe that changes in the measurement of the put options on non-controlling interests ("Put options") should be recognized directly in equity in line with the economic entity model.
- Recognising changes in the measurement of Put options in P&L could generate an accounting answer that is counter-intuitive to the economics of the transaction and results in misleading information. One example is a put option with an exercise price at fair value. Since the put price is at fair value, economically this option does not have any true value.

Below you find our detailed comments.

The Committee should refrain from publishing an interpretation

Accounting for derivatives on non-controlling interests is a topic, with several complex issues. This has also been apparent by the two years of deliberations by the Committee and IASB and expressed in BC 13 of the draft interpretation. Therefore we believe that the decision in the draft interpretation only to address the issue regarding the remeasurement of the liability is, from our perspective, a too narrow scope.

It would not solve the diversity in practice regarding other issues related to these kinds of derivatives, for example which category in equity should be affected when the liability is recognized.

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The draft interpretation also chooses just to address written put options however it does not specifically address forward contracts or calls and puts with similar conditions which are in substance forward contracts.

There are also other transactions which are similar in nature which can be considered for example contingent consideration relating to a purchase of a non-controlling interest.

We believe that instead of issuing the draft interpretation the Committee should give comprehensive guidance regarding all aspects of accounting of derivatives on non-controlling interests. Otherwise the Committee should refrain from issuing an interpretation and instead refer the issue to the IASB and urge them to prioritize the project regarding financial instruments with characteristics of equity.

Disagreement with the conclusion that there is no support to remeasure the liability through equity

In addition, we disagree with this conclusion drawn by the Committee. We believe that under the current wording in IAS 39 and IAS 27 there are two equally acceptable approaches regarding remeasurement, i.e. either to take the remeasurement through profit or loss or through equity.

Furthermore, we disagree with the conclusion that the remeasurement does not reflect a change in the relative interest of the subsidiary.

As many preparers derecognize the non-controlling interests when the liability is recognized, we believe that the initial recognition of the liability represents a change in the relative interest and that subsequent changes in value merely represent a transfer of value between the majority shareholder and minority shareholder and should therefore be recognized in equity.

Recognising changes in the measurement of Put options in P&L does not result in useful information

We believe that in certain circumstances, the proposed accounting could generate an accounting answer that is counter-intuitive to the economics of the transaction. One example is a Put option with an exercise price at fair value. Since the put price is at fair value, economically the option does not have any true value. However, the Put option is recognized on a gross basis (i.e., at the present value of the redemption amount) and the gross liability will be adjusted based on the market price of the underlying shares. Therefore, under the proposal one would continually recognize a gain or loss on this option even though economically there is no gain or loss. If the business is doing well and the stock price rises, the company would record a loss because the liability would increase with the share price increase. The same would be true going the other way, if business were down, share price would be down and the company would take a gain on the Put option. We do not believe that the proposed accounting results in useful information.

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Other comments

If the Committee decides to issue this interpretation, we believe that all non-controlling interests puts issued pre-IFRS 3 Business Combination (Revised 2008), irrespective if they were issued inside or outside a business combination, should be grandfathered. The reason for our concern is that the wording in the exposure draft implies that there is no grandfathering of non-controlling interests puts which has been issued outside a business combination.

If you have any questions concerning our comments please address our Executive member Claes Janzon by e-mail to: claes.janzon@radetforfinansiellrapportering.se.

Stockholm, 28 September 2012

Yours sincerely

Anders Ullberg
Chairman

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