MINISTERIO
DE ECONOMÍA Y
COMPETITIVIDAD

INSTITUTO DE CONTABILIDAD
Y AUDITORÍA DE CUENTAS

DI/2012/2 Put options written on Non-controlling Interest.

Comment Letters
European Financial Reporting Advisory Group
35 Square de Meeûs
Brussels B-1000
Belgium

Dear Madam/Sir,

In the present letter ICAC gives its view on some specific issues raised on IFRIC's Draft DI/2012/2 Put options written on Non-controlling Interest.

First of all, we would like to highlight that, in our view, any change to the Standards should be argued and justified enough.

Specifically, in this case, it is remarkable the background of the project. After the Committee had received a request for guidance on how an entity should account for changes in the carrying amount of a financial liability for a put option, written over shares held by a non-controlling interest shareholder ('NCI put'), in the consolidated financial statements of a parent entity, the Committee noted that additional accounting concerns exist relating to the accounting for NCI puts. In September 2010, the Committee noted that these additional accounting concerns would be best addressed as part of the Board's *Financial Instruments with Characteristics of Equity* project and, consequently it decided not to include this NCI put project in its agenda.

At the present moment, the project *Financial Instruments with Characteristics of Equity* is paused, due to capacity limitations. Therefore, the Interpretations Committee was asked to consider again the NCI put project.

As a result, the Draft IFRIC Interpretations DI/2010/2 is published with a scope recognised by the Committee as too narrow taking account the broader questions related to the accounting for NCI puts as it is said in BC13. One of these questions is which component of equity should be debited at initial recognition.

In ICAC's view, the initial recognition of NCI puts is essential for determining the subsequent measurement. We agree with the view 2, in which it is said that a key question is whether the transaction is one with the owner in its capacity as owner, particularly if the NCI is not derecognised in the consolidated statements.

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However, we think that the view most reasonable is the view 1, that is, the approach taken in the Draft Interpretation for the following reasons:

If the NCI put is analysed focusing on the way in which the exercise price is determined, we can find three situations, as EFRAG says in paragraph 2:

- Exercise price is fixed. In this case, the future execution of the compromise is sure and it will eliminate the NCI. So, in the moment of the recognition of the put, we can consider this operation is made with owners who are not more owners in the future. Therefore, the subsequent measurement of the liability should be account for as IAS 39 or IFRS 9 says.(amortised cost)

- Exercise price is at the market value of the underlying stake, this is the case of the paragraph 35 of the EFRAG's letter. We agree with the consideration of the put separately of the shares as a derivative, so the transactions is not made with owners in his capacity as owners. The transaction could be celebrated with anyone because it is a derivative. Again, the subsequent measurement of the liability should be account for as IAS 39 or IFRS 9 says.(fair value)

- Exercise price is based on a formula, usually linked up entity's variables, as five times EBITDA or net asset value. This case is not a derivative, it can be considered, in an economical view, as a puttable share as it is said in paragraph 34 of EFRAG's letter. We agree that the holder of a puttable share is not an owner because the puttable share is considered as a liability so the transaction is not made with owners. Therefore, the subsequent measurement of the liability should be account for as IAS 39 or IFRS 9 says.(amortised cost)

Please don't hesitate to contact us if you would like to clarify any point of this letter.

Ana Martínez-Pina
Chairman of ICAC

Madrid, 19th September 2012

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