

**EFRAG
Francoise Flores
Square de Meeus 35
1000 Brussels
Belgium**

Draft Interpretation *Put Options Written on Non-Controlling Interests*

Dear Ms Flores,

The European Securities and Markets Authority (ESMA) is an independent EU Authority that contributes to enhancing the protection of investors and promoting stable and well-functioning financial markets in the European Union (EU). ESMA achieves this aim by building a single rule book for EU financial markets and ensuring its consistent application across the EU. ESMA contributes to the regulation of financial services firms with a pan-European reach, either through direct supervision or through the active co-ordination of national supervisory activity.

ESMA has considered EFRAG's draft response to the draft interpretation *Put Options Written on Non-controlling Interests*. ESMA thanks you for this opportunity to contribute to EFRAG's due process. ESMA is pleased to provide you with the following comments aimed at improving the decision-usefulness of financial statements and the transparency and enforceability of IFRSs.

ESMA would strongly encourage the Interpretations Committee and the IASB to continue with an Interpretation to address the existing divergence in practice as it will clarify the accounting treatment for subsequent variations in non-controlling interests. We are however concerned that the suggested scope does not capture all non-controlling interests and related instruments and would encourage the Board to consider further those elements as part of a comprehensive project. In line with our comments on the 2011 agenda consultation we believe that this can be achieved as part of the *financial instruments with characteristics of equity* project which the Board should restart with high priority.



In its letter EFRAG set out some concerns regarding the proposals and the use of an Interpretation to resolve the issue. As set out in the appendix to this letter in our detailed responses to the questions, ESMA shares some of these concerns.

Our detailed comments on the draft Interpretation are set out in the appendix to this letter. We would be happy to discuss all or any of these issues further with you.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'S. Maijoor'.

Steven Maijoor
Chair ESMA

A handwritten signature in blue ink, appearing to be 'Julie Galbo'.

Julie Galbo
Chair ESMA's Corporate Reporting Standing Committee

APPENDIX – ESMA’s detailed answers to the questions in the draft Interpretation *Put Options Written on Non-controlling interests*

Question 1 – Scope

Do you agree with the proposed scope? If not, what do you propose and why?

1. ESMA believes that the interpretation should clarify that puts on non-controlling interests written by a parent entity below the ultimate parent are included. To achieve that clarification, ESMA suggests modifying the word “parent” by “entity”.
2. Paragraph 23 of IAS 32 – *Financial Instruments: Presentation* deals with the accounting treatment for other put options and forward contracts that oblige an entity to purchase its *own* equity instruments. There is currently no IFRS literature on the accounting treatment for a forward contract on *the shares of the non controlling interests* or a put and a call contract on the *shares of the non controlling interests* whereas these issues are linked.

Question 2 – Consensus

Do you agree with the consensus proposed in the draft Interpretation? If not, why and what alternative do you propose?

3. ESMA considers that the accounting treatment for subsequent variations in non-controlling interests puts at fair value is clarified by the draft interpretation and that it should serve the purpose of reducing existing diversity.
4. ESMA understands from discussions held by the Board in May 2012 with respect to the agenda consultation that the Board unanimously supported initiating research on several topics among which *financial instruments with characteristics of equity* and discount rates. In its comment letter to the agenda consultation, ESMA recommended the Board to start working on the *financial instruments with characteristics of equity* with high priority and the discount rate project as a high/medium priority project. ESMA encourages the Board to give high priority to these research projects and to consider the potential interactions with this draft interpretation.

Question 3 – Transition

Do you agree with the proposed transition requirements? If not, what do you propose and why?

5. ESMA fully agrees with a retrospective application of the [draft] interpretation.