1 October 2012

International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH
United Kingdom
Email: CommentLetters@ifrs.org

Dear Sir/Madam

SAICA SUBMISSION ON THE DRAFT IFRIC INTERPRETATION – *PUT OPTIONS WRITTEN ON NON-CONTROLLING INTERESTS*

In response to your request for comments on the Draft IFRIC Interpretation – *Put Options Written on Non-Controlling Interests*, attached is the comment letter prepared by Accounting Practices Committee (APC) of The South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of the APC, which comprises members from reporting organisations, regulators, auditors, IFRS specialists and academics.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely

Sue Ludolph
Project Director – Financial Reporting

cc: Paul O'Flaherty (Chairman of the Accounting Practices Committee)

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GENERAL COMMENTS

The majority of our constituents are in agreement that an Interpretation should be issued to address the diversity in practice that was acknowledged by the IFRS Interpretation Committee discussions. Currently there may be two views on how to account for put options written on non-controlling interests. Either account for these as transactions with non-controlling interests in accordance with IAS 27 – *Consolidated and Separate Financial Statements* (IFRS 10 – *Consolidations*); or as financial liabilities in accordance with IAS 39 – *Financial Instruments: Recognition and Measurement* or IFRS 9 – *Financial Instruments*.

The majority of our constituents support the proposed consensus under existing standards on the basis that the NCI put liability is a financial liability and accordingly should be accounted for under IAS 39/IFRS 9.

However, the minority of our constituents are of the view that the accounting proposed by the draft Interpretation does not represent the commercial substance of these put options. These constituents are of the view that such transactions are transactions between shareholders; therefore the Consolidated Statement of Comprehensive Income should not be impacted in line with other shareholder transactions. Generally, these constituents are of the view that the draft Interpretation should not be issued with the current Consensus.

There was consensus that the shortcomings of IAS 32 – *Financial Instruments: Presentation* that were highlighted in the draft Interpretation related to derivatives written on an entity's own equity instruments should be addressed urgently by the International Accounting Standards Board ("IASB") as part of a broader project on Financial Instruments with Characteristics of Equity.

SPECIFIC COMMENTS

Question 1 – Scope

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 asset (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?

We are in agreement with the proposed scope of the draft Interpretation, however we suggest including instances where the written put is written by a fellow subsidiary in the same group or directly by the subsidiary. Some constituents were of the view that the accounting for written puts as contingent consideration should not differ from the accounting for written puts concluded outside a business combination.

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Question 2 – Consensus

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 recognised for an NCI put. Changes in the measurement of that financial liability would be required to be recognised in profit or loss in accordance with IAS 39 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?

Most constituents believe that the written put is a financial liability, and accordingly that, under existing standards, the re-measurement of this liability should be recognised in profit or loss. The NCI put option is similar to granting a shareholder the right to require an entity to redeem its shares for cash or other assets.

The minority of the constituents disagreed with the Consensus view expressed in the draft Interpretation as they believe the accounting does not reflect the commercial substance of these transactions as these are transactions with shareholders.

There was full support for the views expressed in BC11 of the draft Interpretation, which highlight the deficiencies in IAS 32 – *Financial Instruments: Presentation*, regarding the accounting treatment for derivatives written on the entity's own equity instruments. The Board's response in BC11, that these deficiencies be addressed comprehensively under the Financial Instruments with Characteristics of Equity project, is the appropriate longer-term solution to these issues. However, in the interim, the draft Interpretation should be issued to address the current diversity.

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?

We agree with the proposed transition requirements set out in the draft Interpretation, but would suggest the IFRS Interpretation Committee consider whether full retrospective application is necessary. We believe a modified retrospective application allowing measurement of the liability based on facts and circumstances at the beginning of the earliest period presented would reduce the burden on companies.

OTHER COMMENTS

In our discussions our constituents raised the following additional considerations:

- Guidance should be provided on the discount rate that should be used to discount such liabilities;
- Whether such liabilities could be used as hedging instruments or whether these liabilities are still considered to be derivatives and therefore could not be used as hedging instruments; and

- The interaction of the re-measurement of the liability and attribution of profit or loss of the subsidiary to the NCI should be addressed. For example, if the put option is to be exercised at the fair value of the NCI's interest at the date of exercise, in addition to recognising the change in the liability through profit or loss, should there also be an attribution of the profit or loss of the subsidiary to the NCI? Some are of the view that since the liability reflects the fair value of the NCI, no attribution of the subsidiary's profit or loss would be required because this would effectively result in double-counting. Others are of the view that the attribution of the subsidiary's profit or loss to the NCI would still be required. In other situations where the put option exercise price may be fixed or based on a formula, there is also uncertainty about the interaction of the re-measurement of the liability and the attribution to NCI. The final Interpretation should address this.

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