Association pour la participation des entreprises françaises à l'harmonisation comptable internationale

AFEP

ASSOCIATION FRANÇAISE DES ENTREPRISES PRIVÉES

**Mr. H Hoogervorst, Chairman of the IASB**
**Mr. W Upton, Chairman of the IFRS Interpretations Committee**
30 Cannon Street
London EC4M 6XH
United Kingdom

Paris, May 8, 2012

***Re: Put options written over non-controlling interests***

Dear Mr. Hoogervorst and Mr. Upton,

The purpose of this letter is to convey to the IASB the strong concern of the signatories about the proposed Interpretation dealing with the presentation of the subsequent measurement of the financial liability arising from those put options over non-controlling interest (NCI) shares.

We are firmly opposed to the IFRS Interpretations Committee's (the Interpretations Committee) issuing of such an Interpretation for the following reasons:

## 1. Concerns about relevance and comprehensibility

- As we have stressed in earlier correspondence, it is far from satisfactory to treat only the issue of the subsequent measurement of the financial debt in isolation. Indeed, the real, fundamental issue is the initial recognition of a gross liability; the issue of the presentation of its subsequent remeasurement is only one of the consequential problems this causes. We can understand the reason for which the Board did not want to proceed in a hurry with a very narrow limited amendment of IAS 32 to address this issue, but we believe that only a comprehensive review of the model for the initial recognition and subsequent measurement of such an instrument, and its inter-action with the accounting for non-controlling interests, could help to provide appropriate and relevant solutions.
- We are aware that some Interpretations Committee and IASB members acknowledge that recognising changes in the value of the liability in net income makes no sense as it does not appropriately reflect the economic reality of the transaction.

However, we understand that even some of these members in common with the majority of the Board have chosen to follow the possibly flawed logic of current standards, in order to not convey a misleading signal about the value of the technical conclusion of the Interpretations Committee. We do not agree with this concern. On the contrary, we think that in pursuing this matter in t his way the Board may in fact be running the risk of conveying the message that it is less important to convey the economic effect of a transaction in the most appropriate way than it is to maintain consistency with what is an unsatisfactory existing standard. We are very concerned by this approach, as, in our view, it may lead to a devaluation the standards themselves: if current standards do not provide relevant information but are left uncorrected, one might legitimately conclude that the standards as a whole are not appropriate and need to be amended in order to meet the criteria for a set of high-quality accounting principles.

- We also understand from the Board's discussions that this is an issue whose impact is limited to a small number of European countries. However, since the transition to the revised IFRS 3 (which prevents the recognition of remeasurements through goodwill), we observe that practice has become rather homogeneous across European jurisdictions (for example, almost all the French companies affected by this matter recognise remeasurement through equity) and there is perhaps therefore no need for an Interpretation. Finally, potential diversities in accounting will still arise from issues not addressed by the proposed Interpretation, such as, for example: the initial recognition of the liability (what component of equity or net assets should be debited), the continued recognition of net income or equity attributable to the non-controlling interest, the accounting for the payment of dividends to the NCI, the accounting for the expiry of the NCI put without exercise, etc.

## 2. Technical concerns

We believe that both the IASB and the Interpretations Committee have been too quick to conclude that the only solution is to recognize subsequent remeasurement of the Put Liability in net income. Indeed, we believe that there is today no clear established principle which allows one to conclude systematically about the opposite side of the entry for liabilities. In fact, there are examples in current IFRS where changes in the value of a liability are not recognized immediately in net income:

- Changes in fair value attributable to change in the own credit risk of the entity (IFRS 9)
- Changes in the fair value of a liability for distribution of non-cash assets to owners (IFRIC 17.13)

We believe that this last example is very close to the issue in question, and that the rationale stated in the basis of conclusion of IFRIC 17 (BC36) may also be applied to the remeasurement of the Put Liability: "*because any adjustments to the best estimate of the dividend payable reflect changes in the estimated value of the distribution, they should be recognized as adjustments to the amount of distribution . In accordance with IAS 1... distributions to owners are required to be recognised... in Equity . Similarly, adjustments to the amount of the distribution are also recognised directly... in Equity*". In other words, the change in value through remeasurement should follow the classification of the initial accounting.

To conclude, we urge the Board and the Interpretations Committee not to proceed with this very narrow scope issue and rather spend more time on developing robust principles to define what is performance, what should be recognized in net income and other comprehensive income, and related topics.

We would be happy to discuss any of the above with you,

Yours sincerely,


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