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RÉPUBLIQUE FRANÇAISE

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Chairman

Paris, the 4th October 2010

IFRIC
30 Cannon Street
LONDON EC4M 6XH
UNITED KINGDOM

JH

n°64

Re: IFRIC tentative agenda decision - IAS 32 Financial Instruments: Presentation — Put options written over non-controlling interests

Dear Sir or Madam,

I am writing on behalf of the Autorité des Normes Comptables (ANC) to express our views on the above-mentioned tentative agenda decision published in the September 2010 IFRIC Update, also reproduced in Appendix 1.

The ANC agrees with and acknowledges the IFRS IC tentative decision not to take onto its agenda the above-mentioned request for interpretation and to refer the request to the Board to be addressed within the Financial Instruments with Characteristics of Equity (FICE) project.

The ANC however disagrees with the wording as drafted and wishes to express the following concerns in this regard.

Failure to present the issue in an appropriate manner

The tentative rejection notice indicates that the request on how to 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 is made in the context of the revised IAS 27 which will be mandatorily applicable as of reporting periods beginning on or after 1st July 2009.

Nothing in the rejection notice indicates the conflict that arises with the introduction of the new standard :

- All changes in non-controlling interest are to be reported within equity under IAS 27,
- Whereas under IAS 32, changes in a financial liability such as a NCI put are to be recognised in accordance with IAS 39 thus, in profit or loss.

The ANC notes however in the Board's Agenda Paper 18 for its 14th September 2010 session that the issue is described in a more comprehensive manner :

> "5. The issue arises because of a perceived conflict between the financial instruments guidance in IAS 32 Financial Instruments: Presentation and IAS 39 and the guidance in IAS 27.

6. The Interpretations Committee observed that some constituents believe, in conformity with the guidance in IAS 32 and IAS 39, that, because a financial liability is initially recognised for the NCI put, subsequent changes in its carrying amount should be recognised in profit and loss.

7. However, the Interpretations Committee noted that other constituents believe that, in conformity with the guidance in IAS 27 on transactions with non-controlling interests (NCI), changes in the carrying amount of the NCI put should be recognised in equity."

Rejection drafting in effect coming to a conclusion

The ANC is concerned that the rejection notice, as drafted could be read as being a positive interpretation, what it is not supposed to be, since the subject has been referred to the Board.

Indeed, having failed to previously mention the existence of a conflict between standards as mentioned above, the Committee presents a partial solution to the issue (the financial instruments standards view), referring only to additional accounting concerns.

In this respect, the ANC considers that the rejection notice should not refer to only one particular method, but should explain the inconsistency between IAS 39 and IAS 27 leading to the referral of the subject to the IASB for consideration.

Conclusion conflicting with an IFRS and the IFRIC Due Process Handbook

Following the above, the ANC considers that the Committee is in effect producing a "quasi-interpretation" which conflicts with another IFRS, which the IFRIC Due Process Handbook §§6-7 specifically prohibits the Committee from doing.

ANC proposals

In view of all of the above, the ANC would suggest that the final wording for rejection :

- Presents the conflict between the two standards as per the afore-mentioned Agenda Paper to the Board ;
- Deletes the paragraph referring to the accounting treatment in accordance with IAS 32/39;
- Indicates that the resolution of the conflict between two standards falls within the remit of the Board, justifying why the issue is referred to the Board in addition to the other accounting concerns that have been identified in the course of the deliberations;
- Indicates that, given the diverging applications identified in practice, entities should explain the accounting treatment applied in accordance with the guidance in IAS 1 Presentation of financial statements.

Should you wish to discuss any of the above, please do not hesitate to contact me.

Yours sincerely,

Jérôme HAAS

Appendix 1 – September 2010 Tentative Agenda decision

IAS 32 Financial Instruments: Presentation — Put options written over non-controlling interests

The Committee 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 request focuses on the accounting for an NCI put after the 2008 amendments were made to IFRS 3 Business Combinations, IAS 27 Consolidated and Separate Financial Statements and IAS 39 Financial Instruments: Recognition and Measurement.

The Committee observed that paragraph 23 of IAS 32 requires the financial liability recognised for a NCI put to be subsequently measured in accordance with IAS 39. The Committee also observed that paragraphs 55 and 56 of IAS 39 require changes in the carrying amount of financial liabilities to be recognised in profit or loss. However, the Committee noted that additional accounting concerns exist relating to the accounting for NCI puts.

The Committee noted that these additional accounting concerns would be best addressed as part of the Board’s Financial Instruments with Characteristics of Equity (FICE) project. Consequently, the Committee [decided] not to add this issue to its agenda but to recommend that the Board should address these additional accounting concerns as part of the FICE project. The Committee also observed that it would expect entities to apply the guidance in IAS 1 Presentation of Financial Statements in determining whether additional information relating to the accounting for NCI puts should be disclosed in the financial statements, including a description of the accounting policy used.