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7 September 2012 By email: commentletters@hkicpa.org.hk & post

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Dear Selene

IFRS Interpretations Committee Exposure Draft – *Put Options Written on Non-Controlling Interests*

We refer to your letter dated 21 June 2012 inviting our comments on the IFRS Interpretations Committee's (IFRIC) Exposure Draft – Put Options Written on Non-Controlling Interests ("Draft Interpretation") issued in May 2012.

We welcome the guidance in the Draft Interpretation to respond to the diversity in accounting on the subsequent measurement of financial liability that is recognised for an "NCI put". "NCI put" is a put option that obliges the parent to purchase shares of its subsidiary that are held by a shareholder with a non-controlling interest for cash or another financial asset.

We set out our comments below for your consideration.

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?

Scope

We agree that the Draft Interpretation should apply to NCI puts in the parent's consolidated financial statements. We also agree to the grandfathering provision that the Draft Interpretation should not apply to NCI puts that were accounted for as contingent consideration in accordance with IFRS 3 *Business Combinations* (2004).

Proposal to extend grandfathering provision

However, we propose to extend the above grandfathering provision to exclude from the scope of the Draft Interpretation NCI puts that were written when a subsidiary was incorporated (and not only when it was acquired).

Prior to the adoption of IFRS 3 (2008), entities were allowed an accounting policy election where adjustments to estimated amount of put option liability were recognised either in the income statement or as an adjustment to goodwill. This stemmed from the principle that under IFRS 3 (2004) contingent consideration was included in the cost of a business combination that usually resulted in an adjustment to goodwill.

The accounting policy choice applied not only when the subsidiary was acquired, but also when it was incorporated. The key factor was that the payment to the minority interest (non-controlling interest) was variable. The accounting policy choice available in respect of the acquisition of minority interests did not vary depending on whether the subsidiary was incorporated or acquired.

Proposed amendments to Draft Interpretation

We believe that the Draft Interpretation should also not change the accounting for those contracts that were entered into prior to the adoption of IFRS 3 (2008). Our proposed amendments to Paragraph 5 of the Scope section are as follows:

"However, the [draft] Interpretation does not apply to NCI puts that were accounted for as contingent consideration in accordance with IFRS 3 (2004). IFRS 3 (2008) provides the relevant measurement requirements for those contracts. ***The [draft] Interpretation also does not apply to NCI puts that were written separately from a business combination prior to the adoption of IFRS 3 (2008) in which the parent obtains control of the subsidiary."***

We also propose the following consequential additions to the end of Paragraph BC7 in the Basis of Conclusion Scope section:

"***This [draft] Interpretation should also not change the accounting for those NCI puts that were written separately from a business combination (such as when the subsidiary was incorporated) before the application of IFRS 3 (2008).***"

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?

Whilst we agree to the underlying principle that the financial liability recognised for an NCI put should be accounted for consistently with all other such financial liabilities that are within the scope of IAS 39 and IFRS 9 (thus changes in the measurement of that financial liability must be recognised in profit or loss), in our view, the proposal will result in the following consequence which we believe is counter-intuitive:

Take an example where a parent has incorporated a subsidiary and written a put option to the non-controlling shareholder to sell its shares to the parent at a future date at a price to be calculated based on a pre-determined formula which seeks to compute the fair value of the investment. The proposed accounting will require the parent to record a loss in its consolidated financial statement as the subsidiary earns profits and the value of its shares increase. Not only would this not reflect the economic substance of the transaction, but the resulting impact on the profit or loss would appear to be counter intuitive, i.e. a loss is recognised when there is a positive valuation of the subsidiary.

To address this fundamental inconsistency, we believe the IASB and the IFRIC should re-visit the proposed accounting for NCI puts, for both initial recognition and subsequent re-measurement.

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 to the proposed transition requirements.

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We hope you would find our comments useful. Should you have any questions, please do not hesitate to contact us.

Yours sincerely

Ronie Mak
Secretary