



DI/2012/2

Put Options Written on Non-controlling Interests

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1. Background

IFRSIC – 31 Mai 2011

- Release of DI/2012/2
- End of Comment Period: 1 Oktober 2012

Background in the DI

- a parent
 - may write a put option
 - on the shares of ist subsidiary
 - held by a non-controlling-interest shareholder
 - that obliges the parent to purchase those shares for cash or another financial asset
- ➔ That put option may be written as part of, or separately from, a business combination in which the parent obtains control of the subsidiary.



1. Background

Background in the DI

- in the consolidated financial statements → financial liability → IAS 32.23
- in the course of the **initial recognition**: reclassification from equity
- **subsequent measurement**: according to IAS 39 / IFRS 9

Recognition of changes in the course of subsequent measurement:

- **either** in accordance with IAS 39 / IFRS 9
 - in **profit or loss**
- **or** in accordance with IAS 27 / IFRS 10
 - in **equity** as an equity transaction (ie as a transaction with owners in their capacity as owners)



2. Scope

4 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

(the puts are in the following referred to as NCI Puts)

5 However, the DI does not apply to NCI Puts that were accounted for as contingent consideration in accordance with



3. Issue and preliminary consensus of IFRSIC

Question: How to account for changes in the measurement of the financial liability that is recognised for an NCI Put?

- 7 To be recognised in profit or loss: IAS 39.55 f. / IFRS 9.5.7.1 f.
- 8 The changes in the measurement of that financial liability do not change the relative interests in the subsidiary that are held by the parent and the non-controlling-interest shareholder and therefore are not equity transactions as described in IAS 27.30 or IFRS 10.23.



4. Effective date and transition

Appendix A of the DI:

A1 Effective date: not yet determined;

optional earlier application: allowed, if that fact is disclosed

A2 Transition: 'retrospective' in accordance with IAS 8.

Comments of the IFRS-Committee with respect to Appendix A:

- Agreement



5. Comments of the IFRS-Committee

Comments of the IFRS-Committee – Scope:

- too narrow – it should also be addressed:
 - forwards on NCI
 - situations in which the majority shareholder holds NCI Call options mirroring the NCI Puts
 - puts written by other group companies than the parent
 - component of equity, which should be debited at initial recognition
 - whether or not it makes a difference that NCI Puts are written by the parent at its own discretion (in contrast to being forced by law)
- a comprehensive interpretation is preferred



5. Comments of the IFRS-Committee

Comments of the IFRS-Committee with respect to the preliminary consensus of IFRSIC:

- conclusion has been properly derived of the underlying IFRS
- **however:** there are concerns with respect to the requirements to account for NCI Puts in line with IAS 32.23 (the „as if exercised“ accounting does not properly portray the economic substance of the transaction; in accordance with the Conceptual Framework there is not yet a present obligation), **so that** an exclusion of NCI Puts from the scope of IAS 32 is preferred; as a result NCI Puts would then be accounted for as derivative contracts; this is in line with the proposal made by IFRSIC in March 2011.
- ➔ **If, however,** the scope-out may not be put into practice in the short term, the DI should be finalised in any case (in order to address the prevalent diversity in practice).



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