



SAS Quadra 05. Bloco J. CFC
Brasília, Distrito Federal – Brazil
www.cpc.org.br

September 25th, 2012

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: IFRIC Interpretation: Put Options Written on Non-controlling Interests

Dear Board Members,

The “Comitê de Pronunciamentos Contábeis” - CPC¹ welcomes the opportunity to support you through answering the questions of the IFRIC Interpretation Draft: Put Options Written on Non-controlling Interests.

This response summarizes the views of our members, which may be supported by the opinions of external parties, sent to us for analysis and to enhance the discussion on the subject matter. We have also made efforts to encourage other external parties to send comments directly to the IASB.

Yours sincerely,

Idésio da Silva Coelho Júnior
Deputy chair of international affairs
Comitê de Pronunciamentos Contábeis (CPC)

¹ The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), BMFBOVESPA (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).



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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 agree in not applying to NCI puts that were accounted for as contingent consideration in accordance with IFRS 3 Business Combinations (2004), because the standard with effect for those operations established a different accounting treatment, and the IFRS 3 (2008) already addressed that situation.

In summary, we agree with the proposed draft interpretation, in the way it is written, however, we believe that guidance should be provided for the initial recognition of the put option. The Draft Interpretation only addresses the subsequent measurement of the NCI put, which leaves open the question as to the initial recognition of the instrument. The interpretation states that ‘When the financial liability is recognised initially, that amount is reclassified from equity’. Equally, however, some entities debit the NCI balance when initially recognising the NCI put. If the Committee decides that this guidance is not going to be provided, then we think that the rationale for that decision should be included in the Basis for Conclusions.

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 recognized for an NCI put. Changes in the measurement of that financial liability would be required to be recognized 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?

We do understand that IAS 39 does require that re measurement of financial liability should be made against profit and loss; however we believe that such financial liability is different in substance since it relates to a liability between the Group with a class of shareholder not impacting the performance of the Group accordingly the re measurement of it should in accordance with IAS 27 and IFRS 10 that requires that

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changes in a parent's ownership in a subsidiary that do not result on change in control are accounted as an equity transaction. We believe that a liability related to a put option with these characteristics is usually created between owners of a subsidiary, accordingly re measurement of such liability should be made against equity, where the initial recognition was made and where to the liability will be reversed if the put option is not exercised. We understand that there is no economic sense in the recognition of this difference as part of the Company's income.

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 proposal of applying the draft interpretation retrospectively and the proposed transition requirements. This is extremely important to avoid similar transactions being treated in different ways. Consistency in the treatment is the key word in this case and we support the proposal.

Carl