Grupo Latinoamericano de Emisores de Normas de Información Financiera

Group of Latin-american Accounting Standard Setters

October 1, 2012

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

RE: GLENIF response to IFRIC on subscribed Sale Options on Non-controlling-interest

The Group of Latin-American Accounting Standard Setters - GLASS/ GLENIF[1] welcomes the opportunity to comment on the Draft Minutes of Interpretation of the IFRIC on subscribed sales options on non-controlling-interests.

This response summarizes the views of our country-members, consulted on the issue, noting that discussions regarding the Draft Interpretation was performed within a Technical Working Group (TWG 9), created for the purpose, in which all country-members had the opportunity to designate at least one member. The group was formed with the following countries: Colombia (coordinator of this Technical Working Group), Argentina, Bolivia, Brazil, Venezuela, Ecuador and Mexico.

In a second stage, the responses presented in the summaries of each country, according to the reference instrument, were compared and discussed.

If you have any questions about our comments, please contact glenif@glenif.org.

Yours sincerely,

Juarez Domingues Carneiro
Chairman
Group of Latin American Accounting Standard Setters (GLASS)

[1] The GLASS/GLENIF overall objective is to present technical contributions related documents issued by the IASB, on which calls for comment. Therefore, GLASS / GLENIF seeks a unique voice to the IASB. GLASS/ GLENIF comprises: Brazil (Chairman), Argentina (Vice Chairman), Colombia (Council), Mexico (Council), Uruguay (Council), Venezuela (Council), Bolivia, Chile, Ecuador, Panama, Paraguay, Peru and Dominican.

GLASS' comment letter on the IASB Exposure Draft on Put Options Written on Non-controlling Interests

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?

Response:

We agree that the Interpretation applies to options that require the parent company to purchase shares of its subsidiary, and that does not apply to the NCI put options that were accounted for as contingent consideration in accordance with business combination IFRS 3 (2004) due the business combinations NIIF (2004) because the IFRS 3 (2008) provides the relevant measurement requirements for such contracts.

Reasons:

- NCI sales accounted as contingent and have established its accounting treatment in IFRS 3 - Business Combinations.
- The acquisition of NCI after the business combination is a completely different transaction that is not covered by IFRS 3.
- IFRS 3 (2008) provides the relevant measurement requirements for such contracts.

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, 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?

Response:

Most GLASS / GLENIF members agree that variations in the measurement of financial obligation be recognized in profit or loss in accordance with IAS 39-Financial Instruments and IFRS 9.

Reasons:

- The subsequent measurement of these options should have the same treatment of financial instruments.
- Being the NCI puttable financial liability, changes in the value of the liability must be registered in the profit and loss.
- Non-controlling interest is no longer equity and should be reclassified as a liability in accordance with the preceding paragraph.

The GLASS/ GLENIF wants to highlight a minority position that occurs within the working group, which poses a divergent response against the majority opinion, considering that the variations presented in the subsequent measurement of the financial liability should not affect profit or loss for the year but recognized directly in equity as an equity transaction.

The reasons given for this minority position are:

- Facts relating to transactions with owners in their capacity as such, so it is appropriate to account for that as equity transactions.
- A "change of ownership" is not clearly defined in IAS 27, and in the past, these transactions have been accounted for in equity.
- The financial liability should be treated differently from other financial liabilities, as they relate to the acquisition of non-controlling interest, and should affect the "other comprehensive income".
- If the other party decides not to exercise the option would have affected profit or losses should reverse them.

Question 3 — Transition

Grupo Latinoamericano de Emisores de Normas de Información Financiera

Group of Latin-american Accounting Standard Setters

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?

Response:

We agree.

Reasons:

- Retrospective application is important to prevent similar transactions being treated in different ways.
- By applying retroactively it is possible to prevent subtract estimations relevance and reliability figures.
- If the effects of the option are not recognized in profit or loss, there is an error that must be corrected.

Additional comments

The GLASS/ GLENIF considered important that the IASB consider the following additional comments to the questions raised in the interpretation, which should be taken into account in the final IFRIC:

- We suggest extending the proposed scope of interpretation, in order to include other types of contracts, such as futures contracts and contracts terms.
- We suggest that the interpretation clarifies the accounting treatment of the subsequent results and their distribution among the results of the owners of the parent and the non-controlling interest, and information to be included in the explanatory notes to help interpret these transactions.

**End of document **