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28 September, 2012

IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir or Madame,

Comment on the Draft IFRIC Interpretation DI/2012/2
Put Options Written on Non-controlling Interests

We appreciate the IFRS Interpretations Committee (the Interpretations Committee) 's continuous effort on the development of interpretations and welcome the opportunity to provide our comments on the Draft IFRIC Interpretation DI/2012/2 *Put Options Written on Non-controlling Interests.*

I. General comments

Comments on subsequent measurement

1. The Draft Interpretation addresses how to account for changes in the subsequent measurement of put options written on shares in a subsidiary held by the non-controlling-interest shareholders in the consolidated financial statements of the controlling shareholder. It proposes that the changes in the measurement of the financial liability be recognised in the profit or loss, providing that a financial liability be initially recognised at the present value of the redemption amount based on paragraph 23 in IAS 32

2. We have serious concerns about the above proposals in the Draft Interpretation. We believe that the changes in the measurement of the liability should be recognised in equity as a correction of the entry made upon initial recognition. This would deem the amount initially recognized for NCI puts, which may be potentially exercised, as a temporary amount. Therefore, we disagree with finalizing the proposed interpretation.

Comments on initial recognition and measurement

3. We believe that the issues about NCI puts have linkage with issues relating to the distinction between liabilities and equity and that the accounting on initial recognition needs to be reconsidered.

This is in addition to subsequent measurement dealt with in the Draft Interpretation. We anticipate that the issues relating to the distinction between liabilities and equity would be addressed in a research project as a result of the Agenda Consultation.

4. Therefore, we suggest that the treatment of NCI puts should still be considered to ensure consistency with the progress of the research project on the distinction between liabilities and equity, even after the Interpretations Committee has addressed the diversity in practice.

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 disagree with the proposed scope for the following reasons.

5. The final Interpretation should make clear whether the scope would include put options written by other subsidiaries within the group. We do not think this is clear in the Draft Interpretation.

6. Although the Draft Interpretation addresses only the accounting for the changes in the subsequent measurement of the financial liability that is recognized for an NCI put, there are other issues to be addressed for which diversity in practice may exist, including:

(1) which component of equity should be debited corresponding to the initial recognition of the NCI put liability;

(2) how to account for the financial liability when an NCI put expires without being exercised; and

(3) how to account for the dividend payment from the subsidiary to the non-controlling-interest shareholders.

7. We believe that the issues we mentioned above must be also addressed in order to resolve the diversity in practice relating to NCI puts. However, we acknowledge that the Draft Interpretation states in paragraph BC13 that these issues were not addressed because "the Board asked the Interpretations Committee to address only the narrow issue that was submitted."

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?

We disagree with the consensus for the following reasons.

8. The Draft Interpretation rejects the view that the changes in the measurement of an NCI put financial liability should be recognised in equity, noting that they do not change the relative interests in the subsidiary that are held by the parent and the non-controlling-interest shareholders.

9. However, we do not believe that recognising the changes in an NCI put financial liability in profit or loss would appropriately represent the economic substance of the transaction, because it would cause unnecessary volatility in the profit or loss.

10. We believe that the changes in the measurement of the liability should be recognised in equity as a correction of the entry made upon initial recognition. This would deem the amount initially recognised for NCI puts, which may be potentially exercised, as a temporary amount.

We hope our comments will contribute to the forthcoming deliberations in the Interpretation Committee.

Sincerely yours,

Atsushi Kato

Vice Chairman of the Accounting Standards Board of Japan