

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

22 July 2016

Dear Mr Upton

Tentative agenda decision – IAS 32 *Financial Instruments: Presentation: Accounting for a written put option over non-controlling interests to be settled by a variable number of the parent’s shares*

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee’s publication in the May IFRIC Update of the tentative decision not to take onto the Committee’s agenda the request for guidance on written puts over non-controlling interests that will, or may, be settled by the exchange of a variable number of the parent’s own equity instruments.

We do not agree with the reason given for the IFRS Interpretations Committee’s decision not to add this item onto its agenda, as reliance on the Financial Instruments with the Characteristics of Equity (FICE) project would mean resolution of this issue being left to an uncertain future time. Until that time, this would promote structuring and increase diversity in practice over what is likely to be a significant period of time before the FICE project is completed. Furthermore, the general comments on NCI puts in the tentative agenda decision could give rise to ‘contamination’ and bring uncertainty and diversity into what is now a largely consistent practice around more traditional, cash-settled, NCI put arrangements. This would be a highly undesirable unintended consequence of the proposed wording.

The core issue raised by the circumstances described in the tentative agenda decision is not isolated to puts over non-controlling interests (it could equally arise in respect of a forward or put option over an entity’s own shares) and is not as broad as the issue of whether, conceptually, an instrument should be recognised at the amount of cash to be paid (gross) or fair value (net). The issue is whether a provision that requires or permits settlement in a variable number of shares equal to a specified monetary value relieves an entity from recording an obligation of that value. Paragraph 23 of IAS 32 states, in part, that “a contract that contains an obligation for an entity to purchase its own equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount.” In addition, paragraph 21 of IAS 32 clearly expresses the principle that when an entity’s shares are used as currency to settle an obligation, that obligation should be reported as a financial liability in the same way as if the obligation were to be settled in cash.

As such, we believe that a focused and clean resolution can be achieved through a rejection notice because it is not necessary to address all of the conceptual issues surrounding obligations over an entity’s own equity instruments to

address the specific request for guidance. This could (and we believe should) be addressed by highlighting the existing provisions of paragraphs 21 and 23 of IAS 32 as described above.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'V. Poole', with a stylized flourish at the end.

Veronica Poole
Global IFRS Leader