From: Steve Ong [mailto:SteveOng@HKEX.COM.HK]
Sent: Wednesday, July 11, 2012 6:36 PM
To: Chris Joy; Winnie Chan
Cc: ComMem-DICKENS Mark; Elce Lee
Subject: IFRIC - Proposed Draft Interpretation on Out Options Written on Non-Controlling Interests

Dear Chris and Winnie,

IFRIC - Proposed Draft Interpretation on Out Options Written on Non-Controlling Interests (NCI)

Thank you for the HKICPA letter dated 21 June 2012 on the subject matter to our Mr. Mark Dickens, Head of Listing, which has been passed to me for my attention as the HKEx representative member on the HKICPA Financial Reporting Standards Committee.

I have the following comments on the proposed IFRIC Draft Interpretation:

1) It is my understanding that the accounting for NCI put liabilities has been a contentious issue in a number of countries, with the policies adopted by different companies (profit or loss versus equity) having a great impact on the comparability of financial statements. The IFRS Interpretations Committee was asked to consider how to subsequently measure the financial liability, because diversity exists in practice.

2) A parent may write a put option on the shares of a subsidiary to the non-controlling shareholders in that subsidiary. This may or may not be done as part of the business combination in which the parent obtained control of the subsidiary. A put option is a contract that gives the holder of the option the right to sell a specified asset to the writer of the option at a specified price within a specified time.

3) The IFRS Interpretations Committee and the IASB have been having discussion as to whether subsequent changes in the carrying value amount of NCI put liabilities should be recognized in:

(i) Profit or loss in accordance with IAS 39/IFRS 9; or
(ii) Equity as arising from transactions with non-controlling shareholders in their capacity as shareholders

4) The proposed interpretation proposes that changes be recognized in profit or loss. This is based on the decision that the guidance in IAS 27/IFRS 10, which has been used as a basis to justify equity recognition, is not relevant to the accounting. The Interpretation states that the changes in the measurement of that liability do not change the relative interests in the subsidiary that are held by the parent and the NCI shareholder and therefore are not equity transactions as described in IAS27/IFRS10.

5) In general, I support the IFRS Interpretations Committee's efforts to address the issue and agree with the consensus view reached. However, I am also of the view that the scope of the interpretation appears to be too narrow in limiting applicability to NCI puts written only by the parent itself. It is my understanding that there are other aspects of accounting for derivatives written over NCI. Therefore, I would recommend that the proposed interpretation should also address the complexity and broad range of issues arising from transactions with NCI, including NCI puts, in a manner consistent with the principles underlying IFRS 3, IFRS10/IAS 27 and IAS 32, as this would result in a more robust and principled-based solution and reduce complexity in IFRS.

6) The HKICPA FRSC may also wish to consider whether it would be appropriate can to link its proposed submission to the request the HKICPA FRSC made on the IASB Agenda Consultation dated 30 November 2011, whereby it request that the IASB, as a matter of urgency, should address the classification of derivative contracts on an entity's own equity in IAS 32.

I hope my above comments are useful. Should you require any further clarification, please let me know.

Thanks.

Kind regards,
Steve

Steve Ong, FCA, FCPA
Vice President, Head of Accounting Affairs (Listing)
HKEx