

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

**Ref: The IFRS Interpretations Committee's tentative agenda decision on
IAS 32: Accounting for a written put option over non-controlling interests to
be settled by a variable number of the parent's shares**

Dear Mr Upton,

The European Securities and Markets Authority (ESMA) thanks you for the opportunity to respond to the IFRS Interpretations Committee's (IFRS IC) publication in the May 2016 IFRIC Update of the tentative agenda decision related to the application of IAS 32 *Financial Instruments: Presentation*. We are pleased to provide you with the following comments with the aim of improving the consistent application and enforceability of IFRSs.

ESMA has considered the IFRS IC's tentative decision not to clarify the guidance in IAS 32 about how an entity accounts in its consolidated financial statements for a written put option over non-controlling interests (NCI) with a strike price that will, or may, be settled by the exchange of a variable number of the parent's own equity instruments. We noted that the IFRS IC concluded that it would be unable to resolve the issue without expanding the scope of the issue to a broader range of similar arrangements and that consequently the issue would be too broad for the Interpretations Committee to be addressed efficiently within the confines of the existing IFRS and the Conceptual Framework. Furthermore, the International Accounting Standards Board (IASB) is currently considering the requirements for all derivatives on an entity's own equity comprehensively as part of the Financial Instruments with Characteristics of Equity (FICE) project.

ESMA agrees with the two submitters' analysis that IAS 32 does not provide sufficient guidance on accounting for written put options over non-controlling interests to be settled by a variable number of the parent's shares. Although ESMA understands that the issue is complex, we are of the view that the issue should be addressed expeditiously in order to avoid diversity in accounting for this type of transaction. ESMA appreciates and welcomes that the Board is currently considering the requirements for all derivatives on an entity's own equity comprehensively as part of the FICE project. As also indicated in ESMA's response to the

IASB's 2015 Agenda Consultation,¹ we are of the opinion that this research project should have high priority as the distinction between liability and equity is fundamental to financial reporting. Yet, the improvements in financial reporting that can be expected from this project will most likely not be achieved soon. ESMA is not only concerned that diversity in practice exists regarding this issue, but also that the perceived lack of accounting guidance in this area opens up the real risk of issuers engaging in structuring opportunities.

ESMA is of the opinion that it is necessary to strike an appropriate balance between the long-term need to fundamentally re-think existing standards on a holistic basis through research projects and the need to provide timely guidance to narrow application issues identified in practice. The existence of a long-term research project should not prevent the IASB or the IFRS IC from addressing the existing diversity in practice through maintenance activities. Considering the existence of diversity in practice and the risk of issuers engaging in structuring opportunities, ESMA is of the opinion that addressing the specific issue at hand expeditiously without expanding the scope to a broader range of arrangements would be desirable in addition to a more comprehensive, but far distant solution.

Therefore, in order to promote consistent application of IFRS and to set standards that are enforceable, ESMA does not agree with the IFRS IC's tentative agenda decision not to add the issue to its agenda. Furthermore, if the IFRS IC maintains its tentative decision that the issue would be too broad to be addressed by the IFRS IC, ESMA urges the IFRS IC to recommend to the Board to address this issue as part of its maintenance activities as a matter of some urgency.

We would be happy to discuss these issues further with you.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'S/M' with a flourish.

Steven Maijoor

¹ Letter to the IASB: ESMA response to the IASB's Request for Views: 2015 Agenda Consultation, December 2015, ESMA, ESMA/2015/1740