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The subsequent measurement of NCI put liabilities

Resolving a contentious issue

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IN THE HEADLINES

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> 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 vs equity) having a significant impact on the comparability of financial statements.
>
> – Paul Munter, KPMG's global IFRS business combinations and consolidation leader

Limited scope

A parent may write a put option[1] 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.

The resulting NCI put liability is recognised at the present value of the redemption amount in the parent's consolidated financial statements, and is subsequently remeasured.

The draft interpretation deals with the accounting for the subsequent remeasurement of the NCI put liability.

1 A put option that provides for settlement in cash or in another financial asset by the parent.

Resolving a contentious issue

Since May 2010, there has been discussion by the IFRS Interpretations Committee and the IASB as to whether subsequent changes in the carrying amount of NCI put liabilities should be recognised in:

- profit or loss in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*/IFRS 9 *Financial Instruments*; or
- equity as arising from transactions with non-controlling shareholders in their capacity as shareholders.

The draft interpretation proposes that changes be recognised in profit or loss.

The IFRS Interpretations Committee decided that the guidance in IAS 27 *Separate Financial Statements*/IFRS 10 *Consolidated Financial Statements*, which has been used as a basis to justify equity recognition, is not relevant to the accounting. This is because subsequent changes do not result in changes in respective ownership interests.

Business impacts

The draft interpretation would achieve greater comparability between entities because *all* changes in the value of NCI put liabilities would be recognised in profit or loss.

The draft interpretation proposes retrospective application, which means that an entity may need to investigate all NCI put options issued after it adopted IFRS 3 (2008) *Business Combinations* – irrespective of whether they remain outstanding.

Basic facts

Draft Interpretation DI/2012/2 *Put Options Written on Non-controlling Interests* was issued on 31 May 2012.

- No effective date is proposed, although early adoption would be allowed. Retrospective application is proposed.
- The comment period ends on 1 October 2012.

Find out more

For more information on the draft interpretation, please go to the *IASB press release* or speak to your usual KPMG contact.

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