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**International  
Accounting Standards  
Board**

*This observer note is provided as a convenience to observers at IFRIC meetings, to assist them in following the IFRIC's discussion. Views expressed in this document are identified by the staff as a basis for the discussion at the IFRIC meeting. This document does not represent an official position of the IFRIC. Decisions of the IFRIC are determined only after extensive deliberation and due process. IFRIC positions are set out in Interpretations.*

*Note: The observer note is based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because the observer note is less detailed, some paragraph numbers are not used.*

## **INFORMATION FOR OBSERVERS**

**IFRIC meeting: September 2006, London**

**Project: Employee benefit trusts in the individual or separate financial statements of the sponsor (Agenda Paper 5)**

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## **Introduction**

1. At its July meeting, the IFRIC continued a discussion, begun at its May 2006 meeting, of an issue relating to accounting for an employee benefit trust set up by a sponsoring entity specifically to facilitate the transfer of its equity instruments to its employees under a share-based payment arrangement. The IFRIC discussed whether the employee benefit trust should be treated as an extension of the sponsoring entity, such as a branch, or as a separate entity.
2. The IFRIC noted that the notion of 'entity' is defined neither in the Framework nor in IAS 27 *Consolidated and Separate Financial Statements*. IFRIC members did not think it appropriate to take onto the IFRIC agenda a project to define an entity or branch, since the Board was currently addressing that issue in its development work on the Framework and on consolidated financial statements. Instead, they preferred to explore how specific transactions between the sponsor and the trust should be treated in the sponsor's separate or individual financial

statements and whether transactions between the trust and the sponsor's employees should be attributed to the sponsor.

3. At the July IFRIC Meeting, one IFRIC member drew an analogy between an employee benefit trust and a share nominee company. A share nominee company holds legal title to the shares registered in its name but acts on those shares only to the order of the beneficial owners. The shares are in the possession of the nominee company but not under its control. A beneficial owner would account in its financial statements for its beneficial holding of shares, not for an investment in the nominee company.

## **Issues**

4. In one sense at least, an employee benefit trust is a separate entity because it has a legal identity. The trust holds shares of the sponsoring entity which are acquired by the trust from the sponsoring entity or from the market. Acquisition of those shares is funded either by the sponsoring entity or by a bank.
5. Depending upon the contractual arrangements (constitutional documents, share-based payment arrangements...), the sponsoring entity may have legal rights to the shares or ability, other than legal rights, to direct the use of the shares, as well as legal responsibilities for the liabilities of the trust.
6. As the trust should not be treated as an extension of the sponsoring entity in separate or individual financial statements because it has its own legal identity, the staff have focused on the accounting for rights and obligations of the sponsoring entity in those financial statements.
7. The staff have first analysed whether the sponsoring entity has control of the shares held by the trust and then the consequential accounting treatment in the separate financial statements of the sponsoring entity.

## **Determining whether the sponsoring entity has control of the shares held by the trust**

### *Guidance in IFRSs that may be applied by analogy*

8. The trust holds shares of the sponsoring entity which are acquired by the trust from the sponsoring entity or from the market.
9. In IFRSs, the guidance on treasury shares does not directly address own shares held by another entity. The staff have identified however some guidance in current IFRSs that could be used by analogy to the accounting for shares held by the trust in the separate financial statements of the sponsoring entity.

### Treasury shares

10. The basis for conclusions BC 32 and the application guidance AG 36 of IAS 32.33 state (emphasis added):

*IAS 32 BC32: The revised Standard incorporates the guidance in SIC-16 Share Capital—Reacquired Own Equity Instruments (Treasury Shares). The acquisition and subsequent resale by an entity of its own equity instruments represents a transfer between those holders of equity instruments who have given up their equity interest and those who continue to hold an equity instrument, rather than a gain or loss to the entity.*

*IAS 32 AG36: An entity's own equity instruments are not recognised as a financial asset regardless of the reason for which they are reacquired. Paragraph 33 requires an entity that reacquires its own equity instruments to deduct those equity instruments from equity. However, when an entity holds its own equity on behalf of others, eg a financial institution holding its own equity on behalf of a client, there is an agency relationship and as a result those holdings are not included in the entity's balance sheet.*

11. To demonstrate that an agency relationship exists between the employee benefit trust and the sponsoring entity, the staff believe that it would be required to demonstrate that the employee benefit trust does not have control of the shares (which in practice is the case) as well as to demonstrate that the sponsoring entity does have control of the shares (which may depend on arrangements and circumstances).

### Derecognition of a financial asset

12. Even though own shares are not assets, the guidance provided in IAS 39 for the evaluation of whether and to what extent a financial asset is derecognised (or continues to be recognised) seems also relevant when the sponsoring entity transfers its own shares to the employee benefit trust.
13. Drawing an analogy with this guidance leads one to consider whether and to what extent the sponsoring entity has retained the risks and rewards of ownership of the

shares and whether the sponsoring entity has retained control of the shares. For instance, AG 43 states:

The transferee has the practical ability to sell the transferred asset only if the transferee can sell the transferred asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer. The critical question is what the transferee is able to do in practice, not what contractual rights the transferee has concerning what it can do with the transferred asset or what contractual prohibitions exist. In particular:

- (a) a contractual right to dispose of the transferred asset has little practical effect if there is no market for the transferred asset; and
- (b) an ability to dispose of the transferred asset has little practical effect if it cannot be exercised freely. For that reason:
  - (i) the transferee's ability to dispose of the transferred asset must be independent of the actions of others (ie it must be a unilateral ability); and
  - (ii) the transferee must be able to dispose of the transferred asset without needing to attach restrictive conditions or 'strings' to the transfer (eg conditions about how a loan asset is serviced or an option giving the transferee the right to repurchase the asset).

14. Depending upon the terms of the arrangements (constitutional documents, share-based payment arrangements...), the sponsoring entity may retain most of the risk and rewards of the shares and may have the ability to allocate or reserve shares to its employees until the employees exercise their options or are unconditionally entitled to the shares. Conversely, the trustees may have little real discretion over the use of the shares as they would not be able to sell shares unilaterally for a purpose other than to satisfy the share-based payment arrangement.

#### Consolidation and Investment in Associates

15. Control is defined in IAS 27 *Consolidation* and IAS 28 *Investments in Associates* as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

16. At the July Board meeting, the notion of control was discussed in the course of the current projects on Consolidation and Joint Ventures:

- Consolidation (including special purpose entities):

*The Board discussed a preliminary description of the framework the staff is developing for a proposed revised standard on consolidation. The framework is designed to accommodate all entities and investments including the type commonly referred to as special purpose entities (SPEs). The Board expressed support for shifting the focus of control onto the assets and liabilities of the entity rather than the entity per se. The Board also supported assessing the existence of control using indicators. Some indicators will be presumptive. Others are unlikely to be sufficient on their own to establish the existence of control, but when considered with other indicators cumulatively establish that control exists. The Board will discuss in September the first of the papers addressing SPEs within the context of this framework.*

The Board has not discussed this issue in the context of the separate or individual financial statements but the focus on control of assets and liabilities would seem to be equally applicable to such statements.

- Joint ventures:

*The Board supported a staff proposal that interests venturers have in joint arrangements should be classified as either:*

- *direct interests in the underlying single assets or liabilities, whereby venturers have rights to individual assets or direct obligations for individual liabilities, or a share of them, within a group of assets or liabilities; or*
- *indirect interests in the 'net' outcome expected to be generated from a group of assets and liabilities under the joint control of all of the venturers.*

17. Those two projects are focussing on control of (or direct interest in) assets and liabilities of an entity (or a joint venture).

Definition of an asset

18. It seems to be also relevant to determine whether the definition of an asset set out in the Framework is met, even though shares held by the trust would not be accounted for as an "asset" in the separate financial statements of the sponsoring entity but as treasury shares.

Framework paragraph 49: an asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

Framework paragraph 57: many assets, for example, receivables and property, are associated with legal rights, including the right of ownership. In determining the existence of an asset, the right of ownership is not essential; thus, for example, property held on a lease is an asset if the entity controls the benefits which are expected to flow from the property. Although the capacity of an entity to control benefits is usually the result of legal rights, an item may nonetheless satisfy the definition of an asset even when there is no legal control. For example, know-how obtained from a development activity may meet the definition of an asset when, by keeping that know-how secret, an entity controls the benefits that are expected to flow from it.

19. The definition of an asset is also closely related to the notion of control.

Control in the Framework

20. Control is not yet defined in the Framework. The Board intends to define this notion in the Framework.

IASB Update April 2006, Reporting entity: the Board continued its discussion on the reporting entity phase (Phase D) of the project. At this meeting, the Board discussed the meaning of control in the context of one entity having control over another. The Board decided that:

- control, in this context, should be defined at the concepts level;
- the definition of control should contain both a power element and a benefits element, together with a link between these two elements;
- the power element should refer to the entity's ability to direct the financing and operating policies of another entity;
- the benefits element should refer broadly to benefits or economic benefits, and no minimum level of benefits should be specified; and

- the conceptual framework should explain that determining whether one entity has control over another entity involves an assessment of all the facts and circumstances.

### Service concession

21. When deliberating service concession arrangements, the IFRIC have reached a consensus on determining whether an operator should recognise public service infrastructure as property, plant and equipment:

- BC22 The IFRIC thus identified two possible approaches for determining whether an operator should recognise public service infrastructure as property, plant and equipment. The first approach based on an Interpretation of the requirements of IASs 16 and 17 supported by the definition of an asset in the *Framework*—would be to assess whether the operator controlled the use of the infrastructure. An alternative approach would be to follow by analogy the precedent set for leased assets in IAS 17, ie to assess whether substantially all the risks and rewards of ownership of the infrastructure were held by the operator.
- BC23 The IFRIC decided to adopt the first approach, which it believes is consistent with the *Framework* and the requirements of IAS 16 and IAS 17.
- BC24 The treatment of infrastructure that the operator constructs or acquires or that the grantor gives the operator access to for the purpose of the service arrangement should be determined solely by whether they are controlled by the grantor in the manner described in paragraph 5. If they are so controlled (as will be the case for all arrangements within the scope of the Interpretation), then, regardless of which party has legal title to them during the arrangement, they should not be recognised as property, plant and equipment of the operator.

22. The application guidance AG1 to AG8 is dealing with identifying whether the grantor has control.

- AG1 Paragraph 5 of this Interpretation specifies that infrastructure is within the scope of the Interpretation when:
- (a) the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
  - (b) the grantor controls—through ownership, beneficial entitlement or otherwise any significant residual interest in the infrastructure at the end of the term of the arrangement.
- AG3 For the purpose of condition (a), the grantor does not need to have complete control of the price: it is sufficient for the price to be regulated by the grantor, contract or regulator, for example by a capping mechanism. However, the condition shall be applied to the substance of the agreement. Non-substantive features, such as a cap that will apply only in remote circumstances, shall be ignored. Conversely, if for example, a contract purports to give the operator freedom to set prices, but any excess profit is returned to the grantor, the operator's return is capped and the price element of the control test is substantively met.
- AG4 For the purpose of condition (b), the grantor's control over any significant residual interest should both restrict the operator's practical ability to sell or pledge the infrastructure and give the grantor a continuing right of use.

23. The staff believe that this Interpretation, when published, could be useful to draw an analogy for the purpose of determining whether the sponsoring entity has control of the shares held by the employee benefit trust. The sponsoring entity may act as the grantor, regulating what services the trust must provide to its employees and restricting the trust's practical ability to sell the shares for a purpose other than to satisfy the share-based payment arrangement.

***Should guidance on determining whether the sponsoring entity has control of the shares be given by the IFRIC?***

24. At the standards level, except IAS 39 which includes a developed guidance for derecognition of financial assets, the notion of control is commonly used but is defined only in IAS 27 and IAS 28. In its Framework project, the Board decided that the conceptual framework should explain that determining whether one entity has control over another entity involves an assessment of all the facts and circumstances. In its Consolidation project, the Board supported assessing the existence of control using indicators. The Interpretation on service concession, when published, will provide guidance on identifying whether the grantor has control of the infrastructure.
25. The staff believe that the main question is therefore whether there is a need for an Interpretation for determining whether the sponsoring entity has control of the shares held by the trust. Such an Interpretation may require defining control of shares and setting up indicators of control in this particular situation.
26. The staff have analysed whether the current notion of control (the principle: power to direct use and benefit) is workable for the following situations:

A share nominee company: a nominee company has legal title to shares which gives it the ability to buy or to sell shares but it must act under direction of the beneficial owners. Beneficial owners have power to direct the use of the shares and benefit of the shares, i.e. control of the shares.

A charity foundation: a charity foundation set up by a sponsoring entity may still be "managed" by the sponsoring entity but the latter would retain no benefit. The sponsoring entity has control neither of the charity foundation, nor its assets.

An employee benefit trust holding shares of the sponsoring entity:

- To direct the use of the shares, the sponsoring entity should have the ability to allocate or reserve shares to its employees until the employees exercise their options or are unconditionally entitled to the shares and conversely when the employee benefit trust has little real discretion over the use of the shares (for instance, the employee benefit trust is not able to sell shares for a purpose other than to satisfy the share-based payment arrangement).
- The sponsoring entity would benefit from the shares when the employee benefit trust gives up its equity interest (change in the value of the shares, dividend, voting rights).

27. The staff believe that the current notion of control in IFRSs is sufficiently clear to determine in practice whether the sponsoring entity has control of the shares held by the employee benefit trust, in particular when the Interpretation X on service concession arrangements will be published.

28. In addition, the criteria of power to direct the use and benefit used above are consistent with UITF<sup>1</sup> Abstract 38 - *Accounting for ESOP trusts* (see Appendix 1 to 3).

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<sup>1</sup> UITF abstracts are issued by the UK Accounting Standard Board

## **Accounting treatments in the separate financial statements of the sponsoring entity**

29. IAS 27 paragraph 4 states that separate financial statements are those presented by a parent, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

Following this rationale,

30. One view is that the sponsoring entity should account for the net investment in the employee benefit trust in its separate financial statements.
31. Another view is that, according to the framework (which defines assets and liabilities but does not define separate financial statements), the sponsoring entity should report in its separate financial statements the rights and obligations on the assets and liabilities of the employee benefit trust, as it is intended in the joint ventures project, rather than the net investment.
32. The staff believe that this issue should be addressed by the Board within its project on consolidation which aims to replace IAS 27 and SIC 12.
33. However, the following accounting treatment A is assuming that control of the shares is predominant and should drive the accounting for in the separate financial statements of the sponsoring entity.

### **A) Accounting treatment when the sponsoring entity has control of the shares**

34. When the sponsoring entity has control of the shares held by the trust, they should be recognised as treasury shares according to IAS 32.33 in the sponsoring entity's separate financial statements and measured at the consideration paid (cost of the shares paid by the trust). Conversely, the trust should not account for the sponsoring entity's shares as its own assets.
35. The result of that treatment is that no gain or loss is recognised in profit or loss in the separate financial statements of the sponsoring entity on the purchase, sale, issue or cancellation of the sponsoring entity's shares held by the employee benefit trust.
36. When the trust is funded by the sponsor, the loan or investment so created would be credited with the amount expended by the trust on purchase of the sponsor's shares.

37. When the trust is funded from a bank loan, the sponsor recognises both the cash received by the trust and the loan: the cash, because it can only be used to purchase the sponsor's shares, and the loan because the trust has no other assets from which to repay the bank.

**B) Accounting treatment when the sponsoring entity does not control the shares**

*Shares held by the trust*

38. Shares held by the trust are not recognised in the sponsoring entity's separate financial statements. The sponsoring entity accounts for an investment or a loan receivable, depending upon the terms of the arrangement.
39. If it is an investment, IAS 27 paragraph 4 is clear in respect of accounting for an investment in a subsidiary in separate financial statements:

*Separate financial statements* are those presented by a parent, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

40. As with any other investment, assets, liabilities and results of the investee (the trust) are not recognised in the separate financial statements of the sponsor. The investment in the trust is carried at cost or in accordance with IAS 39 and is subject to the normal impairment requirements.

*Obligation to repurchase its own shares*

41. In some cases, the sponsoring entity has an obligation to repurchase its own shares from the employee benefit trust as partial satisfaction of a loan or as a return of its investment. In that event, the staff believe that IAS 32 paragraph 23 is clear on this issue:

*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 (for example, for the present value of the forward repurchase price, option exercise price or other redemption amount). This is the case even if the contract itself is an equity instrument. One example is an entity's obligation under a forward contract to purchase its own equity instruments for cash.*

42. Therefore, the staff believe that the obligation to repurchase its own shares should be accounted for as a liability in the sponsor's separate financial statements. The issue is whether it is possible to offset this liability against the sponsor's investment in the trust and/or any loan to the trust. The staff note that the financial assets and the financial liabilities should only be offset if the conditions for offset in IAS 32.42 are met.

*Financial guarantee granted to the trust*

43. When the employee benefit trust borrows from a third party to acquire shares, the sponsor usually will guarantee the loan, i.e. it will be responsible for any shortfall if the employee benefit trust's assets are insufficient to meet its debt repayment obligations. The staff believe that, according to IAS 39.9, a liability should be recognised in the financial statements of the sponsoring entity at the fair value of the guarantee.

*A financial guarantee contract* is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

## Next steps of the project

44. IFRIC members did not think it appropriate to take onto the IFRIC agenda a project to define an entity or branch, since the Board was currently addressing that issue in its development work on the Framework and on consolidated financial statements.
45. The analogy between an employee benefit trust and a share nominee company, together with other issues arising when the employee benefit trust is treated as a separate entity, have led the staff to analyse under current IFRSs whether the sponsoring entity has control of the shares held by the trust. The staff believe that the notion of control is sufficiently clear to address this particular issue.
46. The employee benefit trust is an autopilot SPE, controlled by the sponsoring entity which has set it up and continues to benefit and bear the risk of the assets and liabilities of the employee benefit trust. The staff is aware that there remains the open question whether the sponsoring entity should account for, in its separate or individual financial statements, the net investment according to IAS 27 (the traditional approach) or rather the rights and obligations arising from the assets and liabilities of the trust. This issue has not been addressed yet by the Board but will be addressed within the Consolidation project, even though separate or individual financial statements issues have a lower level of priority than consolidation issues.
47. The staff is also aware that the issue of employee benefit trust may have implications among other types of SPEs for which similar treatment may be justified.

### **The staff ask the IFRIC members for their views on this issue:**

1. Should the sponsoring entity account for, in its separate or individual financial statements, the net investment according to IAS 27 (the traditional approach) or rather the rights and obligations arising from the assets and liabilities of the trust?
2. If the second treatment is preferred, should guidance on determining whether the sponsoring entity has control of the shares be given by the IFRIC?
3. What are the next steps of this project?

## Appendix 1

### UITF abstract 38 - Accounting for ESOP trusts (Issued 15 December 2003)

#### UITF consensus

10 The UITF reached a consensus that the sponsoring company of an ESOP trust should recognise the assets and liabilities of the trust in its own accounts whenever it has de facto control of those assets and liabilities. This will generally be the case when the trust is established in order to hold shares for an employee remuneration scheme and may be so in other circumstances. Where this consensus applies:

- (a) Until such time as the company's own shares held by the ESOP trust vest unconditionally in employees, the consideration paid for the shares should be deducted in arriving at shareholders' funds.
- (b) Other assets and liabilities (including borrowings) of the ESOP trust should be recognised as assets and liabilities of the sponsoring company.
- (c) Consideration paid or received for the purchase or sale of the company's own shares in an ESOP trust should be shown as separate amounts in the reconciliation of movements in shareholders' funds.
- (d) No gain or loss should be recognised in the profit and loss account or statement of total recognised gains and losses on the purchase, sale, issue or cancellation of the company's own shares.
- (e) Finance costs and any administration expenses should be charged as they accrue and not as funding payments are made to the ESOP trust.
- (f) Any dividend income arising on own shares should be excluded in arriving at profit before tax and deducted from the aggregate of dividends paid and proposed. The deduction should be disclosed if material. Under FRS 14 'Earnings per Share', the shares are treated as if they were cancelled when calculating earnings per share.

11 Sufficient information should be disclosed in the financial statements of the sponsoring company to enable readers to understand the significance of the ESOP trust in the context of the sponsoring company. This should include:

- (a) a description of the main features of the ESOP trust including the arrangements for distributing shares to employees;
- (b) the amounts of reductions to shareholders' funds and the number and (for companies that have shares listed or publicly traded on a stock exchange or market) market value of shares held by the ESOP trust which have not yet vested unconditionally in employees; and
- (c) the extent to which these shares are under option to employees, or have been conditionally gifted to them.

## Appendix 2

### UITF abstract 38 - Accounting for ESOP trusts (Issued 15 December 2003)

#### Further explanation of consensus in terms of the principles of FRS 5

*UITF Abstract 13 (issued on 8 June 1995)*

The UITF's consensus in Abstract 13 required that the sponsoring company of an ESOP trust should recognise certain assets and liabilities of the trust as its own whenever it had de facto control of the shares held by the ESOP trust and bore their benefits or risks. Appendix 1 to Abstract 13 explained the consensus further in terms of the principles of FRS 5 and, in particular, the attributes of assets (as defined in FRS 5) which are access to future economic benefits and control of that access. The UITF concluded that, where the arrangements were such that the sponsoring company had de facto control, the ESOP trust fell within the consensus of Abstract 13. Moreover, the UITF noted that where an ESOP trust was established as a means of remunerating employees, the sponsoring company would generally bear the risks and many of the benefits of the shares held by the trust until such time as they vested unconditionally in employees (eg through gifts becoming unconditional or options being exercised).

#### *Distinction between ESOP trusts and pension schemes*

The UITF considered that the substance of ESOP trusts was different from that of pension schemes (where, under the requirements of FRS 17 'Retirement Benefits', the gross assets and liabilities of the scheme are not required to be included in the balance sheet) in that pension schemes have a longer time-frame and are wider in scope with the result that the obligations imposed by trust law and statute have a much greater commercial effect in practice.

#### *The present Abstract*

The UITF's consensus in this Abstract (Abstract 38) also requires the sponsoring company of an ESOP trust to recognise the assets and liabilities of the trust in its own accounts whenever it has de facto control of those assets and liabilities. In that respect, the requirements are unchanged from Abstract 13. However, whereas Abstract 13 required that a sponsoring company's own shares held by an ESOP trust should be recognised as assets of the company, this Abstract requires the company's own shares to be presented as a deduction in arriving at shareholders' funds rather than as assets. This change follows the changes to the accounting treatment of own shares in Abstract 37. Other assets and liabilities of an ESOP trust continue to be recognised as assets and liabilities of the sponsoring entity.

## Appendix 3

### UITF abstract 13 - Accounting for ESOP trusts (Issued 8 June 1995)

#### Extract from "Further explanation of consensus in terms of the principles of FRS 5"

Moreover, where an ESOP **trust** is established as a means of remunerating **employees**, the sponsoring company will generally bear the risks and many of the **benefits** of the shares until such time as they vest unconditionally in **employees** (eg through gifts becoming unconditional or options being exercised), in that:

- (a) Increases in the value of unallocated shares accrue to the company because they increase the value of future **benefits** that the sponsoring company can convey to its **employees** without using its other resources. Similarly, the company bears the risk of any fall in their value.
- (b) When shares are under option to **employees**, it is the **employees** that will or may **benefit** from any increase in their value over the option price. (If the options are conditional, the **benefit** will be retained by the company unless the conditions are fulfilled.) However, the sponsoring company continues to bear the risk of a fall in their value below the option price. Until exercise, the **employees'** asset is the options rather than the shares themselves. This is the position whenever a company grants call options over investments that it holds directly: it continues to recognise those investments in its balance sheet, although it may well disclose the existence of the options. Also, there is a sense in which the company retains an indirect **benefit** from the shares since they act as a hedge of the option obligations.
- (c) When shares are conditionally gifted to **employees**, a provision against the shares will be required. However, they do not cease to be assets of the sponsoring company since their **benefits** and risks will remain with it unless the conditions are fulfilled. The shares also act as a hedge of the conditional obligations.

In all these cases any income derived from the shares will generally accrue to the ESOP **trust**, so enabling the sponsoring company to **benefit** either by defraying the holding costs borne ultimately by the company or by reducing the cost of future **employee** incentive arrangements. The asset recognition criteria in paragraph 20 of FRS 5 are met because there is sufficient evidence of the existence of the shares, as described above, and they can be measured at a monetary amount with sufficient reliability.