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Note: These notes are based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting: March 2006, London

Project: IFRS 2 Share-based Payment: Scope of IFRS 2 - Share plans with cash alternatives at the discretion of the entity (Agenda Paper 10(i))

Introduction

1. There are a number of bonus plans that may be settled in shares or in cash at the discretion of the sponsoring entity. In addition, the amounts of the cash alternative under those bonus plans may not be determined in a manner that is related to the price of the entity's shares.
2. For example,
 - Company X agrees to pay employees a bonus based on performance criteria which are not directly linked to its share price.
 - The arrangement provides Company X with a choice of settlement, either in cash or in shares with value equivalent to the value of the cash payment.
 - Company X has a past practice of settling the bonus in shares.

3. The issue is whether such a bonus plan should be treated as a share-based payment transaction in accordance with IFRS 2.

Recommendation

4. The staff does not recommend that the issue be added to the IFRIC's agenda because the requirements in IFRS 2 are clear. Such a bonus plan should be treated as a share-based payment transaction with a cash alternative and be accounted for in accordance with paragraphs 41 – 43 of IFRS 2. Relevant paragraphs of IFRS 2 are set out below.
5. IFRS 2 defines a share-based payment transaction under IFRS 2 as a transaction in which the entity receives goods or services as consideration for equity instruments of the entity, or acquires goods or services for amounts that are based on the price of the entity's shares or other equity instruments of the entity.
6. IFRS 2.2(c) states that share-based payment transactions include transactions in which the entity receives or acquires goods or services and the terms of the arrangement provide either the entity or the supplier of those goods or services with a choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments.
7. In addition, paragraph 256 of the Basis of Conclusions of IFRS 2 states that, for share-based payment transactions with cash alternatives, the amount of the cash alternative may be fixed or variable and, if variable, may be determined in a manner that is related, or unrelated, to the price of the entity's shares.
8. Therefore, the bonus plan should still be within the scope of IFRS 2 and be accounted for in accordance with paragraphs 41 – 43 of IFRS 2 because the share plan provides Company X with a choice of settlement (either in cash or in shares).

Alternative views

9. An alternative view is that such a share plan should not be accounted for as a share-based payment transaction in accordance with IFRS 2 because the plan only entitles the

employees to receive a monetary amount that is not determined based on the entity's share price. In other words, no matter whether Company X elects to settle in the form of cash or shares, the exposure to Company X is not linked to the price (or value) of its shares (or other equity instruments).

10. The staff notes that the definition of an equity-settled share-based payment transaction does not say that the exposure to the entity must be linked to its share price. For example, Company B granted to its employees 100 shares (which vested immediately at the grant date) and those shares were settled at that date. It is clear that the transaction should be treated as an equity-settled share-based payment transaction even though Company B does not have any exposure to changes in its share price.
11. Others may argue that such a bonus plan would be classified differently in accordance with paragraph 21 of IAS 32 *Financial Instruments: Disclosure and Presentation*. IAS 32.21 states that, if an entity has a contractual obligation to deliver a number of its own shares that varies so that the fair value of the entity's own equity instruments to be delivered equals the amount of the contractual obligation, the contract is not an equity instrument. For example, a contract that requires an entity to deliver as many of its shares as are equal in value to CU 100 should be classified as a liability.
12. The staff acknowledges that if the transaction is classified as an equity-settled share-based payment transaction (provided that there is no present obligation to settle in cash), the classification would appear to be inconsistent with the classification required by IAS 32. However, as explained in BC 106 – 110 and BC 266 of IFRS 2, the Board recognised this classification difference between IFRS 2 and IAS 32, and concluded that the requirements in IAS 32, whereby some obligations to issue equity instruments are classified as liabilities, should not be applied in IFRS 2 on share-based payment.

Recommended “rejection” wording

13. The Agenda Committee recommends that the issue should not be taken onto the agenda.
[Last sentence deleted].