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**International
Accounting Standards
Board**

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IFRIC positions are set out in Interpretations.

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

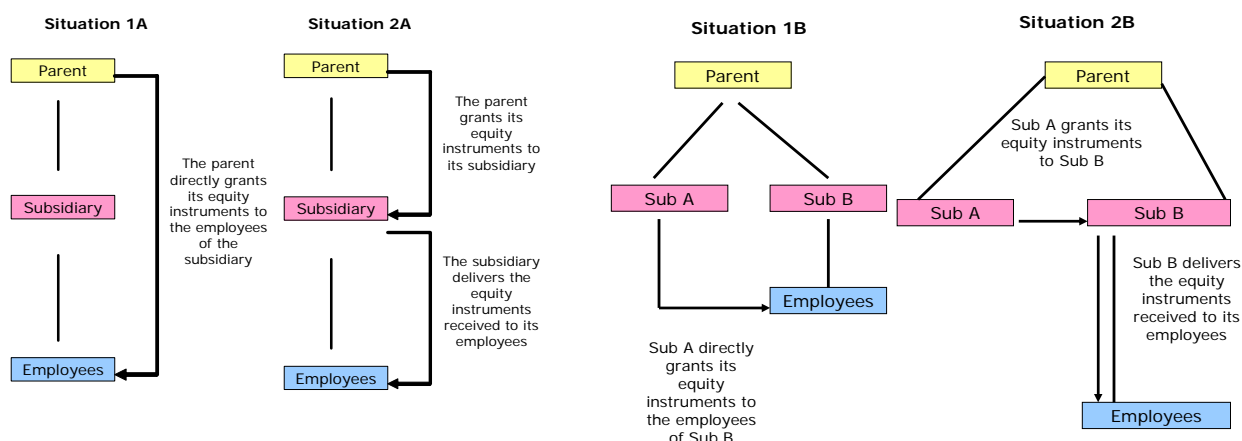
IFRIC meeting: July 2006, London

Project: IFRS 2 Share-based Payment – Group and Treasury Share Transactions (Agenda paper 3)

INTRODUCTION

1. Paragraph 6(c)(i) and 6(c)(ii) of D17 *Group and Treasury Share Transactions* addresses the following situations:
 - parent (or another entity of the same group) directly grants its equity instruments to the employees of a subsidiary (see Situations 1A and 1B in paragraph 2 of this agenda paper); and
 - A subsidiary grants equity instruments of its parent (or another entity of the same group) to its employees (see Situations 2A and 2B in paragraph 2 of this agenda paper).

2. This agenda paper focuses on how the following situations, in the financial statements of the subsidiary that receives services from the employees, should be accounted for:



3. IFRS 2.3 states: “For the purposes of this IFRS, transfers of an entity’s equity instruments by its shareholders to parties that have supplied goods or services to the entity (including employees) are share-based payment transactions, unless the transfer is clearly for a purpose other than payment for goods or services supplied to the entity. This also applies to transfers of equity instruments of the entity’s parent or equity instruments of another entity in the same group as the entity, to parties that have supplied goods or services to the entity.” (Emphasis added)
4. This agenda paper does not address situations in which the subsidiary acquires equity instruments of the parent in the market in order to meet its obligations to the employees. It focuses on transfers of equity instruments of the parent (or another entity of the same group) directly or indirectly to the employees of the entity. The subsidiary normally obtains the equity instruments required from its parent (another group entity).
5. For Situations 1A and 2A, the transactions are accounted for as equity-settled in the consolidated financial statements of the parent in accordance with IFRS 2.
6. Draft Interpretation 17 suggests that the transaction under Situation 1A should be accounted for as equity-settled in the separate financial statements of the parent and the financial statements of the subsidiary, and that the transaction under Situation 2A should be accounted for as cash-settled in the financial statements of the subsidiary (see D17.9 and D17.11).

7. However, as acknowledged by the IFRIC in the Basis for Conclusions of D17, in the financial statements of the subsidiary, the transactions do not exactly fit the definitions of either equity-settled share-based payment transactions or cash-settled share-based payment transactions in accordance with IFRS 2 because the equity instruments delivered to the employees are not equity instruments of the subsidiary (i.e. the entity that receives services from the employees). An equity-settled share-based payment transaction in accordance with IFRS 2 is a transaction in which the entity receives goods or services as consideration for equity instruments of the entity (including shares or share options) (see IFRS 2 Appendix A). A cash-settled share-based payment transaction in accordance with IFRS 2 is a transaction in which the entity acquires goods or services by incurring liabilities to the supplier of those goods or services for amounts that are based on the price (or value) of the entity's shares or other equity instruments of the entity (see IFRS 2 Appendix A).
8. IFRS 2.5 states that IFRS 2 applies to share-based payment transactions in which an entity acquires or receives goods or services. "Goods" includes inventories, consumables, property, plant and equipment, intangible assets and other non-financial assets. Since the parent does not receive any services from the employees, the transactions in Situations 1A and 2A, in the separate financial statements of the parent, theoretically, are not within the scope of IFRS 2.
9. The above transactions involve how the effects of intragroup transactions should be accounted for in the separate or individual financial statements of a group entity. However, current IFRSs, e.g. IAS 24 *Related Party Disclosures* and IAS 27 *Consolidated and Separate Financial Statements*, do not specifically address the recognition and measurement of intragroup transactions.

PREVIOUS IFRIC DISCUSSION (MAY 2006)

10. The IFRIC acknowledged that the above transactions (see paragraph 2 of this agenda paper), in the financial statements of the subsidiary that receives services from the employees, do not exactly fit the definitions of either "equity-settled share-based payment transactions" or "cash-settled share-based payment transactions" in IFRS 2.
11. At the meeting, it was said that, in drafting the last sentence of IFRS 2.3 (see paragraph 3 of this agenda paper), the Board did not intend to deal with precisely how those transactions should be accounted for in the separate or individual financial statements of a group entity. Some IFRIC members suggested that the last sentence of IFRS 2.3 could be interpreted as requiring the individual group entity that receives

services from the employees to recognise a charge in its profit or loss. The IFRIC agreed that the group entity that receives services from the employees should recognise a charge in its profit or loss.

12. The IFRIC asked the staff to explore methods for determining the amount of the charge to profit or loss of a group entity that receives services from the employees.

PURPOSE OF THIS AGENDA PAPER

13. This agenda paper addresses the questions below.
14. For Situations 1A and 1B, the subsidiary receives services from the employees. The employees are reimbursed with the equity instruments of the parent (or another entity of the same group). In order to reflect the services received from the employees in profit or loss of the subsidiary, a charge should be recognised. Then, the question is how to determine the amount of the charge to profit or loss of the subsidiary. This agenda paper illustrates three methods:
 - ***Method 1 (see paragraph 26 of this agenda paper)*** – In the financial statements of the subsidiary that receives services from the employees, the transactions are accounted for as cash-settled in accordance with IFRS 2;
 - ***Method 2 (see paragraph 33 of this agenda paper)*** – The amount of the charge in profit or loss of the subsidiary that receives services from the employees is determined based on a similar approach to that set out in IAS 19.34A (IAS 19.34A Approach); or
 - ***Method 3 (see paragraph 42 of this agenda paper)*** – The amount of the charge in profit or loss of the subsidiary that receives services from the employees is based on a reasonable allocation of the group charge determined in accordance with IFRS 2 (Reasonable Allocation of the Group Charge).
15. The structures of the transactions in Situations 2A and 2B are different from those in Situations 1A and 1B. The key difference is that the subsidiary (i.e. the entity that receive services from the employees) in Situations 2A and 2B physically obtains the equity instruments from the parent (or another entity of the same group) while the subsidiary in Situations 1A and 1B does not. This agenda paper illustrates two different views as to how the transactions in Situations 2A and 2B, in the individual financial statements of the subsidiary, should be accounted for:

- **View 1 (see paragraph 55 of this agenda paper)** – Since the structures of the transactions are different, the transactions in Situations 2A and 2B should be accounted for in a different way from those for Situations 1A and 1B; and
- **View 2 (see paragraph 59 of this agenda paper)** – Since the substance of the structures/arrangements of the transactions in Situations 2A and 2B is the same as that in Situations 1A and 1B, they should be accounted for in the same way.

STAFF RECOMMENDATION

16. For Situations 1A and 1B, to determine the amount of the charge to profit or loss of the subsidiary, the staff recommends Method 3 – *Reasonable Allocation of the Group Charge* (see paragraph 42 of this agenda paper). This method ensures that, regardless of the intragroup payment structures that exist, the effects of the transactions are reasonably reflected in profit or loss of the subsidiary that receives services from the employees.
17. In addition, Method 3 suggests not providing any guidance on how to allocate the group charge to individual group entities. The staff believes that group management is normally in a better position than standard setters to determine an allocation that appropriately reflects the services received by individual group entities.
18. For Situations 2A and 2B, the staff believes that the transactions should be accounted for in the same way as those in Situations 1A and 1B (i.e. Method 3 should be applied). The rationale is that the substance of the arrangement/structures of the transactions is the same. For intragroup transactions, the parent always has discretion over how the transactions can be structured. Therefore, the staff believes that, in determining the accounting treatments of these intragroup transactions, the substance of the structures/arrangements of the transactions should also be taken into account. It may not be appropriate to consider the structures of the transactions only.
19. The issues in this agenda paper involve how the effects of intragroup transactions should be accounted for. The staff believes that, no matter which method is adopted, the Interpretation must clearly state that the method is specifically for the above intragroup share-based payment transactions, applicable in the separate or individual financial statements of an entity. Otherwise, entities may apply the same principle by analogy to other similar intragroup transactions (e.g. an acquisition of an item of property, plant and equipment from an entity of the same group).

QUESTIONS TO THE IFRIC

20. For Situations 1A and 1B, do you agree that Method 3 – *Reasonable Allocation of the Group Charge* is the most appropriate method? Do you agree that the Interpretation should not include details on how to allocate the group charge?
21. If you do not prefer Method 3, which method would you suggest? And why?
22. Do you agree that the transactions in Situations 2A and 2B, in the financial statements of the subsidiary (i.e. the entity that receives services from the employees), should be accounted for in the same way as those for Situations 1A and 1B? If not, is it because the structures of the transactions in Situations 2A and 2B are different from those in Situations 2A and 2B?
23. If you consider that the transactions in Situations 2A and 2B should be accounted for in a way different from those in Situations 1A and 1B, how would you account for the transactions? Do you agree with the possible suggestions, set out in paragraphs 56-58 of this agenda paper?

STAFF ANALYSIS

Question 1: For Situations 1A and 1B, how should the amount of the charge to profit or loss of the subsidiary that receives services from the employees be determined?

24. In Situations 1A and 1B, the subsidiary receives services from the employees. The employees are reimbursed with the equity instruments of the parent (or another entity of the same group). As a result, a charge should be recognised in profit or loss of the subsidiary.
25. This agenda paper illustrates three alternative methods. The staff believes that a consistent basis for determining the amount of the charge to profit or loss of the subsidiary should be applied (regardless of what the intragroup payment structures are).

Method 1 – Transactions are accounted for as cash-settled

26. Method 1 assumes that the subsidiary that receives services from the employees always has the obligation to deliver the equity instruments to the employees. Therefore, supporters of Method 1 believe that the above-mentioned transactions (see paragraph 2 of this agenda paper) should be accounted for as cash-settled in accordance with IFRS 2 (even though the transactions, in the financial statements of the subsidiary that receives services from the employees, do not exactly meet the definition of cash-settled share-based payment transactions in IFRS 2).
27. For cash-settled share-based payment transactions, the fair value of the services received is determined based on the fair value of the liability (see paragraph 30 of IFRS 2). Entities are required to remeasure the fair value of the liability at each balance sheet date until the date of settlement, with any changes in fair value recognised in profit or loss. If the parent (or Subsidiary A in Situations 1B) does not require the subsidiary that receives services from the employees to pay anything, there is no liability in the financial statements of the subsidiary. Hence, no charge will be recognised in profit or loss of the subsidiary (even though it receives services from the employees). In that situation, the consequence is not consistent with the objective of IFRS 2, which requires an entity to reflect the inflow of resources (goods or services) in its financial statements (see IFRS 2 Paragraphs 1, 7 and BC 31).
28. Supporters of this view argue that a situation in which the subsidiary is not required to pay anything could be viewed as one in which the subsidiary originally has the obligation to pay and the obligation is waived by the parent (or another entity of the same group). The charge to profit or loss of the subsidiary that receives services is determined based on the fair value of the obligation as if the subsidiary was required to pay. The corresponding entry is recognised in equity. The staff asks on what basis the fair value of the liability could be determined when, in effect, there is no liability.
29. Moreover, in cases where the parent charges the subsidiary a fixed amount (e.g. based on the fair value of the equity instruments at grant date), the obligations of the subsidiary are not obligations under cash-settled share-based payment transactions because the fair value of the obligations does not vary with the price of any equity instruments at all.
30. If the parent had received the same services from the same group of employees, the fair value of the services in the separate financial statements of the parent would be determined based on the fair value of the equity instruments at grant date. However, in

the subsidiary's financial statements, the same amount of the services would be measured on a totally different basis, that is based on the fair value of the obligations under cash-settled share-based payment transactions. In addition, the staff understands that one of the reasons why the parent issues its equity instruments to the employees of a subsidiary is to help the subsidiary settle its obligations to the employees. The staff finds it difficult to justify why the fair values of the services are different in the two sets of individual financial statements (when the same amount of service is received). In the staff's view, no matter who receives the services, the fair value should be the same.

31. Similarly, under Method 1, the amount of the charge in the consolidated profit or loss of the parent could be different from that recognised in profit or loss of the subsidiary that receives services (even though the same amount of service is received at the subsidiary and consolidation levels).

32. For example,

- The parent charges the subsidiary a fixed amount for the delivery of its share options to the employees of the subsidiary.
- The amount of payment is based on the fair value of the share options of the parent at grant date.
- Vesting period lasts for three years.
- Payment will be made by the subsidiary at the end of the vesting period.
- No employees leave the subsidiary during the vesting period.
- **Then:** in consolidated profit or loss for each period, the amount of the charge is a fixed amount because the transaction is treated as equity-settled at the consolidation level.
- **But:** in profit or loss of the subsidiary for each period, the amount of the charge will vary, depending on the fair value of the amount due to the parent at each balance sheet date because the transaction is treated as cash-settled in the financial statements of the subsidiary.

Method 2 – IAS 19.34A Approach

33. Some suggest using a method that is similar to that set out in IAS 19.34A. Current IFRSs do not specifically address how the effects of intragroup transactions should be accounted for in the separate or individual financial statements of an entity. In the absence of a Standard or an Interpretation that specifically applies to a transaction, IAS 8.11(a) suggests that management should refer to, and consider the applicability of the requirements and guidance in Standards and Interpretations dealing with similar and related issues.
34. IAS 19.34A deals with how defined benefit plans that share risks between various entities under common control should be accounted for in the separate financial statements of an individual group entity. IAS 19.34A says that an entity participating in such a plan should obtain information about the plan as a whole measured in accordance with IAS 19 on the basis of assumptions that apply to the plan as a whole. If there is a contractual arrangement or stated policy for charging the net defined benefit cost as a whole measured in accordance with IAS 19 to individual group entities, the entity, shall, in its separate or individual financial statements, recognise the net defined benefit cost so charged. If there is no such agreement or policy, the net defined benefit cost shall be recognised in the separate or individual financial statements of the group entity that is legally the sponsoring employer for the plan. The other group entities, shall, in their separate or individual financial statements, recognise a cost equal to their contribution payable for the period.
35. Applying IAS 19.34A Approach to the situations in this agenda paper (see paragraph 2 of this agenda paper), the amount of the charge that should be recognised in profit or loss of the subsidiary that receives services from the employees is determined based on the amount so charged by the group entity that provides the equity instruments, if there is a contractual agreement. Alternatively, if there is no contractual arrangement, the full cost in respect of the equity instruments delivered will be borne by the group entity that provides the equity instruments (i.e. the parent in Situation 1A, and Subsidiary A in Situation 1B).
36. In situations in which the employees work for more than one subsidiary and the employees receive equity instruments from the parent, Method 2 requires the amount of the charge in profit or loss of the subsidiaries that receive services from the employees to be determined by measuring the amount of the charge in the consolidated profit or loss in accordance with IFRS 2. The transaction in the consolidated financial statements is treated as equity-settled; and either

- the group charge is allocated to each subsidiary in accordance with the contractual agreement or stated policy which sets out how the group charge should be allocated, if there is such an agreement or policy; or
 - if there is no such an agreement or policy, the group charge is borne by the group entity that provides the equity instruments.
37. Supporters of this method believe that Method 2 has the advantages of (a) being simple to apply and (b) resulting in all group entities recognising the cost they promise to bear.
38. In addition, supporters of this method note that the transactions in this agenda paper (see paragraph 2 of this agenda paper) are related party transactions in accordance with IAS 24. As such, disclosures are required to comply with IAS 24. IAS 24.17 requires an entity to disclose the nature of the related party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. Therefore, proponents of this method believe that the application of Method 2, together with disclosures under IAS 24, would be sufficient for users of the financial statements to understand the potential effect of such intragroup share-based payment transactions in an entity's separate or individual financial statements.
39. Method 2 assumes that the contractual amount charged by the parent (or another entity of the same group) reasonably reflects the amount of services received by the subsidiary. However, that may not be the case. In situations in which there is no contractual arrangement between the parent and the subsidiary, or the parent charges the subsidiary nothing, no cost will be reflected in profit or loss of the subsidiary.
40. Furthermore, the staff understands that the relief given in IAS 19.34A is due to practical difficulties in allocating gains or losses of the defined benefits in respect of the past services among group entities (see BC 10D – 10K of IAS 19).
41. The staff believes that the measurement of share-based payment arrangements is less complex and that share-based payment arrangements usually have shorter lives than defined benefit plans. It is difficult for the staff to justify why the same relief should be given to share-based payment transactions.

Method 3 – Reasonable allocation of the group charge

42. As mentioned earlier, one of the flaws of Method 2 is that, if the parent (or another entity of the same group) charges the subsidiary nothing, no expense in respect of the services received from the employees will be recognised in the financial statements of the subsidiary. For intragroup transactions, management of the group always has discretion as to how to determine intragroup payment structures in order to achieve different results (e.g. tax purposes). In order to avoid that consequence, some suggest another method, that is the amount of the charge to profit or loss of the subsidiary is based on a reasonable allocation of the group charge. Regardless of what the intragroup payment structures are, an appropriate amount of the charge is recognised in profit or loss of the subsidiary in a manner that reflects the services received. This method exactly meets the objective of IFRS 2, which requires an entity to reflect the effects of share-based payment transactions in its profit or loss (see IFRS 2.1).
43. In situations in which the equity instruments delivered are those of the parent, Method 3 requires (1) measuring the group charge based on the fair value of the equity instruments of the parent at grant date (as the transaction is treated as equity-settled on consolidation); and (2) allocating that group charge to each subsidiary based on the proportion of services received.
44. Similarly, in situations in which the equity instruments delivered are those of a fellow subsidiary of an entity, Method 3 requires the following:
- as if the fellow subsidiary received the services, measuring the group charge based on the fair value of the equity instruments of the fellow subsidiary at grant date; and
 - allocating the group charge to each subsidiary based on the proportion of services received.
45. Method 3 does not suggest providing any guidance on how to allocate the group charge to individual group entities. Group management normally has the ability to determine an allocation that properly reflects the services received by each individual group entity. The key information required generally includes (i) the fair value of the equity instruments at grant date; and (ii) the number of hours worked by the employees for each individual group entity. In addition, in situations in which equity instruments of the parent are granted to senior executives that work for the group as a whole or to staff that provide services to worldwide group entities, group management

is in a better position than standard setters to determine a basis that appropriately reflects the services received by each group entity.

46. The credit side of the transactions in the books of the subsidiary that receives services from the employees depends on whether the subsidiary is required to pay. The following illustrates potential accounting treatments in three different scenarios in which the parent's equity instruments are delivered:

- **Scenario 1** – the parent requires the subsidiary to pay CU1,000, equivalent to the fair value of the equity instruments of the parent at grant date;
- **Scenario 2** – the parent does not require the subsidiary to pay anything; and
- **Scenario 3** – the parent requires the subsidiary to pay CU1,200, whereas the fair value of the equity instruments of the parent at grant date is CU1,000.

47. **Scenario 1**

In the financial statements of the subsidiary:

Dr	Expense	CU1,000	
Cr	Amount due to the parent		CU1,000

In the separate financial statements of the parent:

Dr	Amount due from the subsidiary	CU1,000	
Cr	Equity		CU1,000

48. **Scenario 2**

In the financial statements of the subsidiary:

Dr	Expense	CU1,000	
Cr	Capital contribution from the parent		CU1,000

In the separate financial statements of the parent:

Dr	Additional investment in the subsidiary	CU1,000	
Cr	Equity		CU1,000

49. **Scenario 3**

In the financial statements of the subsidiary:

Dr	Expense	CU1,000	
Dr	Dividend to the parent	CU 200	

Cr Amount due to the parent CU1,200

In the separate financial statements of the parent:

Dr Amount due from the subsidiary CU1,200

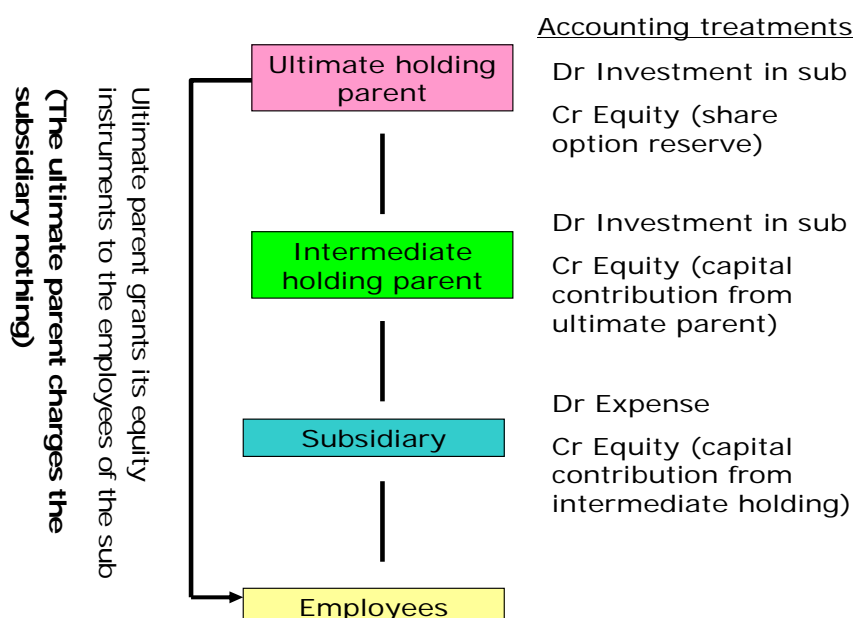
Cr Equity CU1,000

Cr Dividend from the subsidiary CU 200

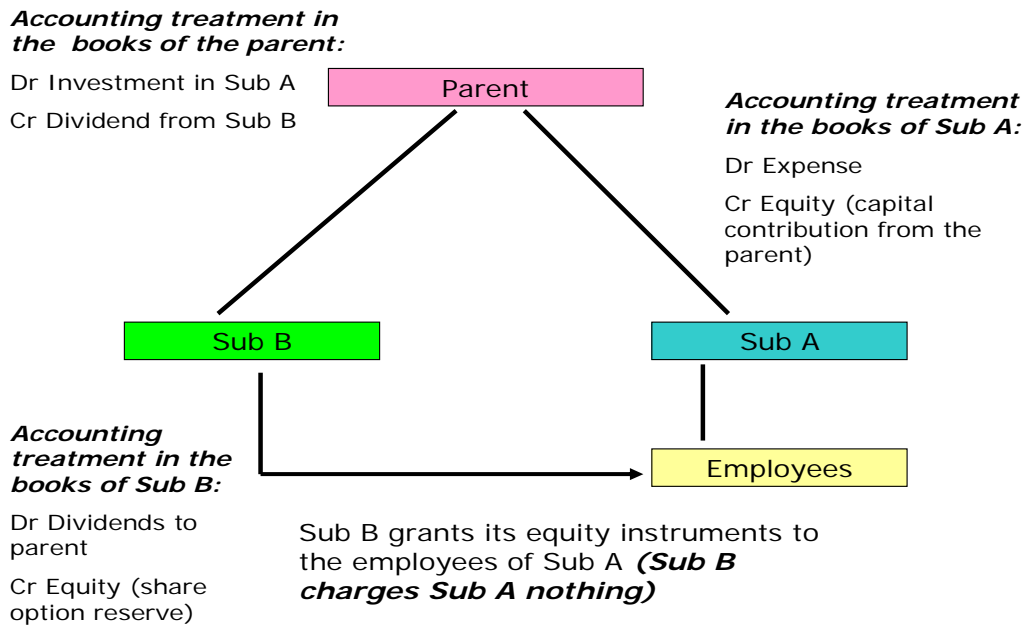
50. As mentioned in paragraph 8 of this agenda paper, the parent, in its separate financial statements, does not receive any services or non-financial assets. Therefore, in the separate financial statements of the parent, the transactions are not within the scope of IFRS 2 based on the words in IFRS 2.5. Alternatively, since the parent issues its own equity instruments in order to help its subsidiary settle its obligations, there is an increase in equity to reflect the issuance of its equity instruments. A corresponding increase is recognised in investment in the subsidiary (or a receivable from the subsidiary if the parent has the rights to collect money from the subsidiary) (see the above illustrations in paragraphs 47-49 of this agenda paper).

51. Where the subsidiary is not required to pay anything, Method 3 requires the following accounting treatments under the following two group structures:

52. Group structure 1



53. Group structure 2



54. If the subsidiary is required to pay an appropriate amount to the parent (another entity of the same group), the credit side of the transaction is simply recognised in “amount due to the parent (or another entity of the same group)”.

Question 2: For Situations 2A and 2B, how should the transactions in the individual financial statements of the subsidiary be accounted for?

View 1 - Arguments for different accounting treatments

55. Some suggest that, because the structures of the transactions in Situations 2A and 2B are different from those in Situations 1A and 1B, they should be accounted for in a different way. In particular, the subsidiary (i.e. the entity that receives services) in Situations 2A and 2B physically obtains the equity instruments while the subsidiary in Situations 1A and 1B does not.
56. Proponents of this view say that, in the individual financial statements of the subsidiary, the arrangements are not different from those in which the subsidiary acquires equity instruments of an unrelated party in order to reimburse its employees. They say that the arrangements in Situations 2A and 2B include two transactions in the individual financial statements of the subsidiary: one transaction in which the subsidiary acquires equity instruments from the parent (Subsidiary A in Situation 2B), and another transaction in which the subsidiary delivers the equity instruments of the

parent (Subsidiary A in Situation 2B) to the employees as consideration for the services received.

57. Supporters of this view suggest that the first and second transactions should be accounted for independently. For the first transaction, in the financial statements of the subsidiary, the subsidiary accounts for the equity instruments of the parent (another entity of the same group) as financial assets in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. For example, if the subsidiary has a contract with its parent to obtain share options from its parent, the subsidiary accounts for the contract as a derivative and measures it at fair value in accordance with IAS 39. For the second transaction, the benefits to the employees should be accounted for in accordance with IAS 19. The employee benefits in the individual financial statements of the subsidiary should not be accounted for in accordance with IFRS 2 because the equity instruments are not equity instruments of the subsidiary (see IAS 19.1).
58. Proponents of this view believe that the financial asset and the obligations to the employees should not be offset. IAS 1.32 states that assets and liabilities should not be offset unless required or permitted by a Standard or an Interpretation. IAS 32.42 states that a financial asset and a financial liability should be offset and the net amount presented in the balance sheet when, and only when, an entity (i) currently has a legally enforceable right to set off the recognised amounts; and (ii) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

View 2 - Arguments for the same accounting treatment

59. Supporters of this view agree that, for transactions in which the subsidiary acquires equity instruments of an unrelated party to reimburse its employees, the transactions could be accounted for in accordance with paragraphs 56-58 of this agenda paper. By contrast, the situations in this agenda paper relate to transactions among group entities, which group management always has discretion over how to structure.
60. Proponents of this view believe, if one agrees that the transactions in Situations 1A and 2A (and transactions in Situations 1B and 2B) should be accounted for in a different way because the structures of the transactions are different, the amount of the charge to profit or loss of the subsidiary should be determined based on the intragroup payment structures. In extreme cases where the intragroup payment structures do not require the subsidiary to pay anything to anybody, does it mean that no charge is recognised in profit or loss of the subsidiary? If so, supporters of this view do not

believe that the services received from the employees are appropriately reflected in individual profit or loss of the subsidiary.

61. Supporters of this view do not believe that they ignore the structures of the transactions in determining how the transactions should be accounted for. Indeed, they go a step further to consider the substance of the structures/arrangements of the transactions as well. They do not believe that current IFRSs preclude one from looking at the substance of the structures/arrangements in determining the appropriate accounting treatment of a transaction. The substance of the structures/arrangements in Situations 2A and 2B is the same as those in Situations 1A and 1B, that is, remunerating the employees with the equity instruments of the parent (or another entity of the same group).
62. Proponents of this view acknowledge that the subsidiary obtains equity instruments from the parent (or another entity of the same group) in Situations 2A and 2B. However, the sole purpose of the subsidiary obtaining the equity instruments is to deliver them to its employees. In addition, they expect that the subsidiary would receive equity instruments from the parent (or another entity of the same group) at the time when the employees are entitled to receive them. At that time, the names on the equity instruments are properly those of the employees (not the subsidiary).
63. Furthermore, in Situations 2A and 2B, the subsidiary that receives services from the employees normally obtains the equity instruments required from the parent (or Subsidiary A in Situation 2B) in order to meet its obligations to the employees. Therefore, in substance, regardless of whether or not the parent directly grants its equity instruments to the employees, it is the parent that supplies the equity instruments required. From that perspective, the transactions in Situations 1A and 2A (and the transactions in Situations 1B and 2B) are the same.
64. Finally, most respondents of D17 believed that the transactions in Situations 1A and 2A (the transactions in Situations 1B and 2B) are, in substance, the same. They believed that the decision as to which group entity grants the equity instruments is always made at the group level. They said that, requiring different accounting treatments for transactions with the same economic substance will give entities opportunities to artificially structure their intragroup transactions in order to achieve desired accounting results.
65. For the above reason, supporters of this view believe that transactions in Situations 2A and 2B should be accounted for in the same way as those in Situations 1A and 1B.

Therefore, a question then arises is which method should be adopted for determining the amount of the charge to the profit or loss of the subsidiary (see paragraph 24 of this agenda paper).