IFRS 2 ***Share-based Payment*** (November 2006)

Employee benefit trusts in the separate financial statements of the sponsor

The IFRIC discussed the application to separate financial statements of an issue that had been submitted in connection with the amendment of SIC- 12 *Consolidation—Special Purpose Entities* to include within its scope special purpose entities established in connection with equity compensation plans. The issue related to an employee benefit trust (or similar entity) that has been 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 trust holds shares of the sponsoring entity that 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 loan, usually guaranteed by the sponsoring entity. In most circumstances, the sponsoring entity controls the employee benefit trust. In some circumstances, the sponsoring entity may also have a direct control of the shares held by the trust. The issue is whether guidance should be developed on the accounting treatment for the sponsor's equity instruments held by the employee benefit trust in the sponsor's separate financial statements.

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. The IFRIC noted that the notion of 'entity' is defined neither in the *Framework* nor in IAS 27 *Consolidated and Separate Financial Statements*. The IFRIC then discussed whether the sponsoring entity should, in its separate financial statements, account for the net investment according to IAS 27 or rather for the rights and obligations arising from the assets and liabilities of the trust. The IFRIC noted that, in some circumstances, the sponsoring entity may have direct control of the shares held by the trust. The IFRIC also noted that the guidance included in the Framework and IAS 27 does not address the accounting for the shares held by the trust in the sponsor's separate financial statements. The IFRIC concluded that it could not reach a consensus on this matter on a timely basis, given the different types of trusts and trust arrangements that exist. The IFRIC noted that this issue related to two active projects of the IASB: the Conceptual Framework and the revision of IAS 27 *Consolidated and Separate Financial Statements* in the course of the Consolidation project. For these reasons, the IFRIC decided not to take the issue onto its agenda.