30 Cannon Street, London EC4M 6XH, United Kingdom
Tel: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
Email: iasb@iasb.org Website: www.iasb.org

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:** **2 November 2006, London**

**Project:** **Review of published tentative agenda decisions**

**Subject:** **IFRS 2 *Share-based Payment* – Employee benefit trusts in the separate financial statements of the sponsor (Agenda Paper 7(xii))**

---

**Tentative agenda decision published in September-2006 IFRIC Update**

The IFRIC discussed an issue that had been submitted in connection with the amendment of SIC-12 to include within its scope special purpose entities established in connection with equity compensation plans. The issue relates 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*.  Then, the IFRIC discussed whether the sponsoring entity should account, in its separate financial statements, 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 relates to two active projects of the IASB: Conceptual Framework and Consolidation (including Special Purpose Entities).  For these reasons, [the IFRIC decided] not to take this issue onto its agenda.

Deloitte.

Deloitte Touche Tohmatsu
Hill House
1 Little New Street
London EC4A 3TR
United Kingdom

Tel: National +44 20 7936 3000
Direct Telephone: +44 20 7007 0907
Direct Fax: +44 20 7007 0158
www.deloitte.com
www.iasplus.com

20 October 2006

Robert Garnett, Chairman
International Financial Reporting Interpretations Committee
30 Cannon Street
London EC4M 6XH
United Kingdom

Email: ifric@iasb.org

Dear Bob,

**Proposed agenda decision wording: IFRS 2 *Share-based Payment*—Employee benefit trusts in the separate financial statements of the sponsor**

Deloitte Touche Tohmatsu is pleased to respond to the IFRIC's publication in the September 2006 *IFRIC Update* of the tentative decision not to take the above issue onto the IFRIC agenda with a view to developing an Interpretation.

We support the IFRIC's decision not to take this item onto the agenda. We agree with the observation that, given the range of arrangements involving share-based payments, share trusts and related matters, it is unlikely that the IFRIC could conduct the necessary research, discern the general characteristics of those arrangements and reach consensus on the appropriate accounting treatment on a timely basis. We agree that the issues involved are related to matters being considered in the IASB's projects on the Conceptual Framework and Consolidation (including SPEs) and that the IFRIC should not duplicate the IASB's work effort on these projects. In addition, we note that both the IASB and the IFRIC have difficulty when considering how best to apply IFRS (written in the context of consolidated financial statements) to separate financial statements.

If you have any questions concerning our comments, please contact Ken Wild in London at +44 (0)20 7007 0907.

Sincerely,

**Ken Wild**
**Global IFRS Leader**

cc: Allan Cook, IFRIC