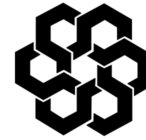

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International Accounting Standards Board

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

INFORMATION FOR OBSERVERS

Board meeting: **19 October 2006, London**

Project: **IFRIC Draft Interpretation D17**

Subject: **IFRS 2 – Group and Treasury Share Transactions (Agenda paper 13)**

Introduction

1. At the April 2005 Board meeting, the IFRIC reported its intention to publish IFRIC Draft Interpretation D17 *IFRS 2 - Group and Treasury Share Transactions.* The draft was published for comment in May 2005 with comments requested by 18 July 2005.

2. 40 comment letters were received and discussed by the IFRIC. In response to the comments, the IFRIC made some changes to D17. At its meeting in September 2006, the IFRIC voted to present the revised draft Interpretation to the Board for its approval.

3. The revised draft Interpretation is set out in Appendix 1 to this agenda paper. D17 is set out in Appendix 2 to this agenda paper. [Appendices 1 and 2 to this agenda paper are deleted for observer note purposes.]

4. The purpose of this paper is to set out a brief summary of the major changes made to D17, and to ask the Board to approve the draft Interpretation for issue.

Major changes from D17

5. The comment letters on D17 were considered by the IFRIC in November 2005.

6. D17 addresses *inter alia* how the following two share-based payment arrangements (involving two or more entities within the same group) should be accounted for in the financial statements of the group entity that receives services from the employees:

    - a parent grants rights to its equity instruments direct to the employees of its subsidiary and the parent (not the subsidiary) has the obligation to provide the employees of the subsidiary with the equity instruments needed; and

    - a subsidiary grants rights to equity instruments of its parent to its employees and the subsidiary has the obligation to provide its employees with the equity instruments needed.

7. D17 proposed that the first and second transactions should be accounted for as equity-settled and cash-settled respectively in the financial statements of the subsidiary.

8. Many respondents disagreed that the two arrangements with economically the same substance should be accounted for differently.

9. In its redeliberations, the IFRIC concluded that those two arrangements are different from the perspective of the subsidiary. In the first arrangement, the parent (not the subsidiary) has the obligation to provide the employees of the subsidiary with the equity instruments needed, whereas in the second arrangement it is the subsidiary that has that obligation. The IFRIC clarified the difference in the Basis for Conclusions (see BC16 of IFRIC [X]).

10. Therefore, the IFRIC reaffirmed the following decisions in the revised text:

    - for the first arrangement, provided that the transaction is accounted for as equity-settled in the consolidated financial statements of the parent, the subsidiary should measure services received from the employees in accordance with the requirements applicable to equity-settled share-based payment transactions (see paragraph 8 and BC 8 – 11 of IFRIC [X]); and

    - for the second arrangement, the transaction with the employees should be accounted for as cash-settled in the financial statements of the subsidiary (see paragraph 11 and BC 13 – 18 of IFRIC [X]).

11. The IFRIC noted that there may be arrangements between the parent and the subsidiary requiring the subsidiary to pay the parent for the provision of the equity instruments to the employees. The IFRIC decided not to address how to account for those intragroup payment arrangements, since it did not wish to widen the scope of the Interpretation to an issue that relates to accounting for all intragroup payment arrangements. The IFRIC clarified this in the revised draft Interpretation and the Basis for Conclusions (see paragraph 5 and BC-12 of IFRIC [X]).

12. D17 also addressed how to account for transfers of employees between group entities in the financial statements of each group entity involved. The issue relates to a parent that grants its equity instruments to the employees of its subsidiary conditional upon the completion of continuing service with the group for a specified period.

13. When an employee after transferring between group entities fails to meet a vesting condition other than a market condition, D17 proposed that the change of employment should not be treated as a new grant in the financial statements of the subsidiary to which the employee transfers because the equity instruments are granted by the parent (not the subsidiary). D17 proposed that the subsidiary to which the employee transfers should measure the fair value of the services received from the employees by reference to the fair value of the equity instruments at the date those equity instruments were originally granted to the employees of the parent.

14. Respondents generally supported this proposed treatment. Some asked the following:

   - how the change of employment should be accounted for in the financial statements of the subsidiary from which the employee transfers employment; and

   - after the change of employment, if an employee leaves the group during the vesting period, whether each subsidiary should reverse the charge previously recognised.

15. The IFRIC, in its redeliberations, reaffirmed its view that the change of employment in this instance should not result in a new grant in the financial statements of the subsidiary to which the employee transfers employment, because the terms of the original share-based payment arrangement require the employee to work for the group, rather than for a particular group entity. For the same reason, the IFRIC concluded that the transfer should not be treated as an

employee's failure to satisfy a vesting condition in the financial statements of the subsidiary from which the employee transfers employment. The IFRIC explained this in the Basis for Conclusions (see BC21 of IFRIC [X]).

16. Based on the principle in IFRS 2 paragraph 19, the IFRIC concluded that, since the employee fails to meet a vesting condition (other than a market condition), the services received from that employee that have been recognised in the financial statements of each subsidiary during the vesting period should be reversed (see paragraph 10 and BC22 of IFRIC [X]).

Conclusion

17. Having made the above amendments, the IFRIC decided that the Interpretation should be presented to the Board as a final draft and that the Board should be asked for approval to issue the Interpretation.

The Board is asked whether it agrees to the issue of the Interpretation in final form.