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**International Accounting Standards Board**



**INFORMATION FOR OBSERVERS**

**Board Meeting:** **17 October 2007, London**

**Project:** **Share-based payment**

**Title:** **Group cash-settled share-based payment transactions A proposed amendment to IFRS 2 (included in the proposed amendment to IFRIC 11) (Agenda paper 3)**

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## BACKGROUND

1 Paragraph 3 of IFRS 2 *Share-based Payment* 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)*'

2 For group *equity-settled* share-based payment arrangements, paragraph 3 of IFRS 2 requires an entity to apply IFRS 2 even though the entity's suppliers of goods or services are provided with equity instruments of the parent (or another entity in the same group).

3 The IFRIC has been asked for guidance on how similar arrangements that are cash-settled should be accounted for in a subsidiary that receives services from its employees. For example:

- Arrangement 1 – the employees of the subsidiary will receive cash payments that are linked to the price of the equity instruments of the *subsidiary*
- Arrangement 2 – the employees of the subsidiary will receive cash payments that are linked to the price of the equity instruments of the *parent of the subsidiary*.

For both arrangements, the parent (not the subsidiary) has an obligation to make the required cash payments to the employees of the subsidiary.

## A SUMMARY OF THE IFRIC DECISION

4 The IFRIC noted that the arrangements described in paragraph 3 are: (a) for the purpose of providing benefits to the employees of the subsidiary in return for employee services, and (b) share-based and cash-settled. Consequently, at its September 2007 meeting, the IFRIC concluded that, in the financial statements of the *subsidiary*,

- the arrangements should be within the scope of IFRS 2; and
- the subsidiary should measure the employee services in accordance with the requirements applicable to cash-settled share-based payment transactions.

5 However, the IFRIC noted that, in the financial statements of the subsidiary, the arrangements described in paragraph 3 do not meet the definition of either a cash-settled or an equity-settled share-based payment transaction in accordance with IFRS 2.

6 In addition, the IFRIC noted that paragraph 3 of IFRS 2 only requires an entity to apply IFRS 2 to group *equity-settled* share-based payment arrangements.

7 Consequently, the IFRIC decided to:

- recommend that the Board should amend IFRS 2 (particularly paragraph 3 of IFRS 2) to clarify that an entity has to apply IFRS 2 to group share-based payment arrangements regardless of whether they are equity-settled or cash-settled by the parent (or another entity in the same group); and

- amend IFRIC 11 to specify how a subsidiary should account for the arrangements described in paragraph 3.

8 At its meeting in September 2007, the IFRIC approved the proposed amendment to IFRIC 11.

9 The IFRIC asked the staff to seek approval from the Board regarding the proposed amendment to IFRS 2.

**THE PURPOSE OF THIS PAPER**

10 The purpose of this paper is to ask whether the Board agrees with the IFRIC's proposal to amend IFRS 2.

11 The proposed amendment to IFRS 2 is included in the proposed amendment to IFRIC 11 to seek comments from the public together. The IFRIC believed that it would be more efficient for constituents to consider the proposals together rather than including the proposed amendment to IFRS 2 in the Board's Annual Improvements Process.

12 To help the Board better understand why the IFRIC decided to amend IFRIC 11, Paper 3A includes the full set of the Draft Amendment that includes the proposed amendments to both IFRIC 11 and IFRS 2. [Paper 3A omitted from observer note.]

13 The proposed amendment to IFRS 2 is set out in the Appendix to the Draft Amendment to IFRIC 11. [Paper 3A omitted from observer note.]

**QUESTIONS FOR THE BOARD**

14 Does the Board agree with the IFRIC's proposal that the Board amend IFRS 2, as set out in the Appendix to the Draft Amendment?

15 Any drafting comments are welcome outside the meeting.

16 If the Board agrees with the proposed amendment to IFRS 2, does any Board member disagree with the proposed amendment to IFRIC 11? According to the Due Process Handbook for the IFRIC, a negative clearance is required

from the Board regarding the publication of a draft Interpretation / a proposed amendment to an Interpretation.