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International
Accounting Standards
Board

INFORMATION FOR OBSERVERS

IFRIC meeting:	**September 2007, London**
Project:	**IFRS 2 Share-based Payment – Group cash-settled share-based payment transactions (Agenda Paper 5)**

ISSUE

1. The IFRIC has been asked to provide guidance on how to account for the following cash-settled share-based arrangements *in the financial statements of a subsidiary* that receives services from its employees:

   - Arrangement 1: The employees of the subsidiary will receive cash payments that are based on the price of the equity instruments of the *subsidiary*.

   - Arrangement 2: The employees of the subsidiary will receive cash payments that are based on the price of the equity instruments of the *parent of the subsidiary*.

2. Under both arrangements, the parent (*not* the subsidiary) is obliged to provide the employees of the subsidiary with the cash payments required.

SUMMARY OF THE IFRIC DISCUSSION IN JULY 2007

3. At the meeting, some IFRIC members noted that, in the financial statements of the subsidiary, Arrangement 1 is within the scope of IFRS 2 in accordance with paragraph 6 of IFRIC 8 *Scope of IFRS 2*.

4. The IFRIC noted that, in the financial statements of the subsidiary, neither arrangement directly meets the definition of either a cash-settled share-based payment transaction or an equity-settled share-based payment transaction in accordance with IFRS 2 *Share-based Payment*.

5. However, given that the arrangements are cash-settled and share-based, the IFRIC decided that both should be within the scope of IFRS 2. In addition, the IFRIC decided that the services received from the employees should be measured based on the requirements applicable to cash-settled share-based payment transactions in accordance with IFRS 2.

6. The IFRIC tentatively concluded *not* to take the issue on to its agenda. Instead, the IFRIC agreed that it should draw the issues to the attention of the Board. The IFRIC asked the staff to bring back to the September 2007 IFRIC meeting:

    - the text of a tentative agenda decision;
    - a draft of potential amendments to IFRS 2 (particularly paragraph 3) to clarify that both Arrangement 1 and Arrangement 2 are within the scope of IFRS 2; and
    - a draft of consequential amendments to IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* to specify how the services received from the employees should be measured in the financial statements of the subsidiary.

7. There might be an intragroup arrangement between the parent and the subsidiary requiring the subsidiary to reimburse the parent for making the required cash payments to the employees of the subsidiary. The proposed amendments do *not* address how to account for such an intragroup payment arrangement. When the IFRIC developed IFRIC 11, it decided *not* to address any intragroup payment arrangement because it did not wish to widen the scope of IFRIC 11 to the accounting for intragroup payment arrangements generally (see BC12 of IFRIC 11).

AN ALTERNATIVE WAY TO PROCEED WITH THE ISSUE

8. At the IFRIC's July 2007 meeting, the staff presented a paper that set out three possible ways to proceed with the issue. One alternative was that the IFRIC could refer the issue to the Board and recommend that the Board should amend IFRS 2 and make consequential amendments to IFRIC 11 (Alternative 1). Another alternative was that the IFRIC could amend its Interpretation(s) to reflect its decisions set out in paragraph 5 of this paper (Alternative 2). In July 2007, the IFRIC decided to proceed with Alternative 1.

9. Regarding Alternative 1, it is *impossible* to include the proposed amendments in the first exposure draft of Annual Improvements that is expected to be published in October this year.

10. Therefore, the staff would like to draw the IFRIC's attention that, under Alternative 1, it is highly unlikely that the effective date of the proposed amendments could be effective much before 1 January 2010 (regardless of whether the Board includes the issue in its exposure draft of the 2008 Annual Improvements Process as a clarification of IFRS 2 or addresses the issue in a standalone project).

11. Therefore, for *efficiency*, the IFRIC might wish to follow Alternative 2 - that is, to amend IFRIC 11 to:

    - clarify that in the financial statements of the subsidiary both arrangements are within the scope of IFRS 2; and
    - specify how the employee services received by the subsidiary should be measured in its financial statements.

12. [Paragraph omitted from observer note].

13. Both alternatives would result in the *same accounting* for the transactions. Alternative 2 is a *more efficient* approach. However, some are concerned with Alternative 2. They believe that it will be difficult for the IFRIC to develop/amend an Interpretation given that IFRS 2 does not state whether the above arrangements are within the scope of IFRS 2.

14. If the IFRIC chooses Alternative 2, it could also simultaneously bring the issue to the Board's attention so that proposed changes to clarify the scope of

IFRS 2 could be included in the exposure draft of 2008 Annual Improvements or a separate exposure draft.

QUESTIONS FOR THE IFRIC

15. Do you wish to proceed with Alternative 1 or Alternative 2?

16. If you choose Alternative 2, do you wish to refer the issue to the Board as well so that the proposed amendments to IFRS 2, as set out in paragraph 21, could be included in the exposure draft of the 2008 Annual Improvements or a separate exposure draft?

17. This paper sets out proposed amendments for both alternatives. Do you have any comments on the proposed amendments?

18. Paper 5A considers an example of a similar arrangement that has been identified by a practitioner. Paper 5A asks whether the IFRIC wishes the proposed amendments to IFRS 2/IFRIC 11 to include that example, and if so, how the IFRIC wishes to account for the example. ***The proposed amendments below do not cover the example***.

PROPOSED AMENDMENTS UNDER ALTERNATIVE 1

19. Alternative 1 includes:

- the proposed tentative agenda decision (see paragraph 20);
- the proposed amendments to IFRS 2 (see paragraph 21); and
- the proposed consequential amendments to IFRIC 11 (see paragraph 22).

20. [Paragraph omitted from observer note].

21. [Paragraph omitted from observer note].

22. [Paragraph omitted from observer note].

PROPOSED AMENDMENTS TO IFRIC 11 UNDER ALTERNATIVE 2

23. Under Alternative 2, the IFRIC would amend IFRIC 11 to clarify/specify that:

- both schemes are within the scope of IFRS 2; and

- how the employee services received by the subsidiary should be measured in its financial statements.

24. [Paragraph omitted from observer note].