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International Accounting Standards Board

INFORMATION FOR OBSERVERS

IFRIC meeting: **July 2008, London**

Project: **ED of Proposed Amendments to IFRS 2 *Share-Based Payment* and IFRIC 11 IFRS 2–*Group Treasury Share Transactions* – Session Overview (Agenda Paper 2)**

INTRODUCTION

1 The staff presented the significant points raised in the comment letters received on the ED about the proposed scope and measurement at the May 2008 IFRIC meeting.

2 The IFRIC agreed at its May 2008 meeting to reconsider those identified main areas of concerns before finalising the amendment.

3 In addition, the Board decided at its May 2008 meeting that, because IFRS 2 is being amended, the Board agreed with some comments received to incorporate the main principles and examples of IFRIC 8 and IFRIC 11 in IFRS 2 after the Board approves the amendment the IFRIC develops.

4 The agenda papers for this meeting are as follows:

Agenda paper	Title

Agenda paper	Title
2	Session overview (this agenda paper)
2A	Proposed scope of IFRS 2 – Question 1a of the ED
2B	Proposed classification for accounting – Question 1b of the ED
2C	Extracts from the ED of proposed amendments (reproduced for reference)

BACKGROUND

5 For group *equity-settled* share-based payment arrangements, paragraph 3 of IFRS 2 requires an entity to apply IFRS 2 when its shareholders transfer equity instruments of the entity or the entity's parent (or another entity in the same group) to parties that have supplied goods or services to the entity. IFRIC 11 provides guidance on how the entity that receives the goods or services from its suppliers should account for such *equity-settled* transactions in its financial statements.

6 The ED addresses how an entity that receives goods and services from its suppliers (including employees) should account for similar share-based arrangements that are *cash-settled* when the entity itself does not have any obligation to make the required payments to its employees. Paragraph 3 of the Introduction in the ED described two examples:

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

For either arrangement, the parent (not the entity itself) has an obligation to make the required cash payments to the suppliers of the entity.

7 In the financial statements of the subsidiary, neither arrangement meets the definition of either a cash-settled share-based payment transaction or an equity-settled share-based payment transaction. Paragraph 6 of IFRIC 8 *Scope of IFRS 2* does suggest that Arrangement 1 is within the scope of IFRS 2 in the financial statements of the subsidiary. However, IFRS 2 does not specify how to account for the cash-settled arrangements described above in the financial statements of the subsidiary.

8 To clarify the scope and accounting for these types of share-based payment transactions, the ED proposes that in the financial statements of a subsidiary that receives goods or services from its suppliers under the arrangements described in new paragraph 3A of IFRIC 11,

(a) With respect to scope, the subsidiary should apply IFRS 2 to account for the transactions with its suppliers. In other words, in the financial statements of the subsidiary, such cash-settled share-based payments are within the scope of IFRS 2 (see new paragraph 3A of IFRS 2 and new paragraph 11A of IFRIC 11);

(b) With respect to measurement, the subsidiary should measure the goods or services in accordance with the requirements applicable to cash-settled share-based payment transactions. Specifically, the subsidiary should measure the services received from its employees on the basis of the fair value of the corresponding liability incurred by the parent. Until the liability incurred by the parent is settled, the subsidiary should recognise any change in the fair value of the liability in profit or loss and in the subsidiary's equity as adjustments to contributions from the parent. (New paragraph 11B of IFRIC 11)

9 Therefore, as proposed, an entity that receives goods or services from its suppliers must apply IFRS 2 and recognise the remeasurement of the liability reflected by the parent even though it has no obligation to make the required share-based cash payments itself, regardless of whether there is a reimbursement arrangement between the parent and its subsidiary (see amended paragraph 5 of IFRIC 11).

10 For convenience, the proposal to amend IFRIC 11 only discusses the issues in terms of a parent and its subsidiary, however, IFRIC 11 as amended also applies to similar arrangements between an entity and another entity in the same group (see amended paragraph 4 of IFRIC 11).

11 Agenda Papers 2A includes the staff's analysis of the main areas of concern about the proposed scope in Question 1(a) of the ED.

12 Agenda Paper 2B includes the staff's analysis of the main areas of concern about the proposed accounting measurement in Question 1(b) of the ED.