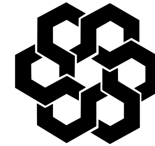

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International Accounting Standards Board

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

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: **16 September 2008, London**

Subject: **ED of Proposed Amendments to IFRS 2 and IFRIC 11 – Group cash-settled share-based payment transactions: Proposed classification for accounting (Question 1b of the ED) (Agenda Paper 7C)**

INTRODUCTION

1 The purpose of this agenda paper is to summarise for the Board the IFRIC discussions of the staff analysis and alternatives presented at the July 2008 IFRIC meeting (Appendix I), other approaches, and its recommended changes to the classification proposal in the ED along with the underlying rationales.

2 At this meeting, the staff will ask if the Board agrees with the IFRIC's recommended changes to the classification of transactions by the receiving entity proposed in the ED.

SUMMARY OF IFRIC RECOMMENDATIONS

3 The IFRIC recommends that,

(a) in the separate financial statements of the entity receiving goods or services when a share-based payment transaction will be settled by another group entity or its shareholder:

- the classification and measurement of the share-based payment transaction by the receiving entity and settling entity may not necessarily be the same, dependent on the circumstances; and
- the Board amend IFRS 2 to add the general principles developed.

(b) the Board not amend IFRS 2 to address intragroup reimbursement arrangements for group share-based payment transactions.

IFRIC DISCUSSIONS

4 The IFRIC discussed two alternatives to account for group cash-settled share-based payment transactions in the separate financial statements of the entity receiving the goods or services when it has no obligation:

(a) **View 1**: Accounting as cash-settled – see paragraphs 7-14.

(b) **View 2**: Accounting as equity-settled – see paragraphs 15-25.

5 The IFRIC decided to recommend View 2, which received significantly more support. Two IFRIC members objected to recommending this to the Board. View 1 received support from several IFRIC members.

6 Each of the views and their underlying rationales are set out in more detail in the following paragraphs.

View 1 – Accounting as cash-settled

7 Under this approach, even though the subsidiary has no obligation in the arrangements described in the ED, its separate financial statements reflect the same share-based expenses as the total amount recorded by the parent and the equity contribution is remeasured until settlement. This approach carries forward the proposals in the ED (see Agenda Paper 7D for extracts from the ED).

8 As noted in the comment letter analysis (Agenda Paper 7A), many respondents to the ED questioned the bases for the consensus reached, citing reasons including the lack of a 'push-down' accounting concept in current IFRSs, conflicts with the *Framework* and other IFRSs that prohibit remeasurement of equity, and conflicts with the rationales in the basis for conclusions of IFRS 2.

9 The IFRIC agreed that the subsidiary has no obligation to distribute assets and the settlement by the parent is an equity contribution.

10 Supporters of this view discussed two possible bases for the subsidiary to record the subsequent changes in the value of those cash-settled awards:

(a) push-down accounting, which the IFRIC rejected unanimously, acknowledging that it is not a basis that exists under current IFRSs; or

(b) remeasurement because the contribution from the parent does not end on the grant date but rather on the settlement date, which the IFRIC discussed further below.

11 The IFRIC members who supported the view to continue the remeasurement in the subsidiary's separate financial statements cited different reasons:

(a) In the receiving entity's separate financial statements, measurement as cash-settled awards should apply to all transactions not settled in the receiving entity's own equity instruments, regardless of the choice to settle in equity or cash.

(b) Cash settlement by either the parent or the subsidiary receiving the goods or services would result in similar economics for the group and, hence, the same accounting should apply in the separate financial statements.

(c) Reflecting the parent's measurement in the subsidiary's separate financial statements is not push-down accounting, but rather applying the principles of IFRS 2 to reflect the actual costs of goods or services received by the subsidiary, which are the same as the amount settled by the parent and the actual benefits received by the supplier.

(d) Existing IFRSs already require a subsidiary to mirror its parent's accounting measurement (paragraph 8 of IFRIC 11).

(e) Consolidation is easier if group entities record the same expenses.

(f) Structuring opportunities will greatly reduce at the level of separate financial statements for the entity receiving goods or services.

12 On the other hand, the IFRIC considered the context of the Board's objective when developing IFRS 2. Ideally, equity awards are measured at their fair value at grant date including the effect of all possible outcomes of performance conditions. However, it was difficult to determine that value objectively at grant date when taking into account all such conditions, particularly those that are not market-based. Consequently, when issuing IFRS 2, the Board introduced practical relief to exclude certain vesting conditions that are not market-based from the fair value at grant date but to adjust for them subsequently.

13 Had the Board required the expense for equity awards to be their fair value at grant date, the parent's equity contribution to the subsidiary would not change after grant date. In that case, some viewed the choice to settle with the supplier in cash or equity as a financing choice by the parent.

14 The IFRIC members who disagreed with this view identified several reasons in addition to those concerns already noted by respondents on the ED:

(a) Once the parent takes on the obligation to settle for the subsidiary, the subsidiary has no control even though it may have selected the supplier for the service and the length of vesting period. Hence, the best estimated value of the parent's equity contribution to the subsidiary is at the date of initial contribution; applying hindsight is inappropriate.

(b) Without an obligation, the costs of goods or services received should be valued at grant date, consistent with equity-settled awards.

(c) This view would still result in different classifications for accounting under IFRS 2 in the consolidated and separate financial statements.

(d) If the Board takes a group view for separate financial statements under IFRS 2, it should take that view consistently in other areas – for example, when assessing an equity instrument for classification as equity or liability under IAS 39 and IAS 32. Currently, the separate financial statements reflect the subsidiary's perspective and not the group's.

(e) Consolidation at the group's top level may be easier under this view but consolidating entries are tracked at all levels anyway for any adjustments subject to vesting conditions not being met subsequently.

(f) Regardless of how group transactions are structured, the accounting in the group's consolidated financial statements will stay the same.

View 2 - Accounting as equity-settled

15 Under this approach, the subsidiary reflects the expense as the fair value of the goods or services received at grant date, attributed over the vesting period, and subsequently adjusted if vesting conditions are not met, but not adjusted for subsequent changes in the value of the underlying equity instrument. This approach retains largely the same proposals presented in the staff paper to the IFRIC (see Appendix I).

16 The IFRIC noted that it had received requests to clarify the accounting for such group transactions partly because they do not meet the definitions in IFRS 2 as either equity-settled or cash-settled share-based payment transactions. Applying the existing guidance results in excluding some transactions from the scope, creating diversity.

17 An IFRIC observer commented that resolving the scope issue is more important. Once it is clarified that the transactions are in the scope of IFRS 2, the difference in the amounts measured as equity-settled or cash-settled is a less significant issue and could be left to judgment.

18 The IFRIC would like to include general principles that apply in the separate financial statements of all entities, following rationales that would not diverge from or conflict with the current IFRSs. That would avoid addressing the accounting for these transactions case by case, creating rules-based guidance.

19 The IFRIC discussed the general principles presented by the staff under this view (see paragraph 26 in Appendix I). Many who supported this view believed that taking the subsidiary's perspective in its separate financial statements allows a broad and consistent accounting at that level.

20 At the same time, these proposed principles preserve the interpretation already issued in IFRIC 11 without conflicting with the principles in the *Framework* or other IFRSs, or the rationales in the basis for conclusions of IFRS 2. Therefore, alternatives developed under this view would address the various concerns raised on the proposals in the ED (see paragraph 8).

21 The IFRIC members who objected to this view disagreed for the reasons discussed above in support of the original proposals in the ED (View 1).

22 One IFRIC member also suggested adopting a potential change to the staff's proposals. As summarised in paragraph 14, if the parent is viewed to have made an equity contribution at grant date, the subsidiary should not subsequently remeasure the share-based payment expenses even for changes to the vesting conditions being met, which ignores the requirements of IFRS 2.

23 The IFRIC discussed this example: if an employee of the subsidiary terminates after six months of employment but before meeting the three years of service requirement, IFRS 2 requires the subsidiary to adjust for that change in vesting condition for equity-settled awards, and reverses the cumulative compensation expenses attributed over the six months.

24 In this example, the IFRIC discussed whether the subsidiary should reverse the six months of compensation expenses or leave them on its books.

25 In the end, to avoid adding further complexity, the IFRIC decided not to modify the general principles proposed by the staff and to retain the same recognition framework in IFRS 2 for equity-settled share-based payments.

IFRIC RECOMMENDATIONS

26 The IFRIC decided to make the following recommendation to the Board:

(a) The classification and measurement of the share-based payment transaction by the receiving entity and settling entity should not necessarily be the same, dependent on the circumstances.

(b) When the receiving entity does not have any obligation to settle the share-based payment transaction, it should measure the goods or services received in accordance with the requirements for equity-settled transactions.

(c) Accordingly, only changes in estimates associated with vesting conditions (performance conditions) other than market conditions would be reflected. The receiving entity would recognise an equivalent contribution from its shareholder or parent in equity irrespective of how the expense is calculated by the party with the obligation to settle the shared-based payment transaction.

(d) The financial statements of the group and the settling entity will reflect the IFRS 2 measurement on the basis of the actual settlement from the perspective of the group and the settling entity, respectively.

27 Consistent with the prior conclusions reached by the IFRIC and the Board when developing IFRIC 11, the IFRIC recommends that the Board not amend IFRS 2 to address intragroup reimbursement arrangement for group share-based payment transactions. Doing so would widen the scope of share-based payment accounting to the accounting for intragroup payment arrangements and related party transactions generally.

STAFF ANALYSIS

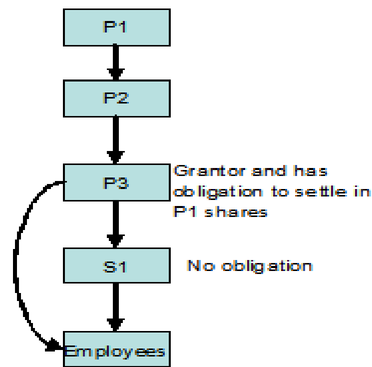
28 Subsequent to the IFRIC's redeliberations and consensus, the staff performed additional analysis of the two views considered by the IFRIC. The two questions for the Board to consider are:

(a) In its separate financial statements should the subsidiary take a group view (View 1) or an entity view (View 2) when recording the goods or services received in such transactions?

(b) Does the remeasurement of the liability for a cash-settled share-based payment transaction in IFRS 2 represent a true up of the value of goods or services received, or a remeasurement of the liability that is a finance cost?

29 For the question in paragraph 28(a), in the absence of guidance that addresses push-down accounting or separate financial statements in current IFRSs, the Board's response to this question helps provide a basis for the conclusions on the general principles that should apply for such transactions. The consolidated financial statements of the group will remain the same under IFRS 2 regardless of how the transaction is structured and which of the two views the Board decides to adopt.

30 However, the subsidiary's accounting in the separate financial statements will differ under the two views. To illustrate, consider this example: P3, an intermediate parent company which prepares consolidated financial statements has the obligation to settle an award to the employees of its subsidiary, S1, using the shares of their ultimate holding company P1. See chart below.



31 S1 receives services provided by its employees, who get the equity instruments of a group entity. This transaction is a share-based payment transaction based on existing paragraph 3 of IFRS 2. Both views considered by IFRIC would result in the same accounting for both P1 and P3 but not for S1:

(a) P1 – equity-settled at both the consolidated and separate levels – its own instruments are issued to group employees even if there are no identifiable services to P1 on a standalone basis.

(b) P3 – cash-settled at both the consolidated and separate levels under IFRIC 11 guidance – the equity instruments issued are not its own or those of S1 which receives the services provided.

(c) S1 – in its separate financial statements, the accounting would differ:

- Under View 1 – either cash-settled or equity-settled – it depends on which parent's (ultimate or intermediate) consolidated accounting the subsidiary decides to reflect (paragraph 8 of IFRIC 11).
- Under View 2 – equity-settled – it has no obligation to settle.

32 Currently, paragraph 8 of IFRIC 11 applies a group view. If a parent accounts for a share-based payment arrangement it settles as equity-settled in its consolidated financial statements, the subsidiary similarly accounts for that share-based payment transaction as equity-settled. The staff notes that under View 2 considered by the IFRIC, the same accounting survives.

33 In contrast, the staff notes that the accounting in the subsidiary's separate financial statements may change from an equity-settled award under existing

IFRIC 11 guidance to a cash-settled award if some of the rationales supporting View 1 identified by the IFRIC are adopted (for example those in paragraph 11(a) and (b)).

34 In addition, the staff notes that other guidance in IFRIC 11 takes the subsidiary's perspective instead of the parent's, requiring accounting different from the parent when the subsidiary accounts for the costs of goods or services received:

(a) Equity-settled accounting applies to a share-based payment transaction involving the subsidiary's own equity instruments even if it is settled by its shareholders (paragraph 7(b) of IFRIC 11) – many companies have anti-dilution policies that would result in this situation.

(b) Cash-settled accounting applies when the subsidiary awards the equity instruments of its parent to its employees (paragraph 11 of IFRIC 11). However, equity-settled accounting applies if the parent, and not the subsidiary, transfers those same equity instruments to the same employees (paragraph 8 of IFRIC 11).

35 Therefore, adopting View 1 considered by the IFRIC may result in changes to existing accounting guidance already in IFRIC 11.

36 For the question in paragraph 28(b), because many are troubled by the subsidiary's remeasurement of an equity contribution from the parent, the Board's response to this question helps clarify how to apply the general principles of recording the costs of goods or services received for group cash-settled transactions.

37 The staff notes that IFRS 2 does not explicitly state whether the required remeasurement of the liability for cash-settled share-based payment transactions represents:

(a) a true up of the value of goods or services received – if so, even though remeasuring equity may lack bases in other IFRSs, remeasuring the value contributed by the parent in this case seems to comply with the principle of IFRS 2 (paragraphs BC241 and BC252 of IFRS 2); or

(b) a remeasurement of the liability representing a finance cost – if so, remeasuring the parent contribution by the subsidiary is inappropriate as equity is not remeasured in the absence of an obligation to disburse additional assets (paragraphs BC240, BC241, and BC252 of IFRS 2).

38 Moreover, if the Board supports the view that the required remeasurement represents a true up of the value of goods or services received, the staff thinks that the period of remeasurement depends on the date at which the Board thinks the goods or services are received by the entity – at grant date, at vesting date, or at settlement date.

39 The staff notes that, for equity-settled transactions, paragraph 10 of IFRS 2 requires the entity to measure the goods or services received directly at their fair value, or indirectly by reference to the fair value of the equity instruments granted if the value of the goods or services received cannot be estimated reliably. Paragraph 13 of IFRS 2 further specifies that for transactions with parties other than employees the entity should measure such fair value at the date it obtains the goods or the counterparty renders services.

40 For cash-settled transactions, paragraph 30 requires the entity to measure the goods or services received and the liability incurred at the fair value of the liability. In discussing this requirement, paragraph IG 18 notes, ‘The entity is required to recognise initially the goods or services acquired, and a liability to pay for those goods or services, when the entity obtains the goods or as the services are rendered, measured at the fair value of the liability. Thereafter, until the liability is settled, the entity is required to recognise changes in the fair value of the liability.’ It is interesting to note that no mention is made of whether the fair value of the goods or services should be adjusted.

41 The example in paragraph IG19 of IFRS 2 which deals with the accounting for share appreciation rights granted to employees as part of their renumeration, seems to indicate that the goods or services would not be adjusted as the change in the liability is all recognised in profit or loss in the current period:

> ‘Therefore, if the amount recognised for the services received was included in the carrying amount of an asset recognised in the entity’s

statement of financial position (e.g., inventory), the carrying amount of that asset is not adjusted for the effects of the liability remeasurement.'

42 Even though the wording in paragraph IG19 is broad and does not clearly differentiate between the two components, some could interpret that the Board intended the required remeasurement of the liability for cash-settled awards to represent a second change in net assets when cash is disbursed at settlement, which does not affect the fair value of the services previously received by the entity.

43 This view is supported by the discussion in paragraphs BC253-BC255 of IFRS 2. These paragraphs note that for cash-settled awards, the Board originally proposed that entities should separately disclose the amounts based on the fair value at grant date as if equity-settled and the changes in estimate between the grant date and settlement date. When issuing IFRS 2, the Board did not make that requirement mandatory to address respondents' concerns on the ED that it was burdensome.

44 Following this line of thinking, the staff analysed whether there is one change or two in the net assets of the subsidiary in the cash-settled group transactions being considered. If the subsidiary receives goods from its supplier, such as inventory, and its parent settles on its behalf at a later date, remeasuring the goods received at the date the parent settles seems inappropriate. There is only one change in the subsidiary's net assets as no cash or other assets are ever paid out. The value that the subsidiary received was the value of the inventory on the date it was obtained, and this is the amount the parent contributed.

45 Overall, the staff feels that both View 1 and View 2 have pros and cons. The consolidated financial statements do not change for the ultimate group under either view and the main implications are related to the separate financial statements of the entities involved in such group transactions.

46 Based on the above analysis, the staff agrees with the IFRIC recommendations in paragraph 26, which are largely the same as the more detailed proposals presented by the staff in paragraph 26 of Appendix I.

47 **To provide a basis for conclusions for the final amendment, which view does the Board support with respect to the questions in (i) Paragraph 28(a) and (ii) Paragraph 28(b)?**

48 **Does the Board agree with the IFRIC recommendations in (i) Paragraph 26 and (ii) Paragraph 27?**

49 If not, how would the Board like the staff to proceed?

Appendix I

Paper presented as Agenda Paper 2B at the July 2008 IFRIC meeting

NOTE TO THE BOARD –
* Appendix A of that IFRIC paper is omitted due to redundant comment analysis information (see Agenda Paper 7A).

INTRODUCTION

1. The purpose of this agenda paper is to summarise the staff's analysis of the main areas of concern about the proposed accounting measurement in Question 1(b) of the ED, which the IFRIC agreed to reconsider at its May 2008 meeting.

SUMMARY OF STAFF RECOMMENDATIONS

2. The staff recommends that the IFRIC reconsider the basis underlying the accounting guidance in the ED for the group cash-settled share-based payment transactions. At this meeting, the staff will ask IFRIC members for their views on alternative bases for the accounting of group share-based payment transactions as equity-settled or cash-settled.

BACKGROUND

3. As presented at the IFRIC meeting in May 2008, most respondents supported the proposed classification and measurement for the narrow category of cash-settled transactions between a parent and a subsidiary described in the ED's Introduction. However, several respondents objected to the proposals and a number of others questioned the bases underlying the consensus reached for different reasons.

4. Some also questioned if the proposed 'push-down' accounting and recording a contribution in equity from parent should always apply to arrangements other than those between a parent and subsidiary. The main concerns expressed by respondents are as follows:

(a) the classification and measurement for these arrangements as cash-settled transactions by the entity when it does not have any obligation;

(b) the attribution of the parent's liability and remeasurement by the subsidiary in the absence of existing concepts in IFRSs and the risk of unintended analogy for other transactions.

5. Appendix A of this paper [DELETED] includes extracts from IFRIC Agenda Paper 4 May 2008 for details of summarised comments about the proposed accounting measurement in the ED.

STAFF ANALYSIS

6. The staff mentioned at the IFRIC May 2008 meeting that some respondents differentiated the classification issue from the measurement issue when commenting on the proposals in the ED. Some respondents may only oppose the proposed remeasurement requirement but not necessarily the classification as 'cash-settled' transactions.

7. The staff believes that this distinction made by respondents, in part, results from the narrow category of group cash-settled share-based payment transactions that do not meet the definitions in Appendix A of IFRS 2. In addition, even though paragraph 3 of IFRS 2 extends the scope of the standard by addressing transfers by shareholders, the interpretation of that guidance in practice varied because it does not clearly specify transfers that are cash-settled in form or transfers that are made by an entity in the same group.

8. Consequently, for group share-based payment transactions, when constituents submitted requests, the IFRIC debated and provided interpretations to clarify the scope and to specify the measurement requirements for each type of narrowly focused share-based payment transaction involving group entities.

9. The staff also notes that current IFRSs, amended as proposed in the ED, only clarified the measurement guidance for the receiving entity, i.e., the entity receiving goods and services, in these narrowly focused cases addressed by the IFRIC in IFRIC 11.

10. If the IFRIC and the Board continue to address these transactions on a case-by-case basis, the applicable accounting will continue to be case-specific and

rule-based. Because share-based payment transactions involving group entities could take various forms but have similar economic substance, developing specified accounting under this approach will further compound the difficulty of applying the general principles of IFRS 2.

11. In addition, the staff thinks that the notion of an entity incurring a liability is a key feature and rationale for the accounting required by *cash-settled* share-based payment transactions, and the subsequent remeasurement of that liability is also a key difference from *equity-settled* share-based payment transactions.

12. Therefore, the staff agrees with some of the respondents' comments on the ED that, when the receiving entity has no obligation to make any payment,

    (a) classifying the arrangements described in the ED as cash-settled share-based payments in the subsidiary's financials conflicts with the rationales in the Basis for Conclusions in both IFRS 2 and IFRIC 11.

    (b) requiring the remeasurement of changes in fair value of the parent's liability to be recognised in the subsidiary's profit and loss conflicts with the *Framework,* and is prohibited by IFRSs because the subsidiary does not have a liability.

    See paragraphs 27 and 29 of Appendix A [DELETED].

13. Although some respondents differentiated the classification of such group share-based payment transactions from the related remeasurement issues in their comments, the staff has different views.

14. The staff does not think this distinction is appropriate because the staff thinks the remeasurement proposed in the ED is a consequence of the IFRIC's conclusion that these group share-based payment transactions should be accounted for as *cash-settled* in accordance with the requirements in IFRS 2.

15. Under the proposals in the ED, the staff also thinks that the entity receiving the goods and services may be required to apply different accounting to group share-based payment arrangements that are similar in economic substance, for similar purposes.

16. To illustrate, a respondent to the ED sought to clarify the general principles behind the ED, and provided examples of a couple of arrangements as follows[1]:

    (a) *Arrangement A* – The subsidiary grants free shares to its employees that are then puttable to (callable by) the parent;

    (b) *Arrangement B* – The parent grants phantom shares of the subsidiary to the subsidiary's employees and will make the required cash payments.

17. In the consolidated financial statements of the group, the staff thinks that both of these arrangements will be measured in accordance with *cash-settled* share-based payment transactions.

18. However, in the separate financial statements of the receiving entity, i.e., the subsidiary, the staff thinks that the following accounting would apply:

    (a) for Arrangement A – current paragraph 7 of IFRIC 11 would require the subsidiary to measure the expense of goods and services received in accordance with the requirements of *equity-settled* share-based payment transactions.

    (b) for Arrangement B – the new paragraph 11B of IFRIC 11 as proposed in the ED would require the subsidiary to measure the expense of goods and services acquired in accordance with the requirements of *cash-settled* share-based payment transactions, and remeasure every period until settlement.

19. Both arrangements are share-based and cash-settled, and are for the purpose of compensating the suppliers of goods and services to the subsidiary receiving them. These are the same reasons cited in paragraph BC5 of the ED, which led to the conclusions of the proposed accounting as 'cash-settled' in paragraph BC6 of the ED.

20. The staff does not think that these two arrangements should have different accounting given the similar economic substance.

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21. The staff thinks that the IFRIC and the Board should consider an alternative basis to account for the expense of the goods and services received by the entity.

22. When the receiving entity has no obligation to settle the share-based payment transaction, the contribution from its shareholder (or an entity in the same group at its parent's discretion) is an equity transaction. Subsequent changes in fair value of the contributing entity's liability is not part of the receiving entity's cost for the goods and services acquired, but rather, a part of the contributing entity's financing cost when it settles that transaction in cash or other assets instead of its own equity instruments.

23. The staff thinks that an alternative to the accounting by the receiving entity proposed in the ED is to measure the transaction in accordance with the requirements for *equity-settled* share-based payment transactions. This will not only accomplish the objective of the general principles of IFRS 2 by requiring a consistent accounting for transactions with similar economics by the receiving entity, but will also resolve the various conflicts created by the remeasurement applicable to *cash-settled* share-based payment transactions proposed in the ED. (See Appendix A [DELETED])

24. Considering the nature of these group share-based payment transactions, the staff agrees with the guidance in IFRIC 11, and as proposed in the ED, with respect to the credit being recognised in equity of the receiving entity as contribution from its shareholder, or, its parent if an entity in the same group is directed to do so at the parent's discretion.

25. From the perspective of the receiving entity, the staff believes that this accounting is appropriate irrespective of how the expense is calculated by the party with the obligation to settle the shared-based payment transaction. The amount of equity contribution from the settling entity is determined on the date of grant for the award, subject to vesting (or performance) conditions other than market conditions being met.

26. In summary, based on the analysis above, the staff believes that the overall accounting principles for share-based payments involving group entities should be as follows:

(a) in the **separate** financial statements when the share-based payment transactions will be settled by the entity receiving goods and services, the classification and measurement of share-based payment expense should apply the general principles based on the defined terms in Appendix A of IFRS 2, as further expanded in other parts of the standard, amended as recommended in Agenda Paper 2A; and

(b) in the **separate** financial statements, in circumstances when a *share-based payment transaction* will be settled by an entity other than the entity receiving or acquiring the goods and services, the classification and measurement of the share-based payment expense by the receiving entity and settling entity does not have to be the same. Specifically, the following general principles should be applied by:

(i) the *receiving entity* – when an entity receives the goods or services in exchange for an award settled on its behalf by its shareholder or an entity in the same group (including its parent),

1. the share-based payment transaction is measured as *equity-settled* and reflects the changes in estimates associated with the vesting conditions (performance conditions) other than a market condition. (Paragraph 7b and paragraph 8 of IFRIC 11)

2. the settlement by another entity is recognised in equity as a contribution from shareholder or parent irrespective of how the expense is calculated by the party with the obligation to settle the shared-based payment transaction. (Paragraph 8 of IFRIC 11)

(ii) the *settling* entity – when an entity has the obligation to settle the share-based payment transaction on behalf of a subsidiary, an investee or another group entity,

1. the classification and measurement of the share-based payment obligation should apply the general principles based on the defined terms in Appendix A of IFRS 2, as further expanded in other parts of the standard, amended as recommended in Agenda Paper 2A.

2. because the settling entity does not receive goods and services, the amount of the obligation does not necessarily result in the recognition of an expense through profit or loss. The settling entity should consider the substance of the arrangement, which may vary on the basis of facts and circumstances.

(c) in the **consolidated** financial statements of the group, when a *share-based payment transaction* will be settled by an entity other than the entity receiving or acquiring the goods and services, the following general principles should apply:

(i) when the entity with the obligation to settle the share-based transaction is in the same **consolidated** group, the classification and measurement of the share-based payment expense should be that determined by the entity with the obligation to settle the share-based payment transaction.

(ii) when the entity with the obligation to settle the share-based transaction is not in the same **consolidated** group (e.g., a non-controlling shareholder), the **consolidated** group is a *receiving* entity and should apply the accounting described in (b)(i) above.

27. The staff thinks that these principles allow a *receiving* entity to account consistently for group share-based payment transactions with similar economic substance in its separate financial statements. The staff also thinks these principles allow the *consolidated* financial statements of the group that includes the *receiving* entity to do the same.

28. Consistent with the prior conclusions reached by the IFRIC and the Board when developing IFRIC 11, the staff does not think any amendments to IFRS 2 at this time should address how to account for an intragroup payment arrangement requiring the subsidiary to pay the parent for the provision of the equity instruments to the employees. (See paragraph BC12 of IFRIC 11)

29. Doing so would widen the scope of share-based payment accounting to the accounting for intragroup payment arrangements and related party transactions generally. The staff also agrees with some respondents on the ED, who expressed concerns about the risk of analogy to share-based payment accounting for other types of corporate allocation expenses among group entities. [(See paragraph 36 of Appendix A to this paper) DELETED]

30. **Does the IFRIC agree with the staff's recommendations on the general principles that should apply to share-based payment transactions involving group entities as set out in paragraph 26?**

31. **If not, how would the IFRIC like to proceed?**

32. If the IFRIC agrees with the staff's recommendations, and decides to recommend them to the Board for consideration, the staff proposes the following approach to amend IFRS 2:

    (a) The principles and specific scenarios already discussed in the text of IFRIC 8 and 11 be included in a newly added section of 'Application Guidance' of IFRS 2.

    (b) The existing Illustrative Examples in the current IFRIC 8 and IFRIC 11 be added to the existing section of Implementation Guidance of IFRS 2.

    (c) IFRS 2 be amended to incorporate the 'general principles' for share-based payment transactions involving group entities set out in paragraph 26 of this paper.

33. The newly added section of application guidance would illustrate the principles related to the amended defined terms in Appendix A, and amended paragraph 3 of IFRS 2 that addresses 'shareholder' settling a group share-

based payment transaction on behalf of the receiving entity, as proposed in Agenda Paper 2A.

34. Once the IFRIC reaches consensus on the general principles, and the Board has a chance to redeliberate and approve revised amendments to IFRS 2 based on the IFRIC's recommendation, the staff will draft a revised amendment of IFRS 2 for discussion at a future IFRIC meeting.

35. **Does the IFRIC agree with the staff's proposal in paragraph 32?**