30 Cannon Street, London EC4M 6XH, United Kingdom
Tel: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
Email: iasb@iasb.org Website: www.iasb.org

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: Extracts from the ED of proposed amendments (Agenda Paper 7D)**

1 This agenda paper includes extracts from the ED of proposed amendments published in December 2007, reproduced for ease of reference.

Introduction

1 This exposure draft contains proposals by the International Accounting Standards Board to amend IFRS 2—*Share-based Payment* and IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*.

2 Paragraph 3 of IFRS 2 requires an entity to recognise as share-based payment transactions transfers of equity instruments of 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 transactions in its financial statements.

3 The purpose of the proposed amendments is to specify the accounting, in the financial statements of an entity that receives goods or services from its suppliers (including employees), for similar arrangements that are share-based and cash-settled, for example:

- 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.

Under either arrangement, the parent of the entity has an obligation to make the required cash payments to the suppliers of the entity. The entity itself does not have any obligation to make such payments to its suppliers or provide them with equity instruments.

4 The proposed amendment to IFRS 2 clarifies that an entity that receives goods or services from its suppliers must apply IFRS 2 even though it itself has no obligation to make the required share-based cash payments.

5 The proposed amendment to IFRIC 11 specifies that an entity that receives goods or services from its suppliers under the arrangements described in paragraph 3 should measure the goods or services in accordance with the requirements applicable to cash-settled share-based payment transactions. The proposed amendment to IFRIC 11 does not change its existing requirements.

Invitation to Comment

6 The Board invites comments on the proposed amendments to IFRS 2 and IFRIC 11, particularly on the questions set out below. Comments are most helpful if they:

(a) comment on the questions as stated;

(b) indicate the specific paragraph or group of paragraphs to which they relate;

(c) contain a clear rationale; and

(d) if applicable, include an alternative the Board should consider.

The Board is not seeking comments on matters in IFRS 2 and IFRIC 11 other than those set out in this exposure draft.

Respondents should submit comments in writing so as to be received no later than [90 days after publication].

In considering the comments, the Board will base its conclusions on the merits of the arguments for and against each alternative, not on the number of responses supporting each alternative.

Question 1 – Specifying how a subsidiary that receives goods or services from its suppliers (including employees) should account for cash-settled share-based payment arrangements described in new paragraph 3A of IFRIC 11

The proposed amendments specify that:

(a) 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, 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); and

(b) the subsidiary should measure the goods or services received from its suppliers in accordance with the requirements applicable to cash-settled share-based payment transactions, as set out in IFRS 2 (see new paragraph 11B of IFRIC 11).

Do you agree with the proposals? If not, why?

Question 2 – Transition

The proposed amendments to IFRS 2 and IFRIC 11 would be required to be applied retrospectively, subject to the transitional provisions of IFRS 2.

Do you agree with the proposal? If not, what do you propose and why?

Proposed amendment to IFRS 2 *Share-based Payment*

Scope

Paragraph 3A is added. Paragraph 3 is reproduced for ease of reference, but is not proposed for amendment.

3 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.

3A Similarly, this IFRS also applies to arrangements in which an entity's parent (or another entity in the group) has incurred a liability to transfer cash or other assets for amounts that are based on the price (or value) of the equity instruments of the entity, its parent, or another entity in the group to parties that have supplied goods or services to the entity.

Effective date

Paragraph 60A is added.

60A An entity shall apply [draft] paragraph 3A for annual periods beginning on or after [date to be inserted after exposure]. Earlier application is permitted. If an entity applies that [draft] paragraph for a period beginning before [date to be inserted after exposure], it shall disclose that fact and apply the related [draft] amendments to IFRIC 11 at the same time.

Proposed amendment to IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*

Issues

Paragraph 3A is added after paragraph 3. Paragraphs 1, 4 and 5 are amended: new text is underlined and deleted text is struck through. Paragraph 6 is reproduced for ease of reference, but is not proposed for amendment.

1 This Interpretation addresses ~~two~~ <u>three</u> issues. The first is …

3A The third issue concerns cash-settled share-based payment arrangements in which a parent incurs a liability to make cash payments to the employees of its subsidiary. The amounts of the cash payments are based on the price of the equity instruments of either the parent or the subsidiary. Under the arrangements, the parent has an obligation to make the required cash payments to the employees of the subsidiary. The subsidiary itself does not have any obligation to make the required cash payments to its employees or provide them with its equity instruments.

4 This Interpretation addresses how the share-based payment arrangements set out in paragraphs 3 and 3A should be accounted for in the financial statements of the subsidiary that receives services from the employees. For convenience, this Interpretation discusses the issues in terms of a parent and its subsidiary. However, this Interpretation also applies to similar arrangements between an entity and another entity in the same group.

5 There may be an arrangement between a parent and its subsidiary requiring the subsidiary to reimburse ~~pay~~ the parent for providing ~~the provision of~~ the equity instruments or making the cash payments to the employees. This Interpretation does not address how to account for such an intragroup payment arrangement. Regardless of whether there is a reimbursement arrangement between a parent and its subsidiary, the subsidiary that receives services from its employees should account for the services in accordance with IFRS 2.

6 Although this Interpretation focuses on transactions with employees, it also applies to similar share-based payment transactions with suppliers of goods or services other than employees.

Consensus

After paragraph 11, a heading and paragraphs 11A and 11B are added.

Share-based payment arrangements in which a parent has an obligation to make the required cash payments to the employees of its subsidiary (paragraph 3A)

11A In accordance with paragraph 3A of IFRS 2, in the financial statements of the subsidiary that receives services from its employees, the arrangement set out in [draft] paragraph 3A of this Interpretation is within the scope of IFRS 2.

11B The subsidiary shall measure the services received from its employees in accordance with the requirements applicable to cash-settled share-based payment transactions. Specifically, the subsidiary shall 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 shall recognise any changes in the fair value of the liability in profit or loss and in the subsidiary’s equity as adjustments to contributions from the parent.

Effective date

After paragraph 12, paragraph 12A is added.

12A An entity shall apply [draft] paragraphs 11A and 11B of this Interpretation for annual periods beginning on or after [date to be inserted after exposure]. Earlier application is permitted. If an entity applies those [draft] paragraphs for a period beginning before [date to be inserted after exposure], it shall disclose that fact and apply the related [draft] amendments to IFRS 2 at the same time.

Transition

Paragraph 13 is reproduced for ease of reference, but is not proposed for amendment.

13 An entity shall apply this Interpretation retrospectively in accordance with IAS 8, subject to the transitional provisions of IFRS 2.