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| Project | **Amendment to IFRS 2 – Group Cash-settled Share-based Payment Transactions** |
| Topic | **Issues arising from drafting the pre-ballot draft** |

## Purpose of the agenda paper

1. This agenda paper discusses the following matters that arose from drafting the pre-ballot draft of final amendments to IFRS 2 proposed in exposure draft *Group Cash-settled Share-based Payment Transactions* published in December 2007:

    (a) the wording on scope related to shareholder transfers and the settling group entity

    (b) transfer of employees among group entities

    (c) re-exposure

    (d) effective date

    (e) transition

    (f) examples in application and implementation guidance.

## Wording on scope of shareholder transfers and settling group entity

2. The staff replaced the existing paragraph 3 that addresses shareholder transfers with a new paragraph 3A to clearly state the clarified scope of IFRS 2 for group share-based payment transactions. The rationale is described in paragraphs BC22C-BC22D in the pre-ballot draft. The staff believes that the new wording will not change practice for those group transactions already in the scope of IFRS 2.

3. The Board decided in its October 2008 meeting that the final amendments to IFRS 2 should state clearly that, in group share-based payment transactions:

(a) the receiving entity accounts for the goods or services received in accordance with IFRS 2; and

(b) the settling entity accounts for the settlement in accordance with IFRS 2.

4. Paragraph 43D in the pre-ballot draft provides a few examples of business reasons underlying group share-based payment transactions. Consistent with the principles of IFRS 2, the debit recognised by the entity receiving the goods or services is always a share-based payment expense. However, with respect to the settling group entity, the amounts may not always be the same as those recognised by the entity receiving the goods or services and depend on facts and circumstances.

5. The Board decided not to address intragroup repayment arrangements during its redeliberations of proposed amendments. In drafting the pre-ballot material, the staff had some concerns that an explicit statement to include in the scope of IFRS 2 a settling group entity that does not receive goods or services may unintentionally expand the scope of the project.

6. The proposed drafting that amends the defined terms of 'cash-settled' and 'equity-settled' share-based payment transactions explicitly includes an entity that receives goods or services even when it does not settle the transaction. However, the proposed drafting for those two defined terms intentionally excludes a settling group entity that does not receive goods or services. Hence, the guidance in IFRS 2 under those same headings continues to apply to the entity that receives goods or services, regardless of whether it settles the transaction.

7. Current drafting discusses a settling entity when the transaction is already accounted for by the consolidated group as a share-based payment transaction within the scope of IFRS 2, when the group receives goods or services. The staff believes that the proposed draft wording in paragraph 43D in the pre-ballot draft is sufficient to remind reporting entities of relevant considerations when evaluating the appropriate accounting in a settling group entity's separate financial statements.

8. Therefore, the staff recommends that, in the final amendments to IFRS 2, the Board

(a) explicitly includes in the scope of IFRS 2 a settling entity only in a group share-based payment transaction, and

(b) does not include a settling group entity in the revised defined terms of 'equity-settled' and 'cash-settled' share-based payment transactions.

| **Question 1** |
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| Does the Board agree that replacing paragraph 3 with 3A will not change practice with respect to 'shareholder transfers'? |

| **Question 2** |
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| Does the Board agree with the recommendation in paragraph 8 that the final amendments to IFRS 2 should<br><br>(a) explicitly includes in the scope of IFRS 2 a settling entity only in a group share-based payment transaction, and<br><br>(b) not include a settling group entity in the revised defined terms of 'equity-settled' and 'cash-settled' share-based payment transactions? |

## Transfers of employees among group entities

9. Existing guidance in paragraphs 9-10 of IFRIC 11 addresses the accounting for equity-settled awards when employees are transferred among group entities. The staff believes that those conclusions remain the same for equity-settled awards when the principles (described in paragraphs 43A-43B of the pre-ballot draft) that the Board clarified during redeliberations are applied.

10. The Board concluded that, in the absence of an obligation to pay its suppliers, the entity receiving the goods or services should measure group cash-settled awards as equity-settled in its separate financial statements. Therefore, the conclusions carried forward from IFRIC 11 will also apply to awards that are cash-settled at the group level that are measured as equity-settled in the entity's separate financial statements when employees are transferred among group entities.

| **Question 3** |
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| Does the Board agree that the accounting for transfers of employees among group entities for all awards that are accounted for as equity-settled should remain the same as the consensus reached in IFRIC 11? |

## Re-exposure

11. The *Due Process Handbook* for the IASB states that after resolving issues arising from the exposure draft, the Board considers whether it should expose its revised

proposals for public comment, for example by publishing a second exposure draft. Paragraph 47 of the *Due Process Handbook* states that in considering the need for re-exposure, the Board

- *identifies substantial issues that emerged during the comment period on the exposure draft that it had not previously considered*
- *assesses the evidence that it has considered*
- *evaluates whether it has sufficiently understood the issues and actively sought the views of constituents*
- *considers whether the various viewpoints were aired in the exposure draft and adequately discussed and reviewed in the basis for conclusions on the exposure draft.*

12. The staff has summarised the main changes from the ED in paragraphs BC[22D] and BC[268O] in the draft Basis for Conclusions of the final amendments. The Board decided to make those changes based on recommendations the IFRIC made after reviewing the comment letter analysis. They address concerns expressed by respondents and

(a) avoid the narrow case-by-case approach of the original proposals.

(b) allow entities to apply a broader set of principles consistently in separate financial statements.

(c) resolve the various conflicts the original proposals created when an entity remeasures its parent's equity contribution on the basis of its parent's liability when it does not have a liability.

13. In addition, during both the IFRIC and the Board's redeliberations of the proposals and respondents' comments, the staff consulted with a number of constituents, including several global accounting firms, to understand their comments and to seek their views about the recommended changes from the ED. The staff believes that those changes from the ED respond appropriately to issues raised by respondents.

14. For these reasons, the staff believes that re-exposure would not result in the identification of new issues or accounting alternatives. The staff also believes that any benefits from re-exposing the amendments would be too small to justify the

delay in issuing it. Therefore, the staff recommends that the Board should not re-expose the revised amendments.

| **Question 4** |
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| Does the Board agree that the revised amendments should not be re-exposed? |

## Effective date

15. If the Board agrees that a re-exposure is not necessary, it is likely that the final amendment will be issued by June 2009 in accordance with the estimated project timetable set out in the pre-ballot draft package. The staff believes that a six-month lead time after issuance would be sufficient for entities to prepare for adoption. Therefore, the staff recommends that the final amendment be effective for accounting periods beginning on or after 1 January 2010.

| **Question 5** |
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| Does the Board agree with a 1 January 2010 effective date? |

## Transition

16. The ED proposed retrospective applicationto an entity's initial adoption date of IFRS 2, which can be as early as 2002. A potential practical issue that may arise relates to group share-based payment transactions previously accounted for in accordance with IAS 19 rather than IFRS 2 in the separate financial statements of group entities. However, all such transactions should have been accounted for as share-based payment transactions in the consolidated financial statements of the group. In a few cases, the entity may have to apply hindsight to measure the fair value of awards now required to be accounted for as cash-settled by the settling entity.

17. The staff recommends that the Board

    (a) reaffirm the same retrospective transition as proposed in the ED

    (b) permit the use of amounts previously recognised in the group's financial statements in the group entity's stand-alone financial statements if the information necessary for retrospective application is not available.

| **Question 6** |
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| Does the Board agree with the transition recommendation in paragraph 17? |

## Examples in application and implementation guidance

18. The staff added one scenario in paragraphs B56-B57 of the Application Guidance to illustrate the clarified principles of the amended IFRS 2 and the defined terms in its Appendix A that address group cash-settled transactions. Paragraphs B50, B54, B58 and B60 of the Application Guidance were added to illustrate the clarified principles of the amended IFRS 2 that address a settling group entity's accounting for transactions among group entities.

19. The Implementation Guidance was amended to include the Illustrative Examples from the current IFRIC 8 and IFRIC 11. The staff decided not to add other illustrative examples that address group cash-settled transactions.

| **Question 7** |
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| Does the Board agree that the examples added to the Application Guidance are needed? |

| **Question 8** |
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| Are there any other issues that should be illustrated by an example or in the Application Guidance? |

## Other issues

| **Question 9** |
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| Are there any issues other than those identified by the staff in paragraph 1 that the Board wishes to discuss at the April Board meeting? |