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| Project | <b>Amendments to IFRS 2 – Group Cash-settled Share-based Payment Transactions</b> |
| Topic   | <b>Addendum to AP 6 – Issues arising from drafting the pre-ballot draft</b>       |

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### **Purpose of the agenda paper**

1. This addendum to Agenda Paper 6 sets out the issues Board members requested to be discussed as a result of their review of the pre-ballot draft posted on 3 April 2009. All issues related to the wording of the definition of ‘share-based payment arrangement’.

### **Wording of definition of ‘share-based payment arrangement’**

2. Additional questions arose about the proposed amendment to this defined term as follows:
  - (a) **Issue 1** – Should a ‘share-based payment arrangement’ refer not only to the *forms* of settling the share-based payment that the suppliers receive but also to the goods or services that the suppliers provide?
  - (b) **Issue 2** – Should one of the two defined terms, ‘share-based payment arrangement’ or ‘share-based payment transaction’, be eliminated?

*Issue 1 – Should a ‘share-based payment arrangement’ refer not only to the forms of settling the share-based payment that the suppliers receive but also to goods or services that the suppliers provide?*

3. Of the four defined terms proposed to be amended, the staff thinks that ‘share-based payment arrangement’ was intended to cover the population of all contracts with suppliers of goods or services who receive share-based payments that contain specified vesting conditions that are either cash-settled or equity-settled.

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This paper has been prepared by the technical staff of the IASB for the purposes of discussion at a public meeting of the IASB.

The views expressed in this paper are those of the staff preparing the paper and do not purport to represent the views of any individual members of the Board or the IASB.

Decisions made by the Board are reported in IASB *Update*.

Official pronouncements of the IASB are published only after the Board has completed its full due process, including appropriate public consultation and formal voting procedures.

4. The defined term 'share-based payment transaction' identifies which of those contractual arrangements are within the scope of IFRS 2. Some involve the entity that receives goods or services from the suppliers and others involve a group entity that settles when another group entity receives those goods or services. Once a share-based payment transaction is identified, the remaining two defined terms, 'cash-settled share-based payment transaction' and 'equity-settled share-based payment transaction', assist an entity to assess how to measure the transactions in accordance with IFRS 2.
5. Therefore, even though all 'share-based payment transactions' are part of a 'share-based payment arrangement', not all 'share-based payment arrangements' will result in a 'share-based payment transaction' to be accounted for under IFRS 2.
6. For a group share-based payment transaction, the entity receiving the goods or services may not be a party to the contract with the supplier when it has no obligation to settle the transaction. The amended wording of the defined term 'share-based payment arrangement' does not refer specifically to either the entity that receives goods or services or the entity that settles, permitting them to be different. Consequently, it does not highlight receipt of goods or services as do the other three amended defined terms in paragraph 5. However, the notion of specified 'vesting conditions' implies that all parties to such 'arrangements' must perform something – the settler to pay the consideration and the suppliers to provide goods or services.

**Recommendation and Question 1**

For the reasons set out in paragraphs 3 - 6, the staff recommends that the defined term 'share-based payment arrangement' not be amended to refer to the goods or services that the suppliers provide. Does the Board agree with the staff recommendation?

*Issue 2 – Should one of the two defined terms, 'share-based payment arrangement' or 'share-based payment transaction', be eliminated? If not, should references to 'share-based payment arrangement' be replaced with 'share-based payment transaction'?*

7. As discussed in paragraphs 3-5 above, the staff thinks that although these two terms are sometimes inter-changeable, their definitions are different in that one is a subset of the other. Eliminating either of the terms would not be appropriate.

8. Although the term ‘share-based payment transaction’ is used more often, the term ‘share-based payment arrangement(s)’ is also used throughout the standard, including its accompanying basis for conclusions and implementation guidance. The staff notes that within the mandatory guidance of IFRS 2 alone, the term ‘share-based payment arrangement(s)’ appears in the following paragraphs:
- (a) Standard – paragraphs IN8, 5, 24(a), 27, 28(b), 44, 45(a), 47(c)
  - (b) Appendix A Defined Terms of ‘equity instrument granted’, ‘grant date’, ‘vest’, ‘vesting conditions’ and ‘vesting period’
  - (c) Appendix B Application Guidance – paragraphs B42 and B44.
9. In most circumstances identified in paragraph 8, the term ‘share-based payment arrangement’ is used in its appropriate context and refers to ‘contractual terms’. However, in some other instances, the staff thinks the term ‘share-based payment transaction’ is more appropriate than the term ‘share-based payment arrangement’ currently used. For example, the disclosure requirements should apply to those transactions being accounted for in accordance with IFRS 2, which may not include all the entity’s share-based payment arrangements.

#### Recommendation and Question 2

The staff recommends that the Board amend paragraphs 44 and 45(a) of IFRS 2 related to the disclosure requirements to replace the term ‘share-based payment arrangement’ with ‘share-based payment transaction’. Does the Board agree with the staff recommendation?

#### Other issues

#### Question 3

Does any Board member intend to dissent from the *Group Cash-settled Share-based Payment Transaction* amendments to IFRS 2?