AMENDMENTS TO FRS

EXPOSURE DRAFT

AMENDMENT TO
FRS 20 (IFRS 2)
'SHARE-BASED PAYMENT'

GROUP CASH-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

ACCOUNTING
STANDARDS
BOARD

This draft is issued by the Accounting Standards Board for comment. It should be noted that the draft may be modified in the light of comments received before being issued in final form.

For ease of handling, we prefer comments to be sent by e-mail (in Word format) to:

asbcommentletters@frc-asb.org.uk

Comments may also be sent in hard copy form to:

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London
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Comments should reach us by 31 March 2008.
All replies will be regarded as on the public record unless the writer asks for confidentiality. If you are sending a confidential response by e-mail, please include the word 'confidential' in the subject line of your e-mail.

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PREFACE

Background

1 In April 2004 the Accounting Standards Board (ASB) issued Financial Reporting Standard (FRS) 20 (IFRS 2) 'Share-based Payment'. FRS 20 implemented the requirements of International Financial Reporting Standard (IFRS) 2 for those applying UK standards.

2 In December 2007 the International Accounting Standards Board (IASB) issued 'Proposed Amendments to IFRS 2 *Share-based Payment* and IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*: Group Cash-settled Share-based Payment Transactions'.

3 The proposed amendments extend the scope of the standard to include certain share-based transactions linked to the equity shares of the reporting entity's parent company or another group company. A consequential amendment to IFRIC Interpretation 11 is also proposed.

4 The ASB is proposing to make equivalent amendments to FRS 20 and UITF Abstract 44, as set out in this exposure draft.

The IASB's proposed amendments

5 The proposed amendments will extend the scope of IFRS 2 to include transactions where the reporting entity receives goods or services from suppliers and the entity's parent (or another group company) has an obligation to make a payment to these suppliers that is linked to the value of the equity shares of the parent, of the reporting entity, or of another group company.

6 In such cases the reporting entity would be required to apply IFRS 2 to the transactions even though the entity

itself does not have an obligation to make a share-based cash payment.

7 A consequential amendment to IFRS 11 is proposed to bring such transactions into the scope of the Interpretation. The entity receiving the services shall measure them at the fair value of the corresponding liability incurred by the parent (or other group company). Until this liability is settled, the entity shall recognise changes in the fair value of the liability in profit and loss and in its equity as adjustments to contributions from the parent. The proposals also make clear that the requirement for the entity receiving the services to measure them in accordance with the requirements of IFRS 2 applies regardless of whether there is an arrangement for that entity to reimburse its parent or other group company for the settlement of the obligation to the supplier.

8 The proposals cover arrangements with both employees and other suppliers of goods and services.

Regulatory impact

9 In the ASB's view, the proposals set out in this exposure draft should not impose significant additional costs of preparation. The ASB believes that the amendment and clarification will be of benefit to users of financial statements. The ASB, however, would welcome views on whether there are any significant additional costs resulting from these proposals and, if so, whether they can be quantified. The ASB would also welcome views on whether the benefits arising from the proposals in the exposure draft outweigh any costs involved.

Conclusion

10 In summary, the ASB proposes to amend FRS 20 and UITF Abstract 44 to maintain consistency with IFRS 2

and IFRIC 11, if the amendment is confirmed by the IASB.

Invitation to comment

11 The ASB is requesting comments on the IASB's proposals and on the ASB's proposals for implementing them in the UK, by 31 March 2008. The IASB's Invitation to Comment is set out on pages 10 to 11 of this exposure draft; note that the IASB is asking for comments to be received by 17 March 2008. In addition, the ASB would welcome comments on the following issues:

ASB Q1: Are you aware of any issues that would affect UK entities in implementing the proposals set out in this exposure draft?

ASB Q2: Do you agree that the benefits of the proposals in the exposure draft would outweigh any additional costs involved? If not, why not?

12 The ASB would also be pleased to receive copies of responses to the IASB submitted by UK and Irish commentators.

PROPOSED AMENDMENT TO FINANCIAL REPORTING STANDARD 20 (IFRS 2) SHARE-BASED PAYMENT

CONTENTS

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.

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* *ASB footnote: this introduction and invitation to comment has been prepared by the IASB and is included unamended. References to the 'Board' are to the IASB.*

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 17 March 2008.

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 AMENDMENTS

Proposed amendment to FRS 20 (IFRS 2) Share-based Payment

[Note: the text of FRS 20 (IFRS 2) 'Share-based Payment' and UITF Abstract 44 (IFRIC Interpretation 11) 'FRS 20 (IFRS 2) – Group and Treasury Share Transactions' includes strike-through and underlining to show changes made by the ASB to the text of the corresponding IFRS and IFRIC Interpretation. The amended text of FRS 20 and Abstract 44 set out below adopts the same convention; as a result, it is not practicable to show the changes to the standard that are proposed in this exposure draft.]

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~~ Abstract 44 at the same time.

Proposed amendment to UITF Abstract 44 (IFRIC Interpretation 11) *FRS 20 (IFRS 2) – Group and Treasury Share Transactions*

Issues

Paragraph 3A is added after paragraph 3. Paragraphs 1, 4 and 5 are amended to read as follows~~: 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~~ Abstract addresses three 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~~ Abstract 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~~ Abstract 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~~ FRS 20.

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

UITF 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~~ Abstract is within the scope of ~~IFRS 2~~ FRS 20.

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.

12 A An entity shall apply [draft] paragraphs 11A and 11B of this ~~Interpretation~~ Abstract 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~~ FRS 20 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~~ Abstract retrospectively in accordance with ~~IAS 8~~ FRS 3, subject to the transitional provisions of ~~IFRS 2~~ FRS 20.

Approval of exposure draft of proposed amendments to IFRS 2 and IFRIC 11 by the Board*

Group Cash-settled Share-based Payment Transactions, the exposure draft of proposed amendments to IFRS 2 *Share-based Payment* and IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* was approved for publication by the thirteen members of the International Accounting Standards Board.

Sir David Tweedie	Chairman
Thomas E Jones	Vice-Chairman
Mary E Barth	
Stephen Cooper	
Philippe Danjou	
Jan Engström	
Robert P Garnett	
Gilbert Gélard	
James J Leisenring	
Warren J McGregor	
John T Smith	
Tatsumi Yamada	
Wei-Guo Zhang	

* *ASB footnote: the IASB's statement of approval of the exposure draft has been included unamended; the reference to the 'Board' is to the IASB.*

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the proposed amendments to IFRS 2 and IFRIC 11.

> ASB Note: The Basis for Conclusions material that the IASB prepared to accompany its exposure draft is set out below in full. All references in this section to 'the Board' and 'Board members' are references to the IASB Board and IASB Board members.

BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in proposing amendments to IFRS 2 *Share-based Payment* and IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*. Individual Board members gave greater weight to some factors than to others.

BC2 IFRS 2 paragraph 3 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. Some constituents asked for guidance on whether, in the financial statements of an entity that receives services from its employees, similar arrangements that are cash-settled are also within the scope of IFRS 2. For example, how should the following arrangements be accounted for in the financial statements of a subsidiary that receives services from its employees?

- Arrangement 1 – the employees of the subsidiary will receive cash payments that are linked to the price of the equity instruments of the subsidiary
- Arrangement 2 – the employees of the subsidiary will receive cash payments that are linked to the

price of the equity instruments of the parent of the subsidiary.

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

BC3 The Board recognised that, for group equity-settled share-based payment arrangements, IFRS 2 paragraph 3 requires an entity to apply IFRS 2 even though the entity's suppliers of goods or services are provided with equity instruments of the parent (or another entity in the same group). In addition, the Board observed that IFRIC 11 requires a subsidiary to account for the transactions (described in paragraph BC7 of the Basis for Conclusions on IFRIC 11) as share-based payment transactions in its financial statements even though the transactions do not meet the definition of either an equity-settled share-based payment transaction or a cash-settled share-based payment transaction.

BC4 Similarly, for the financial statements of the subsidiary, the Board noted that the arrangements described in paragraph BC2 do not meet the definition of either an equity-settled share-based payment transaction or a cash-settled share-based payment transaction. The Board considered whether a different conclusion should be reached for arrangements described in paragraph BC2 merely because the arrangements described in paragraph BC7 in the Basis for Conclusions on IFRIC 11 are equity-settled and the arrangements described in paragraph BC2 are cash-settled.

BC5 The Board noted that the arrangements described in paragraph BC2 are (a) for the purpose of providing benefits to the employees of the subsidiary in return for employee services, and (b) share-based and cash-settled. In addition, the Board observed that the requirements in IFRS 2 apply to both cash-settled and equity-settled share-based payment transactions in which an entity receives goods or services as consideration for its equity instruments or by incurring liabilities to the supplier of those goods or services for amounts that are based on the price of its equity instruments.

BC6 For these reasons, the Board concluded that, in the financial statements of the subsidiary,

(a) the arrangements described in paragraph BC2 should be within the scope of IFRS 2 (not IAS 19 *Employee Benefits*). The subsidiary that receives services from the employees should apply IFRS 2 regardless of whether the group share-based payment arrangement is cash-settled or equity-settled.

(b) the subsidiary should measure the employee services in accordance with the requirements applicable to cash-settled share-based payment transactions.

BC7 Consequently, the Board proposes to amend IFRS 2 to require a subsidiary that receives goods or services from its suppliers (including employees) to apply IFRS 2 to group share-based payment arrangements that will be settled by its parent (or another entity in the same group), regardless of whether the arrangements are equity-settled or cash-settled. In addition, the Board proposes to amend IFRIC 11 to specify that the subsidiary should measure the goods or services in accordance with the requirements applicable to cash-settled share-based payment transactions.

BC8 Paragraph 30 of IFRS 2 requires an entity to measure the goods or services received on the basis of the fair value of the liability incurred. It also requires the entity to remeasure the fair value of the liability at each reporting date and at the date of settlement. The Board observed that the parent has an involvement in the cash-settled and share-based arrangement by committing itself to make the required cash payments to the suppliers of its subsidiary. Therefore, consistently with its conclusion on group share-based payment arrangements that are equity settled by the parent, the Board concluded that the subsidiary should determine the fair value of the goods or services on the basis of the fair value of the liability incurred by the parent at each reporting date in order to meet the requirement in paragraph 30 of IFRS 2. Until the liability is settled by the parent, the subsidiary recognises any changes in fair value of the liability in profit or loss and in equity as adjustments to contributions from the parent.

BC9 The Board discussed whether the proposed amendments should address how to account for an intragroup payment arrangement requiring the subsidiary to reimburse the parent for making the required cash payments to the suppliers of goods or services. The Board decided not to address that issue because it did not wish to widen the scope of the issue to address how intragroup payment arrangements should be accounted for generally.

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