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International Accounting Standards Board®

International Financial Reporting Interpretations Committee

IFRIC DRAFT INTERPRETATION D16

Scope of IFRS 2

Comments to be received by 18 July 2005

IFRIC Draft Interpretation D16 *Scope of IFRS 2* is published by the International Accounting Standards Board (IASB) for comment only. Comments on the draft Interpretation should be submitted in writing so as to be received by **18 July 2005**.

All responses will be put on the public record unless the respondent requests confidentiality. However, such requests will not normally be granted unless supported by good reason, such as commercial confidence. If commentators respond by fax or email, it would be helpful if they could also send a hard copy of their response by post. Comments should preferably be sent by email to: **CommentLetters@iasb.org** or addressed to:

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INVITATION TO COMMENT

The International Accounting Standards Board's International Financial Reporting Interpretations Committee (IFRIC) invites comments on any aspect of this Draft Interpretation *Scope of IFRS 2*. Comments are most helpful if they indicate the specific paragraph to which they relate, contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

Comments should be submitted in writing so as to be received no later than **18 July 2005**.

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IFRIC DRAFT INTERPRETATION D16

Scope of IFRS 2

IFRIC [draft] Interpretation X *Scope of IFRS 2* ([draft] IFRIC X) is set out in paragraphs 1-11. [Draft] IFRIC X is accompanied by an Illustrative Example and a Basis for Conclusions. The scope and authority of Interpretations are set out in paragraphs 1 and 8-10 of the IFRIC *Preface*.

References

- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- IFRS 2 *Share-based Payment*

Background

1 IFRS 2 applies to share-based payment transactions in which the entity receives or acquires goods or services. Goods includes inventories, consumables, property, plant and equipment, intangible assets and other non-financial assets (IFRS 2, paragraph 5). Consequently, except for particular transactions excluded from its scope, IFRS 2 applies to all transactions in which the entity receives non-financial assets, including services, as consideration for the issue of equity instruments of the entity.

2 In some cases, however, it might be difficult to demonstrate that goods or services have been (or will be) received. With employee services, for example, it is usually not possible to identify the specific services received in return for a particular component of an employee's pay package (IFRS 2, Basis for Conclusions, paragraph BC38). A similar situation might arise in transactions with parties other than employees.

3 IFRS 2 requires transactions in which equity instruments are granted to employees to be measured by reference to the fair value of the equity instruments granted, measured at grant date (IFRS 2, paragraph 11).* Hence, the entity is not required to identify or measure directly the fair value of the employee services received.

4 For transactions in which equity instruments are granted to parties other than employees, IFRS 2 specifies a rebuttable presumption that the fair value of the goods or services received can be estimated reliably. In these situations, IFRS 2 requires the transaction to be measured at the fair value of the goods or services at the date the entity obtains the goods or the counterparty renders service (IFRS 2, paragraph 13). Hence, there is an underlying presumption that the entity is able to identify the goods or services received from parties other than employees. This raises the question of whether the IFRS applies in the absence of identifiable goods or services. This also raises a broader question: if the entity has granted equity instruments and the identifiable consideration received (if any) appears to be less than the fair value of equity instruments granted, does

* Under IFRS 2, all references to employees also includes others providing similar services.

this circumstance indicate that goods or services have been received, albeit not specifically identified for accounting purposes, and therefore IFRS 2 applies?

5 In raising this question, it should be noted that the phrase ‘the fair value of the equity instruments granted’ refers to the fair value of the particular equity instruments concerned. For example, an entity might be required by government legislation to issue some portion of its shares to nationals of a particular country, which may be transferred only to other nationals of that country. Such a transfer restriction may affect the fair value of the shares concerned, and therefore those shares may have a fair value that is less than the fair value of otherwise identical shares that do not carry such restrictions. In this situation, if the question in paragraph 4 were to arise in the context of the restricted shares, the phrase ‘the fair value of the equity instruments granted’ refers to the fair value of the restricted shares, not the fair value of other, unrestricted shares.

Scope

6 This [draft] Interpretation applies to transactions in which an entity has granted equity instruments, or incurred a liability to transfer cash or other assets for amounts that are based on the price (or value) of the entity’s shares or other equity instruments of the entity, and the identifiable consideration received (or to be received), including cash and the fair value of identifiable non-cash consideration (if any), appears to be less than the fair value of the equity instruments granted or liability incurred. However, this [draft] Interpretation does not apply to transactions excluded from the scope of IFRS 2 in accordance with paragraphs 4-6 of that IFRS.

Issue

7 The issue addressed in the [draft] Interpretation is whether IFRS 2 applies to transactions in which the entity cannot specifically identify some or all of the goods or services received.

Consensus

8 IFRS 2 applies to particular transactions in which goods or services are received, such as transactions in which an entity receives goods or services as consideration for equity instruments of the entity. This includes transactions in which the entity cannot specifically identify some or all of the goods or services received.

9 In the absence of specifically identifiable goods or services, other circumstances may indicate that goods or services have been (or will be) received, in which case IFRS 2 applies. In particular, if the identifiable consideration received (if any) appears to be less than the fair value of the equity instruments granted or liability incurred, typically this circumstance indicates that other consideration (ie goods or services) has been (or will be) received.

Effective date

10 An entity shall apply this [draft] Interpretation for annual periods beginning on or after [date to be set at three months after the Interpretation is finalised].

Transition

11 An entity shall apply this [draft] Interpretation retrospectively in accordance with the requirements of IAS 8, subject to the transitional provisions of IFRS 2.

Illustrative Example

This example accompanies, but is not part of, the [draft] Interpretation

IE1 An entity granted shares with a total fair value of CU100,000 to parties other than employees who are from a particular section of the community (historically disadvantaged individuals), as a means of enhancing its image as a good corporate citizen. The economic benefits derived from enhancing its corporate image could take a variety of forms, such as increasing its customer base, attracting or retaining employees, or improving or maintaining its ability to tender successfully for business contracts.

IE2 The entity cannot specifically identify the consideration received. For example, no cash was received and no service conditions were imposed. Therefore, the identifiable consideration (nil) is less than the fair value of the equity instruments granted (CU100,000).

IE3 Although the entity cannot specifically identify any goods or services received, the circumstances indicate that goods or services have been (or will be) received, and therefore IFRS 2 applies.

IE4 In this situation, because the entity cannot specifically identify the goods or services received, it will be necessary to rebut the presumption in IFRS 2 that the fair value of the goods or services received can be estimated reliably and instead measure the goods or services received by reference to the fair value of the equity instruments granted.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the draft Interpretation.

BC1 This Basis for Conclusions summarises the IFRIC's considerations in reaching its consensus. Individual IFRIC members gave greater weight to some factors than to others.

BC2 IFRS 2 *Share-based Payment* applies to share-based payment transactions in which the entity receives or acquires goods or services. However, in some situations, it might be difficult to demonstrate that the entity has received goods or services. This raises the question of whether IFRS 2 applies to such transactions.

BC3 In particular, this question arose in the context of particular transactions, similar to the transaction described in the Illustrative Example that accompanies the draft Interpretation. The IFRIC concluded that determining whether such transactions were within the scope of IFRS 2 raised a broader question: if the entity has granted equity instruments and the identifiable consideration received (if any) appears to be less than the fair value of equity instruments granted, does this circumstance indicate that goods or services have been received, albeit not specifically identified for accounting purposes, and therefore IFRS 2 applies?

BC4 The IFRIC noted that when the International Accounting Standards Board developed IFRS 2, the Board concluded that it is not necessary to identify specifically the assets received in return for the equity instruments granted to conclude that assets have been (or will be) received. With employee services, for example, it is usually not possible to identify the specific services received in return for a particular component of an employee's pay package (IFRS 2, Basis for Conclusions, paragraph BC38).

BC5 The IFRIC also noted that IFRS 2 presumes that the consideration received for equity instruments granted is consistent with the fair value of those equity instruments. For example, if the entity cannot estimate reliably the fair value of the goods or services received, IFRS 2 requires the entity to measure the fair value of the goods or services received by reference to the fair value of the equity instruments granted.

BC6 Therefore, the IFRIC concluded that the scope of IFRS 2 includes transactions in which the entity cannot specifically identify some or all of the goods or services received. If the identifiable consideration received appears to be less than the fair value of the equity instruments granted or liability incurred, typically this circumstance indicates that other consideration (ie goods or services) has been (or will be) received.

BC7 When considering the transitional provisions relating to first-time adopters applying the Interpretation, the IFRIC concluded that it was not necessary to amend IFRS 1 *First-Time Adoption of International Financial Reporting Standards*, because the Interpretation will have no effect unless IFRS 2 is effective.