

Urgent Issues Group

Interpretation 8

March 2006

Scope of AASB 2



Australian Government

**Australian Accounting
Standards Board**

Obtaining a Copy of this Interpretation

This Interpretation is available on the AASB website: www.aasb.com.au.
Alternatively, printed copies of this Interpretation are available for purchase by contacting:

The Customer Service Officer
Australian Accounting Standards Board
Level 4
530 Collins Street
Melbourne Victoria
AUSTRALIA

Postal address:
PO Box 204 Collins Street West
Victoria 8007
AUSTRALIA

Phone: (03) 9617 7637
Fax: (03) 9617 7608
E-mail: publications@aaasb.com.au
Website: www.aasb.com.au

Other Enquiries

Phone: (03) 9617 7600
Fax: (03) 9617 7608
E-mail: standard@aaasb.com.au

COPYRIGHT

© 2006 Commonwealth of Australia

This UIG Interpretation contains International Accounting Standards Committee Foundation copyright material. Reproduction within Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source. Requests and enquiries concerning reproduction and rights for commercial purposes within Australia should be addressed to The Administration Director, Australian Accounting Standards Board, PO Box 204, Collins Street West, Victoria 8007.

All existing rights in this material are reserved outside Australia. Reproduction outside Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use only. Further information and requests for authorisation to reproduce for commercial purposes outside Australia should be addressed to the International Accounting Standards Committee Foundation at www.iasb.org.

ISSN 1449-8316

CONTENTS

PREFACE

COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS

UIG INTERPRETATION 8 ***SCOPE OF AASB 2***

	<i>Paragraphs</i>
References	
Background	1 – 5
Scope	6
Issue	7
Consensus	8 – 12
Application	Aus12.1 – Aus12.4
ILLUSTRATIVE EXAMPLE	IE1 – IE4
BASIS FOR CONCLUSIONS ON IFRIC 8	<i>Page 11</i>

UIG Interpretation 8 *Scope of AASB 2* is set out in paragraphs 1 – Aus12.4. Interpretations are listed in Australian Accounting Standard AASB 1048 *Interpretation and Application of Standards*. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

PREFACE

Main Features of UIG Interpretation 8

This Interpretation is applicable to annual reporting periods beginning on or after 1 May 2006. Early adoption of this Interpretation is permitted for annual reporting periods beginning on or after 1 January 2005 but before 1 May 2006.

When application of this Interpretation begins in the context of adopting all Australian equivalents to IFRSs, the requirements of Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, the Australian equivalent of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, must be observed. AASB 1 requires prior period information, presented as comparative information, to be restated as if the requirements of this Interpretation had always applied. This differs from previous Australian requirements where changes in accounting policies did not require the restatement of the income statement and balance sheet of the preceding period.

This Interpretation clarifies that the scope of AASB 2 *Share-based Payment* includes transactions in which the entity cannot identify specifically some or all of the goods or services received as consideration for the equity instruments of the entity or other share-based payment. 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 (i.e. unidentifiable goods or services) has been or will be received. The Interpretation states that the identifiable goods or services received are measured in accordance with AASB 2, and requires the unidentifiable goods or services received (or to be received) to be measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received).

COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS

UIG Interpretation 8 is equivalent to International Financial Reporting Interpretations Committee Interpretation IFRIC 8 *Scope of IFRS 2*, issued by the International Accounting Standards Board. Paragraphs that have been added to this Interpretation (and do not appear in the text of the equivalent IFRIC Interpretation) are identified with the prefix “Aus”, followed by the number of the relevant IFRIC paragraph and decimal numbering.

Entities that comply with Interpretation 8 will simultaneously be in compliance with IFRIC 8.

International Public Sector Accounting Standards (IPSASs) are issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants. There is no specific IPSAS dealing with share-based payments at present.

URGENT ISSUES GROUP

INTERPRETATION 8

SCOPE OF AASB 2

REFERENCES

Accounting Standard AASB 2 *Share-based Payment*

BACKGROUND

- 1 Accounting Standard AASB 2 *Share-based Payment* 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 (AASB 2, paragraph 5). Consequently, except for particular transactions excluded from its scope, AASB 2 applies to all transactions in which the entity receives non-financial assets or services as consideration for the issue of equity instruments of the entity. AASB 2 also applies to transactions in which the entity incurs liabilities, in respect of goods or services received, that are based on the price (or value) of the entity's shares or other 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. For example, an entity may grant shares to a charitable organisation for nil consideration. It is usually not possible to identify the specific goods or services received in return for such a transaction. A similar situation might arise in transactions with other parties.
- 3 AASB 2 requires transactions in which share-based payments are made to employees to be measured by reference to the fair value of the share-based payments at grant date (AASB 2, paragraph 11).¹ Hence, the entity is not required to measure directly the fair value of the employee services received.
- 4 For transactions in which share-based payments are made to parties other than employees, AASB 2 specifies a rebuttable presumption that

¹ Under AASB 2, all references to employees include others providing similar services.

the fair value of the goods or services received can be estimated reliably. In these situations, AASB 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 (AASB 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 Accounting Standard applies in the absence of identifiable goods or services. That in turn raises a further question: if the entity has made a share-based payment and the identifiable consideration received (if any) appears to be less than the fair value of the share-based payment, does this situation indicate that goods or services have been received, even though they are not specifically identified, and therefore that AASB 2 applies?

- 5 It should be noted that the phrase ‘the fair value of the share-based payment’ refers to the fair value of the particular share-based payment 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 share-based payment’ would refer to the fair value of the restricted shares, not the fair value of other, unrestricted shares.

SCOPE

- 6 AASB 2 applies to transactions in which an entity or an entity’s shareholders have granted equity instruments² 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. This Interpretation applies to such transactions when the identifiable consideration received (or to be received) by the entity, 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 Interpretation does not apply to transactions excluded from the scope of AASB 2 in accordance with paragraphs 3–6 of that Standard.

2 These include equity instruments of the entity, the entity’s parent and other entities in the same group as the entity.

ISSUE

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

CONSENSUS

- 8 AASB 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 identify specifically 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 AASB 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 (i.e. unidentifiable goods or services) has been (or will be) received.
- 10 The entity shall measure the identifiable goods or services received in accordance with AASB 2.
- 11 The entity shall measure the unidentifiable goods or services received (or to be received) as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received).
- 12 The entity shall measure the unidentifiable goods or services received at the grant date. However, for cash-settled transactions, the liability shall be remeasured at each reporting date until it is settled.

Application

- Aus12.1 This Interpretation applies to:
- (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001* and that is a reporting entity;
 - (b) general purpose financial reports of each other reporting entity; and

- (c) financial reports that are, or are held out to be, general purpose financial reports.

Aus12.2 This Interpretation applies to annual reporting periods beginning on or after 1 May 2006.

Aus12.3 This Interpretation may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 May 2006, permitting early application in the context of adopting all Australian equivalents to International Financial Reporting Standards for such periods. Early application is encouraged. An entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act may apply this Interpretation to such annual reporting periods when an election has been made in accordance with subsection 334(5) of the Corporations Act in relation to AASB 1048 *Interpretation and Application of Standards*. When an entity applies this Interpretation to such an annual reporting period, it shall disclose that fact.

Aus12.4 The requirements specified in this Interpretation apply to the financial report where information resulting from their application is material in accordance with AASB 1031 *Materiality*.

Effective date of IFRIC 8

13 [Deleted by the UIG]

Transition to IFRIC 8

14 [Deleted by the UIG]

ILLUSTRATIVE EXAMPLE

This example accompanies, but is not part of, UIG Interpretation 8. The UIG considers that the example is an essential feature of the Interpretation.

- IE1 An entity granted shares with a total fair value of CU100,000¹ 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 identify the specific 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 identify any specific goods or services received, the circumstances indicate that goods or services have been (or will be) received, and therefore AASB 2 *Share-based Payment* applies.
- IE4 In this situation, because the entity cannot identify the specific goods or services received, the rebuttable presumption in paragraph 13 of AASB 2, that the fair value of the goods or services received can be estimated reliably, does not apply. The entity should instead measure the goods or services received by reference to the fair value of the equity instruments granted.

¹ In this example, monetary amounts are denominated in 'currency units' (CU).

BASIS FOR CONCLUSIONS ON IFRIC 8

This IFRIC Basis for Conclusions accompanies, but is not part of, UIG Interpretation 8. The UIG considers that this Basis for Conclusions is an essential feature of the Interpretation. An IFRIC Basis for Conclusions may be amended to reflect the requirements of the UIG Interpretation and AASB Accounting Standards where they differ from the corresponding International pronouncements.

- 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 This question arose in the context of particular transactions, similar to the transaction described in the Illustrative Example that accompanies the Interpretation. The IFRIC concluded that determining whether such transactions were within the scope of IFRS 2 raised a further question: if the entity has made a share-based payment and the identifiable consideration received (if any) appears to be less than the fair value of the share-based payment, does this situation indicate that goods or services have been received, even though those goods or services are not specifically identified, and therefore that IFRS 2 applies?
- BC4 The IFRIC noted that, when the International Accounting Standards Board developed IFRS 2, the Board concluded that the directors of an entity would expect to receive some goods or services in return for equity instruments issued (IFRS 2 paragraph BC37). This implies that it is not necessary to identify the specific goods or services received in return for the equity instruments granted to conclude that goods or services have been (or will be) received. Furthermore, paragraph 8 of the Standard establishes that it is not necessary for the goods or services received to qualify for recognition as an asset in order for the share-based payment to be within the scope of IFRS 2. In this case, the Standard requires the cost of the goods or services received or receivable to be recognised as expenses.
- BC5 Accordingly, the IFRIC concluded that the scope of IFRS 2 includes transactions in which the entity cannot identify some or all of the specific 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, typically¹, this circumstance indicates that other consideration (i.e. unidentifiable goods or services) has been (or will be) received.

- BC6 The IFRIC also noted that IFRS 2 presumes that the consideration received for share-based payments is consistent with the fair value of those share-based payments. 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 share-based payment made to acquire those goods or services.
- BC7 The IFRIC noted that it is neither necessary nor appropriate to measure the fair value of goods or services as well as the fair value of the share-based payment for every transaction in which the entity receives goods or non-employee services. However, when the identifiable consideration received appears to be less than the fair value of the share-based payment, measurement of both the goods or services received and the share-based payment may be necessary in order to measure the value of the unidentifiable goods or services received.
- BC8 Paragraph 13 of IFRS 2 stipulates a rebuttable presumption that identifiable goods or services received can be reliably estimated. The IFRIC noted that goods or services that are unidentifiable cannot be reliably measured and that this rebuttable presumption is relevant only for identifiable goods or services.
- BC9 The IFRIC noted that when the goods or services received are identifiable, the measurement principles in IFRS 2 should be applied. When the goods or services received are unidentifiable, the IFRIC concluded that the grant date is the most appropriate date for the purposes of providing a surrogate measure of the unidentifiable goods or services received (or to be received).
- BC10 The IFRIC noted that some transactions include identifiable and unidentifiable goods or services. In this case, it would be necessary to measure the fair value of the unidentifiable goods or services received at the grant date and to measure the identifiable goods or services in accordance with IFRS 2.

¹ In some cases, the reason for the transfer would explain why no goods or services have been or will be received. For example, a principal shareholder, as part of estate planning, transfers some of his shares to a family member. In the absence of factors that indicate that the family member has provided, or is expected to provide, any goods or services to the entity in return for the shares, such a transaction would fall outside of the scope of IFRS 2 and thus this Interpretation.

BC11 For cash-settled transactions in which unidentifiable goods or services are received, it is necessary to remeasure the liability at each subsequent reporting date in order to be consistent with IFRS 2.

BC12 The IFRIC noted that the IFRS 2 requirements in respect of the recognition of the expense arising from share-based payments would apply to identifiable and unidentifiable goods or services. Therefore, the IFRIC decided not to issue additional guidance on this point.

BC13 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.