Exposure Draft

ED 161
January 2008

Proposed Amendments to AASB 2 *Share-based Payment* and AASB Interpretation 11 *AASB 2 – Group and Treasury Share Transactions*

Group Cash-settled Share-based Payment Transactions

Prepared by the
Australian Accounting Standards Board

Australian Government

Australian Accounting Standards Board

Commenting on this Exposure Draft

Constituents are strongly encouraged to respond to the AASB and the IASB. The AASB is seeking comment by 29 February 2008. This will enable the AASB to consider Australian constituents' comments in the process of formulating its own comments to the IASB, which are due by 17 March 2008. Comments should be addressed to:

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Australian Accounting Standards Board
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Collins Street West Victoria 8007
AUSTRALIA
E-mail: standard@aasb.com.au

Sent electronically through the 'Open to Comment' page on the IASB website (www.iasb.org)

A copy of all non-confidential submissions to the AASB will be placed on public record on the AASB website: www.aasb.com.au.

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PREFACE

Background

Australian Accounting Standards

The Australian Accounting Standards Board (AASB) makes Australian Accounting Standards to be applied by:

(a) entities required by the *Corporations Act 2001* to prepare financial reports;

(b) all reporting entities engaged in the for-profit, not-for-profit or public sectors; and

(c) any other entity that prepares general purpose financial reports.

Australian Accounting Standards incorporate International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), with the addition of paragraphs on the applicability of the Standard in the Australian environment.

Australian Accounting Standards also include requirements that are specific to Australian entities. In most instances, these requirements are either restricted to the not-for-profit or public sectors or include additional disclosures that address domestic, regulatory or other issues. In developing requirements for public sector entities, the AASB will consider the requirements of International Public Sector Accounting Standards (IPSAS), as issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants.

Exposure Drafts

The use of an Exposure Draft (ED) is an essential piece of the due process that the AASB follows before making a new or amending an existing Australian Accounting Standard. EDs are designed to seek public comment on the AASB's proposals for new Australian Accounting Standards or amendments to existing Australian Accounting Standards.

Reasons for Issuing this Exposure Draft

The purpose of this ED is to invite comments from Australian constituents on proposed amendments to AASB 2 *Share-based Payment* and AASB Interpretation 11 *AASB 2 – Group and Treasury Share Transactions*, which are the Australian equivalents to IFRS 2 *Share-based Payment* and IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*.

These proposed amendments are contained in the Exposure Draft of 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 that was issued by the IASB in December 2007. If these amendments are approved by the IASB, and subsequently by the AASB, they are expected to be applicable from the time that the IASB makes its pronouncements applicable.

Structure of this Exposure Draft

The AASB has decided to:

(a) reproduce the IASB Exposure Draft of 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 without amendment as part of this ED;

(b) identify the main changes in this Preface; and

(c) seek constituents' views on the proposals.

Main Features of this Exposure Draft

AASB 2 paragraph 3 requires a transfer 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, to be recognised as a share-based payment transaction by that entity. AASB Interpretation 11 provides further guidance on how these transfers of equity instruments should be accounted for in that entity's financial statements.

The proposals in the ED provide guidance on how a group entity that receives goods or services from suppliers (including employees) should account for the following arrangements:

- the entity's suppliers receive cash payments which are linked to the price of the equity instruments of the entity; or
- the entity's suppliers receive cash payments that are linked to the price of the equity instruments of the entity's parent.

In each case, another entity in the group makes the cash payment to the supplier.

The proposed amendments clarify that AASB 2 applies to the arrangements described above and that the entity should measure the goods or services in accordance with the requirements for cash-settled share-based payment transactions.

Application Date

The IASB has not yet specified an application date.

Request for Comments

Comments are invited on any of the proposals in the ED, including the questions on the proposed amendments to IFRS 2 and Interpretation 11 as listed in the Invitation to Comment sections of the IASB ED.

Constituents are strongly encouraged to respond to the AASB and the IASB. The AASB is seeking comment by 29 February 2008. This will enable the AASB to consider Australian constituents' comments in the process of formulating its own comments to the IASB, which are due by 17 March 2008. The AASB would prefer that respondents supplement their opinions with detailed comments, whether supportive or critical, on the major issues. The AASB regards both critical and supportive comments as essential to a balanced review and will consider all submissions, whether they address all specific matters, additional issues or only one issue.

Specific Matters for Comment

In addition, the AASB would value comments on:

(a) any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

(i) not-for-profit entities;

(ii) public sector entities;

(b) whether, overall, the proposals would result in financial reports that would be useful to users; and

(c) whether the proposals are in the best interests of the Australian economy.

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EXPOSURE DRAFT OF 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

Comments to be received by 17 March 2008

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This exposure draft *Group Cash-settled Share-based Payment Transactions,* proposed amendments to IFRS 2 *Share-based Payment* and IFRIC 11 *IFRS 2—Group and Treasury Share Transactions,* is published by the International Accounting Standards Board (IASB) for comment only. The proposals may be modified in the light of the comments received before being issued in final form as amendments to IFRS 2 and IFRIC 11. Comments on the exposure draft and the Basis for Conclusions should be submitted in writing so as to be received by **17 March 2008**. Respondents are asked to send their comments electronically to the IASB Website (www.iasb.org), using the 'Open to Comment' page.

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.

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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.

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 the entity 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).

(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?

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Proposed amendment to IFRS 2 *Share-based Payment*

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 *IFRS 2 – Group and Treasury Share Transactions* at the same time.

Proposed amendments to IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*

Issues

Paragraph 3A is added after paragraph 3. Paragraphs 1, 4 and 5 are amended: 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 addresses ~~two~~ 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 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 of the subsidiary. This Interpretation 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 shall account for the services in accordance with IFRS 2.

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

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 is within the scope of IFRS 2.

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.

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

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	

Basis for Conclusions

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

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 from the parent that are linked to the price of the equity instruments of the subsidiary

- Arrangement 2 – the employees of the subsidiary will receive cash payments from the parent 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 that requires 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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