Compiled Interpretation **Interpretation 11**

AASB 2 – Group and Treasury Share Transactions

This compiled AASB Interpretation applies to annual reporting periods beginning on or after 1 January 2009 but before 1 January 2010. Early application is permitted. It incorporates relevant amendments made up to and including 24 September 2007.

Prepared on 5 November 2009 by the staff of the Australian Accounting Standards Board.

Australian Government

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AASB Interpretation 11 *AASB 2 – Group and Treasury Share Transactions* (as amended) is set out in paragraphs 1 – 13. 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.

COMPILATION DETAILS

AASB Interpretation 11 *AASB 2 – Group and Treasury Share Transactions* as amended

This compiled Interpretation applies to annual reporting periods beginning on or after 1 January 2009 but before 1 January 2010. It takes into account amendments up to and including 24 September 2007 and was prepared on 5 November 2009 by the staff of the Australian Accounting Standards Board (AASB).

This compilation is not a separate Interpretation issued by the AASB. Instead, it is a representation of Interpretation 11 (February 2007) as amended by other pronouncements, which are listed in the Table below.

Table of Pronouncements

Pronouncement	**Month issued**	**Application date** ***(annual reporting periods … on or after …)***	**Application, saving or transitional provisions**
Interpretation 11	Feb 2007	*(beginning)* 1 Mar 2007	see (a) below
AASB 2007-8	Sep 2007	*(beginning)* 1 Jan 2009	see (b) below

(a) Entities may elect to apply this Interpretation to annual reporting periods beginning on or after 1 January 2005 but before 1 March 2007.

(b) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009, provided that AASB 101 *Presentation of Financial Statements* (September 2007) is also applied to such periods.

Table of Amendments

Paragraph affected	**How affected**	**By … [paragraph]**
Aus11.1	amended	AASB 2007-8 [7, 8]
Aus11.4	amended	AASB 2007-8 [8]

COMPARISON WITH IFRIC 11

AASB Interpretation 11 *AASB 2 – Group and Treasury Share Transactions* as amended incorporates International Financial Reporting Interpretations Committee Interpretation IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*, issued by the International Accounting Standards Board. Paragraphs that have been added to this Interpretation (and do not appear in the text of IFRIC 11) are identified with the prefix "Aus", followed by the number of the preceding IFRIC paragraph and decimal numbering.

Entities that comply with Interpretation 11 as amended will simultaneously be in compliance with IFRIC 11 as amended.

INTERPRETATION 11

AASB Interpretation 11 was issued in February 2007.

This compiled version of Interpretation 11 applies to annual reporting periods beginning on or after 1 January 2009 but before 1 January 2010. It incorporates relevant amendments contained in other AASB pronouncements up to and including 24 September 2007 (see Compilation Details).

AUSTRALIAN ACCOUNTING STANDARDS BOARD

INTERPRETATION 11

AASB 2 – GROUP AND TREASURY SHARE TRANSACTIONS

References

Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*

Accounting Standard AASB 2 *Share-based Payment*

Accounting Standard AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*

Accounting Standard AASB 132 *Financial Instruments: Presentation*

Issues

1 This Interpretation addresses two issues. The first is whether the following transactions should be accounted for as equity-settled or as cash-settled under the requirements of Accounting Standard AASB 2 *Share-based Payment*:

(a) an entity grants to its employees rights to equity instruments of the entity (e.g. share options), and either chooses or is required to buy equity instruments (i.e. treasury shares) from another party, to satisfy its obligations to its employees; and

(b) an entity's employees are granted rights to equity instruments of the entity (e.g. share options), either by the entity itself or by its shareholders, and the shareholders of the entity provide the equity instruments needed.

2 The second issue concerns share-based payment arrangements that involve two or more entities within the same group. For example, employees of a subsidiary are granted rights to equity instruments of its parent as consideration for the services provided to the subsidiary. AASB 2 paragraph 3 states that:

> For the purposes of this Standard, 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. [Emphasis added]*

However, AASB 2 does not give guidance on how to account for such transactions in the individual or separate financial statements of each group entity.

3 Therefore, the second issue addresses the following share-based payment arrangements:

(a) a parent grants rights to its equity instruments direct to the employees of its subsidiary: the parent (not the subsidiary) has the obligation to provide the employees of the subsidiary with the equity instruments needed; and

(b) a subsidiary grants rights to equity instruments of its parent to its employees: the subsidiary has the obligation to provide its employees with the equity instruments needed.

4 This Interpretation addresses how the share-based payment arrangements set out in paragraph 3 should be accounted for in the financial statements of the subsidiary that receives services from the employees.

5 There may be an arrangement between a parent and its subsidiary requiring the subsidiary to pay the parent for the provision of the equity instruments to the employees. This Interpretation does not address how to account for such an intragroup payment arrangement.

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

Share-based payment arrangements involving an entity's own equity instruments (paragraph 1)

7 Share-based payment transactions in which an entity receives services as consideration for its own equity instruments shall be accounted for as equity-settled. This applies regardless of whether the entity chooses or is required to buy those equity instruments from another party to satisfy its obligations to its employees under the share-based payment arrangement. It also applies regardless of whether:

(a) the employee's rights to the entity's equity instruments were granted by the entity itself or by its shareholder(s); or

(b) the share-based payment arrangement was settled by the entity itself or by its shareholder(s).

Share-based payment arrangements involving equity instruments of the parent

A parent grants rights to its equity instruments to the employees of its subsidiary (paragraph 3(a))

8 Provided that the share-based arrangement is accounted for as equity-settled in the consolidated financial statements of the parent, the subsidiary shall measure the services received from its employees in accordance with the requirements applicable to equity-settled share-based payment transactions, with a corresponding increase recognised in equity as a contribution from the parent.

9 A parent may grant rights to its equity instruments to the employees of its subsidiaries, conditional upon the completion of continuing service with the group for a specified period. An employee of one subsidiary may transfer employment to another subsidiary during the specified vesting period without the employee's rights to equity instruments of the parent under the original share-based payment arrangement being affected. Each subsidiary shall measure the services received from the employee by reference to the fair value of the equity instruments at the date those rights to equity instruments were originally granted by the parent as defined in AASB 2 Appendix A, and the proportion of the vesting period served by the employee with each subsidiary.

10 Such an employee, after transferring between group entities, may fail to satisfy a vesting condition other than a market condition as defined in AASB 2 Appendix A, for example the employee leaves the group before completing the service period. In this case, each subsidiary shall adjust the amount previously recognised in respect of the services received from the employee in accordance with the principles in AASB 2 paragraph 19. Hence, if the rights to the equity instruments granted by the parent do not vest because of an employee's failure to meet a vesting condition other than a market condition, no amount is recognised on a cumulative basis for the services received from that employee in the financial statements of any subsidiary.

A subsidiary grants rights to equity instruments of its parent to its employees (paragraph 3(b))

11 The subsidiary shall account for the transaction with its employees as cash-settled. This requirement applies irrespective of how the subsidiary obtains the equity instruments to satisfy its obligations to its employees.

Application

Aus11.1 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 statements of each other reporting entity; and

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

Aus11.2 This Interpretation applies to annual reporting periods beginning on or after 1 March 2007.

[Note: For application dates of paragraphs changed or added by an amending pronouncement, see Compilation Details.]

Aus11.3 This Interpretation may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 March 2007. If an entity applies this Interpretation to such an annual reporting period, it shall disclose that fact.

Aus11.4 The requirements specified in this Interpretation apply to the financial statements where information resulting from their application is material in accordance with AASB 1031 *Materiality*.

Effective Date of IFRIC 11

12 [Deleted by the AASB]

Transition

13 An entity shall apply this Interpretation retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, subject to the transitional provisions of AASB 2.

ILLUSTRATIVE EXAMPLE

This example accompanies, but is not part of, AASB Interpretation 11.

IE1 A parent grants 200 share options to each of 100 employees of its subsidiary, conditional upon the completion of two years' service with the subsidiary. The fair value of the share options on grant date is CU30 each. At grant date, the subsidiary estimates that 80 per cent of the employees will complete the two-year service period. This estimate does not change during the vesting period. At the end of the vesting period, 81 employees complete the required two years of service. The parent does not require the subsidiary to pay for the shares needed to settle the grant of share options.

IE2 The share-based payment transaction in the consolidated financial statements of the parent is accounted for as equity-settled in accordance with AASB 2 *Share-based Payment*.

IE3 As required by AASB Interpretation 11 paragraph 8, over the two-year vesting period, the subsidiary measures the services received from the employees in accordance with the requirements applicable to equity-settled share-based payment transactions. Thus, the subsidiary measures the services received from the employees on the basis of the fair value of the share options at grant date. An increase in equity is recognised as a contribution from the parent in the financial statements of the subsidiary.

IE4 The journal entries recorded by the subsidiary for each of the two years are as follows:

Year 1	CU	CU
Dr Remuneration expense (200 × 100 × 30 × 0.8 / 2)	240,000	
Cr Equity (Contribution from the parent)		240,000
Year 2		
Dr Remuneration expense (200 × 100 × 30 × 0.81 – 240,000)	246,000	
Cr Equity (Contribution from the parent)		246,000

BASIS FOR CONCLUSIONS ON IFRIC INTERPRETATION 11

This IFRIC Basis for Conclusions accompanies, but is not part of, AASB Interpretation 11. An IFRIC Basis for Conclusions may be amended to reflect the requirements of the AASB Interpretation and AASB Accounting Standards where they differ from the corresponding International pronouncements.

Introduction

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 The IFRIC released draft Interpretation D17 *IFRS 2 – Group and Treasury Share Transactions* for public comment in May 2005. It received 40 letters in response.

Consensus (paragraphs 7-11)

Share-based payment arrangements involving an entity's own equity instruments (paragraph 7)

BC3 D17 proposed that, regardless of whether the entity chooses or is required to buy the equity instruments needed from another party to settle the share-based payment arrangement, the share-based payment transactions should be accounted for as equity-settled. The IFRIC's rationale was that the consideration for the services received is equity instruments of the entity (rather than a liability to transfer cash or other assets). For the same reason, the IFRIC proposed in D17 that, regardless of whether the employees' rights to the entity's equity instruments were granted by the entity itself or by its shareholders, or whether the obligations under the share-based payment arrangement were settled by the entity itself or its shareholders, the share-based payment transactions should be accounted for as equity-settled.

BC4 Of the 40 respondents to D17, only a small number disagreed with D17's proposal to treat the transactions as equity-settled.

BC5 For the reason stated in paragraph BC3, the IFRIC reaffirmed its view that the share-based payment transactions specified in IFRIC 11 paragraph 1(a) and (b) should be accounted for as equity-settled.

BC6 Some respondents asked the IFRIC to clarify whether an entity should recognise a financial liability when the entity enters into a contractual arrangement to acquire its own equity instruments. The IFRIC noted that the relevant requirements in IAS 32 *Financial Instruments: Presentation* are clear. Therefore, the IFRIC decided not to explain those requirements in the Interpretation.

Share-based payment arrangements involving equity instruments of the parent (paragraphs 8-11)

BC7 D17 addressed the following share-based payment arrangements in which two or more entities in the same group are involved:

(a) a parent grants rights to its equity instruments direct to its subsidiary's employees; and

(b) an entity grants rights to equity instruments of its parent to its employees.

A parent grants rights to its equity instruments to the employees of its subsidiary (paragraph 8)

BC8 The IFRIC noted that paragraph 3 of IFRS 2 *Share-based Payment* requires an entity to recognise as share-based payment arrangements transfers of equity instruments of the entity's parent to parties that have supplied goods or services to the entity. However, the IFRIC observed that, for the purposes of the preparation of the financial statements of the subsidiary, the transaction described in paragraph BC7(a) does not meet the definition of either an equity-settled share-based payment transaction or a cash-settled share-based payment transaction. In this situation, the equity instruments granted are not the equity instruments of the subsidiary and the subsidiary has no obligation to transfer cash or other assets to the employees.

BC9 Because the subsidiary does not have an obligation to deliver cash or other assets to the employees, the IFRIC proposed in D17 that it was not appropriate to account for the transaction as cash-settled in the financial statements of the subsidiary. Instead, the IFRIC suggested that the equity-settled basis was more consistent with the principles in IFRS 2.

BC10 Of the 40 respondents to D17, only a small number disagreed that the transaction should be accounted for as equity-settled in the financial statements of the subsidiary.

BC11 The IFRIC noted that the parent has an involvement in the arrangement by committing itself to provide the employees of the subsidiary with its equity instruments. To meet the requirement in IFRS 2 paragraph 3, the IFRIC believed that it was appropriate in this particular situation for the subsidiary in its own financial statements to apply the same measurement basis as the parent uses in its consolidated financial statements. Accordingly, the IFRIC concluded that, provided that the transaction is accounted for as equity-settled in the consolidated financial statements of the parent, the services received from the employees should be measured using the equity-settled basis in the financial statements of the subsidiary. Correspondingly, to reflect the parent's granting of rights to its equity instruments to the employees of the subsidiary, the IFRIC decided that the subsidiary should recognise in its equity a contribution from the parent equal to the amount at which the services from the employees are measured.

BC12 The IFRIC discussed whether the Interpretation should address how to account for an intragroup payment arrangement requiring the subsidiary to pay the parent for the provision of the equity instruments to the employees. The IFRIC decided not to address that issue because it did not wish to widen the scope of the Interpretation to an issue that relates to the accounting for intragroup payment arrangements generally.

A subsidiary grants rights to equity instruments of its parent to its employees (paragraph 11)

BC13 Although the subsidiary in the transaction described in paragraph BC7(b) has an obligation to its employees, the obligation is not determined on the basis of the price of its own equity instruments. Thus, the transaction does not meet the definition of a cash-settled share-based payment transaction in the financial statements of the subsidiary. In addition, because the equity instruments provided to the employees are not equity instruments of the subsidiary, the transaction does not meet the definition of an equity-settled share-based payment transaction either in the financial statements of the subsidiary.

BC14 D17 proposed that the subsidiary should account for the transaction with its employees as cash-settled in its own financial statements. The rationale was that the cash-settled basis was more consistent with the principles in IFRS 2 because the subsidiary has an obligation to provide its employees with the equity instruments of the parent, which are treated as assets of the subsidiary when the subsidiary acquires them.

BC15 Many respondents to D17 disagreed with the proposed treatment. They disagreed that the accounting treatments for the two types of arrangement described in paragraph BC7 should depend on which entity grants to the employees rights to equity instruments of the parent. In their view, regardless of whether the parent or the subsidiary grants those rights to the employees, in most cases the parent is the one that supplies the equity instruments to settle the obligation. They believed that it was not appropriate to require the subsidiary to apply different accounting treatments to transactions with the same substance. They had concerns that different accounting treatments would give entities opportunities to structure their intragroup transactions in order to achieve desired accounting results.

BC16 The IFRIC noted that arrangements described in paragraph BC7(a) and (b) might be the same in the consolidated financial statements of the parent, and also from the perspective of the employees who receive the equity instruments. However, from the perspective of the subsidiary, the IFRIC observed that the two arrangements are different. The IFRIC noted that under arrangement (a) the parent, rather than the subsidiary, has the obligation to provide its employees with the equity instruments, whereas under arrangement (b) it is the subsidiary that has that obligation.

BC17 In addition, the IFRIC clarified that how the subsidiary acquires the equity instruments needed to meet its obligation to its employees is a separate transaction from its transaction with its employees.

BC18 For the above reasons, the IFRIC reaffirmed its view that the transaction with the employees described in paragraph BC7(b) should be accounted for as cash-settled in the financial statements of the subsidiary.

Transfers of employees between group entities (paragraphs 9 and 10)

BC19 The IFRIC noted that some share-based payment arrangements involve a parent granting rights to the employees of more than one subsidiary with a vesting condition that requires the employees to work for the group for a particular period. Sometimes, an employee of one subsidiary transfers employment to another subsidiary during the vesting period, without the employee's rights under the original share-based payment arrangements being affected. The IFRIC reasoned in D17 that the change of employment from one group entity to another does not represent a new grant of equity instruments, because the equity instruments were granted by the parent (not the individual subsidiary). Therefore, the IFRIC proposed in D17 that the subsidiary to which the employee transfers employment should measure the fair value of the services received from the employee by reference to the fair value of the equity instruments at the date those equity instruments were originally granted to the employee by the parent.

BC20 The respondents to D17 generally supported this proposed treatment. Some respondents also asked the IFRIC to clarify the following two points:

(a) whether the transfer of employees between group entities would be considered as a failure to satisfy a vesting condition in the financial statements of the subsidiary from which the employees transferred employment (i.e. whether that subsidiary should reverse the charge previously recognised in respect of the services received from such employees); and

(b) after the transfer of employment, if an employee leaves the group during the vesting period, whether each subsidiary should reverse the charge previously recognised in respect of the services from that employee during the vesting period.

BC21 The terms of the original share-based payment arrangement require the employees to work for the group, rather than for a particular group entity. Thus, the IFRIC in its redeliberations reaffirmed its view that the change of employment should not result in a new grant of equity instruments in the financial statements of the subsidiary to which the employees transferred employment. For the same reason, the IFRIC concluded that the transfer itself should not be treated as an employee's failure to satisfy a vesting condition. Thus, the transfer should not trigger any reversal of the charge previously recognised in respect of the services received from the employee in the financial statements of the subsidiary from which the employee transfers employment.

BC22 The IFRIC noted that IFRS 2 paragraph 19 requires the cumulative amount recognised for goods or services as consideration for the equity instruments granted to be based on the number of equity instruments that eventually vest. Accordingly, on a cumulative basis, no amount is recognised for goods or services if the equity instruments do not vest because of failure to satisfy a vesting condition other than a market condition as defined in IFRS 2 Appendix A. Applying the principles in IFRS 2 paragraph 19, the IFRIC concluded that when the employee fails to satisfy a vesting condition other than a market condition, the services from that employee recognised in the financial statements of each subsidiary during the vesting period should be reversed.

Transition (paragraph 13)

AusBC22.1 The AASB concluded that the transitional requirements in paragraph 13 do not supersede an entity's application of the optional transition provisions in AASB 1 *First-time Adoption of*

Australian Equivalents to International Financial Reporting Standards, paragraphs 25B and 25C. Therefore, this Interpretation is intended to apply only to share-based payment transactions to which the recognition and measurement requirements of AASB 2 *Share-based Payment* apply or have been applied.