Grant Thornton

ED 161 sub 4

Mr David Boymal
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29 February 2008

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Dear David

ED 161 Exposure Draft of 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

Grant Thornton Association Inc ("Grant Thornton Australia") is pleased to comment on the Australian Accounting Standard Board's (AASB's) ED 161. Our response reflects our position as business advisers both to listed companies and privately held businesses.

This submission has benefited with input from our clients, Grant Thornton International which will be finalising a global submission to the IASB by its 17 March 2008 deadline, and discussions with key constituents.

Grant Thornton Australia supports in principle the proposals contained in ED 161.

Our detailed comments are attached as an Appendix, and subject to those detailed comments:

a we do not believe that there are any Australian regulatory issues that would affect the implementation of the proposals;

b the proposals will result in financial reports that are useful to users; and

c the proposals are in the best interests of the Australian economy.

If you require any further information or explanations, please contact me.

Yours sincerely
GRANT THORNTON ASSOCIATION INC

KEITH REILLY
National Head of Professional Standards

APPENDIX

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 (AASB Interpretation 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 (AASB 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?

We agree with the proposals. We consider that the proposed amendments are a natural addition to the scope of IFRS 2 and IFRIC 11. Including these arrangements is consistent with IFRS 2's main principle of recognising the goods or services received in a share based payment transaction. The amendment will also result in group cash-settled share-based payments being accounted for consistently with group equity-settled transactions and will remove a possible incentive to structure arrangements to be outside IFRS 2's scope.

We note that proposed paragraph 3A to IFRS 2 addresses situations in which the parent or other group entity incurs a liability on behalf of the reporting entity and brings such transactions into the scope of IFRS 2. However, it does not address a situation in which the reporting entity incurs a liability to transfer cash or other assets for amounts based on the price (or value) of the equity instruments of its parent or another group entity. IFRIC 11 does not address this situation either. This could lead to the (in our view) anomalous outcome that IFRS 2 applies to such a transaction at group level but that IAS 19 *Employee Benefits* applies in the individual financial statements of the reporting entity.

Accordingly, we recommend that IFRS 2.2(b) be amended as follows:

> "cash-settled share-based payment transactions, in which the entity acquires goods or services by incurring liabilities to the supplier of those goods or services for amounts that are based on the price (or value) of the entity's shares or other equity instruments of the entity, **or the equity instruments of its parent or another entity in the same group,** and . . ."

A similar amendment would also be helpful in the definition of cash-settled share-based payment arrangement in IFRS 2 Appendix A. These amendments should result in all group cash-settled transaction being accounted for consistently with each other and with group equity-settled transactions in accordance with the IFRS 2 main principle of recognising the goods or services received in a share based payment transaction.

Without qualifying our overall support, we note that the amendment addresses only a narrow category of "group arrangements" and their recognition in separate financial statements. The amendment will also lead to group cash-settled share based payment arrangements being treated differently to other group arrangements. For example, parent entities commonly pay for certain corporate services provided to more than one group entity. The cost or value of those services may or may not be recharged to the entities to which they are provided. If these cash payments are not linked to the price of the equity instruments of the entity or other group entity, they will not be recognised in the financial statements of the entity receiving the goods or services. Typically, the amount that would be recognised is the recharge (if any). Such arrangements would however be disclosed in the financial statements related party transactions in accordance with IAS 24 *Related Party Disclosures*.

We recommend that the Board should address the broader issue of accounting for intra-group transactions between related parties in a separate project as soon as practicable.

Question 2 – Transition

The proposed amendments to AASB/IFRS 2 and AASB Interpretation 11/IFRIC 11 would be required to be applied retrospectively, subject to the transitional provisions of AASB/IFRS 2.

Do you agree with the proposal? If not, what do you propose and why?

We agree with the proposal to require the amendments to be applied retrospectively.