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Robert Garnett
Chairman
International Financial Reporting Interpretations Committee
30 Cannon Street
London EC4M 6XH

commentletters@iasb.org

Dear Robert

IFRIC Draft Interpretation D17 – *IFRS 2-Group and Treasury Share Transactions*

Deloitte Touche Tohmatsu is pleased to comment on the draft Interpretation – D17 *IFRS 2-Group and Treasury Share Transactions* (referred to as D17 or the draft Interpretation). Our response to the specific question raised in D17 is set out in the Appendix to this letter.

We concur with the consensuses reached by the International Financial Reporting Interpretations Committee (IFRIC) on the issues set out in paragraph 6(a) and (b) of D17. Our concerns with the consensus on the issue set out in paragraph 6(c) are detailed in the Appendix to this letter.

Regarding the issue set out in paragraph 6(a) of D17, we encourage the IFRIC to clarify, for the avoidance of doubt, whether a liability within the scopes of IAS 39 *Financial Instruments: Recognition and Measurement* and IAS 32 *Financial Instruments: Presentation and Disclosure* arises at the time that an entity chooses or is required to purchase equity instruments from another party in order to fulfill the share-based payment obligations.

When read on its own, paragraph 9 is unclear as regards the treatment of the share-based payment in the separate financial statements of the parent. We encourage the IFRIC to include in paragraph 9, explicit guidance consistent with paragraph IE3, that the grant of equity instruments by the parent directly to a subsidiary entity's employees, is a capital contribution. In addition, we believe the content of paragraph IE5 should be included in the consensus paragraphs of D17 (specifically, as part of paragraph 9).

We encourage the IFRIC to articulate clearly in paragraph 10, whether the share-based payment related to the transferred employee is recognised on a pro rata basis between the two subsidiaries in question, that is; is the share-based payment recognised in direct relation to the period of service provided to the two subsidiaries during the vesting period? We are aware of diversity already forming on this issue amongst preparers and note that some are interpreting paragraph 10 as requiring the second subsidiary to expense the entire share-based payment amount over the remaining vesting period, regardless of the service provided by the employee to the previous employer (first subsidiary).

If you have any questions concerning our comments, please contact the undersigned in London at (020) 7007 0907.

Sincerely,

Ken Wild
Global IFRS Leader

Appendix

Question

Paragraph 9 of the draft Interpretation proposes that share-based payment transactions in which a parent entity grants rights to its equity instruments (references in paragraphs 9-11 of the draft Interpretation to equity instruments of the parent entity also include equity instruments of another entity in the same group) direct to a subsidiary entity's employees should be accounted for as equity-settled transactions. Paragraph 11 proposes that, for transactions in which a subsidiary entity grants to its employees rights to equity instruments of its parent, the subsidiary entity should account for those transactions as cash-settled transactions. Therefore, in the subsidiary's individual financial statements, the accounting treatment of transactions in which a subsidiary's employees are granted rights to equity instruments of its parent would differ, depending on whether the parent or the subsidiary granted those rights to the subsidiary's employees. This is because the IFRIC concluded that, in the former situation, the subsidiary has not incurred a liability to transfer cash or other assets of the entity to its employees, whereas it has incurred such a liability in the latter situation (being a liability to transfer equity instruments of its parent). Do you agree with these proposals?

We believe the accounting treatment should be determined based on the substance of the arrangements, not the form. In the case where a subsidiary grants to its employees the rights to its parent entity's equity instruments, we concur that in the absence of any other agreement / arrangement, the subsidiary should account for that share-based payment transaction as cash-settled. However, the existence of an additional agreement, in which the parent for example, agrees to deliver its own equity instruments to the subsidiary at the same subscription price stipulated for the subsidiary's employees (leaving the subsidiary cash neutral), alters the substance of the arrangement. The effect of this alteration is that the arrangement is no different to the parent granting the rights to its own equity instruments directly to the subsidiary's employees; an arrangement that IFRIC would view as equity-settled (paragraph 9 of D17). Consequently, we disagree with the IFRIC conclusion and would support the issuance of an Interpretation on this issue that focuses on the substance of the arrangement.

We caution the IFRIC on the structuring opportunities that will arise should IFRIC decide to continue with the draft Interpretation as currently drafted, and that these may be far reaching and will result in diverse accounting for economically similar arrangements.