

18 July 2005

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

[commentletters@iasb.org](mailto:commentletters@iasb.org)

Dear Robert

## **IFRIC Draft Interpretation D16 – *Scope of IFRS 2***

Deloitte Touche Tohmatsu is pleased to comment on D16 *Scope of IFRS 2* (D16, or the Draft Interpretation).

We support the issuance of an IFRIC Interpretation clarifying that share-based payments may exist in scenarios where goods and services provided in exchange for the equity instruments may not be readily identifiable. We believe that the draft interpretation should clarify the extent to which it applies to non-reciprocal transactions, which, on the face of it, appear to be outside the scope of IFRS 2 as no goods or services are provided in return. We concur with the IFRIC's conclusion that for reciprocal transactions where the fair value of the equity instruments granted appears to be greater than the fair value of the goods and services received that are readily identifiable, the entity must determine whether other goods or services that are not as easily identified have been or will be received. We agree that IFRS 2 would apply to these reciprocal transactions.

We do find the wording in paragraph 9 slightly counter-intuitive, in that it begins by saying that in the absence of specifically identifiable goods or services, other circumstances may indicate the existence of a share based payment. It then goes on to discuss an indicator that is relevant not only in circumstances where identifiable goods or services are absent. It seems to us that the two points should be placed in separate paragraphs – one identifying that a share based payment might exist, the other identifying how to determine if this is the case. If the IFRIC were aware of any other examples that would indicate that IFRS 2 applies (other than a disparity in the fair values of each side of the transaction) we would recommend their inclusion in the latter paragraph. However, we are not aware of any such examples.

The draft interpretation does not address the accounting treatment of cases where identifiable goods or services received are less than the fair value of equity instruments granted. The draft interpretation should clarify the methodology for splitting the value of the share-based payment between those identifiable goods and services and the unidentified goods and services. We do not believe the apportionment of the fair value of equity instruments between these components will be straight forward, and accordingly believe that guidance from the IFRIC is needed.

The draft interpretation does not make any reference to IFRS 2.3, which states "For the purpose 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". Circumstances where IFRS 2 would not apply because the transfer is clearly for a purpose other than payment for goods or services are further explained in BC22. We believe that having clarified the scope, the IFRIC should make a reference to those paragraphs of IFRS 2 to explain in which circumstances no share-based payment transaction exists.

We believe the inclusion in the draft interpretation of a reference to IFRS 2 BC 37 would be helpful in justifying the IFRIC's position. This would remind readers of the IASB's position that an entity will not issue valuable equity instruments and receive nothing in return, as this would be a breach of the fiduciary duty of the entity's directors. The draft interpretation is based on this premise, and it would be useful to remind readers of this stated position of the IASB.

If you have any questions concerning our comments, please contact the undersigned in London at +44 207 007 0907.

Sincerely,

A handwritten signature in black ink, appearing to read "Ken Wild", written over a horizontal line.

Ken Wild  
**Global IFRS Leader**