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December 2006 – IFRIC Special

Audit

IAS Plus.

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IFRIC 11 clarifies accounting under IFRS 2

In November 2006, the International Financial Reporting Interpretations Committee (IFRIC) issued IFRIC 11 **IFRS 2 – Group and Treasury Share Transactions**. The Interpretation clarifies the application of IFRS 2 **Share-based Payment** to certain share-based payment arrangements involving the entity's own equity instruments and to arrangements involving equity instruments of the entity's parent.

Arrangements involving an entity's own equity instruments

The issue

The first issue addressed by IFRIC 11 deals with two situations:

- arrangements where an entity grants rights to its own equity instruments to its employees and either chooses or is required to buy equity instruments from another party to settle the resulting obligation to its employees; and
- arrangements where an entity's employees are granted rights to equity instruments of the entity (either by the entity itself or by it shareholders) and the shareholders of the entity provide the equity instruments needed.

The question is whether such transactions should be accounted for as equity-settled or as cash-settled under IFRS 2.

The consensus

The IFRIC concluded that when an entity receives services as consideration for rights to its own equity instruments, the transaction should be accounted for as equity-settled. This is regardless of whether:

- the entity chooses or is required to purchase equity instruments to satisfy its obligation;
- the entity or its shareholder(s) grants the right; or
- the transaction is settled by the entity or by its shareholder(s).

Arrangements involving equity instruments of the parent

The issue

The second issue is how to account for certain share-based payment arrangements involving two or more entities in the same group in the financial statements of the subsidiary that receives services from its employees.

More specifically, arrangements falling within the scope of IFRIC 11 are those where:

- a parent grants rights to its own equity instruments to employees of its subsidiary and the **parent has the obligation** to deliver the equity instruments; and
- a subsidiary grants rights to equity instruments of its parent to its employees and the **subsidiary has the obligation** to deliver the equity instruments.

The consensus

The parent has the obligation to deliver the equity instruments

When a parent grants rights to its own equity instruments to employees of the subsidiary and the parent has the obligation to deliver the equity instruments (provided that the share-based payment arrangement is accounted for as equity-settled in the consolidated financial statements), then the subsidiary should measure the services received from its employees based on the transaction being accounted for as equity-settled, and it should recognise a capital contribution in equity.

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. When the share-based payment arrangement is such that an employee is able to transfer between group companies without any change to the non-market vesting conditions of the original share-based payment transaction, and without his or her right to equity instruments being affected, the Interpretation states that the change of employment from one group entity to another does not represent a new grant of equity instruments (nor a failure to meet a non-market vesting condition) because the equity instruments were granted by the parent not the individual group entities.

Each subsidiary measures the services received from the employee based on the fair value of the equity instruments on the original grant date and the portion of the vesting period served with each subsidiary. If an employee fails to satisfy the non-market vesting conditions, each subsidiary will adjust the amount previously recognised in accordance with IFRS 2. Hence, if the right to equity instruments does not vest because of an employee's failure to meet a non-market vesting condition, no amount is recognised on a cumulative basis for the services received from that employee in the financial statements of any subsidiary.

The subsidiary has the obligation to deliver the equity instruments

When a subsidiary grants rights to equity instruments of its parent to its employees and the subsidiary has the obligation to deliver the equity instruments of its parent to its employees, the subsidiary should account for this transaction as cash-settled regardless of:

- how the subsidiary obtains the equity instruments required to settle its obligation; or
- who provides the equity instruments required.

Effective date and transition

Entities are required to apply IFRIC 11 to annual periods beginning on or after 1 March 2007. If an entity applies IFRIC 11 for a period beginning before 1 March 2007, that fact should be disclosed.

The Interpretation should be applied retrospectively in accordance with the requirements of IAS 8 **Accounting Policies, Changes in Accounting Estimates and Errors**, but subject to the general transitional provisions of IFRS 2.

Entities that are first-time adopters of International Financial Reporting Standards will apply the Interpretation in conjunction with the transitional arrangements for first-time adopters contained in IFRS 1 **First-time Adoption of International Financial Reporting Standards**.

Reimbursements between group companies

During its redeliberations, the IFRIC considered whether to provide guidance on how to account for the credit side of the share-based payment entry in the subsidiary's financial statements when there is a reimbursement between group companies. The IFRIC decided not to address the issue because it did not wish to extend the scope of the Interpretation at a late stage in the project. Entities will need to consider the terms of any reimbursement required between group companies and account for this transaction in accordance with the relevant requirements of International Financial Reporting Standards.

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