IFRIC

International Financial Reporting Interpretations Committee

IFRIC DRAFT INTERPRETATION D17

IFRS 2–Group and Treasury Share Transactions

Comments to be received by 18 July 2005

IFRIC Draft Interpretation D17 *IFRS 2–Group and Treasury Share Transactions* is published by the International Accounting Standards Board (IASB) for comment only. Comments on the draft Interpretation should be submitted in writing so as to be received by **18 July 2005**.

All responses will be put on the public record unless the respondent requests confidentiality. However, such requests will not normally be granted unless supported by good reason, such as commercial confidence. If commentators respond by fax or email, it would be helpful if they could also send a hard copy of their response by post. Comments should preferably be sent by email to: **CommentLetters@iasb.org** or addressed to:

D17 Comment Letters
International Accounting Standards Board
30 Cannon Street, London EC4M 6XH, United Kingdom

Fax: +44 (0)20 7246 6411

The IASB, the International Accounting Standards Committee Foundation (IASCF), the authors and the publishers do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

Copyright © 2005 IASCF®

All rights reserved. Copies of the draft Interpretation may be made for the purpose of preparing comments to be submitted to the IASB, provided such copies are for personal or intra-organisational use only and are not sold or disseminated and provided each copy acknowledges the IASCF's copyright and sets out the IASB's address in full. Otherwise, no part of this publication may be translated, reprinted or reproduced or utilised in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or in any information storage and retrieval system, without prior permission in writing from the IASCF.

International
Accounting Standards
Board®

The IASB logo/'Hexagon Device', 'eIFRS', 'IAS', 'IASB', 'IASC', 'IASCF', 'IASs', 'IFRIC', 'IFRS', 'IFRSs', 'International Accounting Standards', 'International Financial Reporting Standards' and 'SIC' are Trade Marks of the IASCF.

This draft Interpretation is available from www.iasb.org

INVITATION TO COMMENT

The International Accounting Standards Board's International Financial Reporting Interpretations Committee (IFRIC) invites comments on any aspect of this Draft Interpretation *IFRS 2—Group and Treasury Share Transactions*. It would particularly welcome comments on the question below. Comments are most helpful if they indicate the specific paragraph to which they relate, contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

Comments should be submitted in writing so as to be received no later than **18 July 2005**.

Question

Paragraph 9 of the draft Interpretation proposes that share-based payment transactions in which a *parent* entity grants rights to its equity instruments[*] 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?

---

* 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.

© Copyright IASCF

IFRIC *International Financial Reporting Interpretations Committee*

IFRIC DRAFT INTERPRETATION D17

IFRS 2–Group and Treasury Share Transactions

IFRIC [draft] Interpretation X *IFRS 2–Group and Treasury Share Transactions* ([draft] IFRIC X) is set out in paragraphs 1-14 and the Appendix. [Draft] IFRIC X is accompanied by an Illustrative Example and a Basis for Conclusions. The scope and authority of Interpretations are set out in paragraphs 1 and 8-10 of the IFRIC *Preface*.

© Copyright IASCF

References

- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- IAS 32 *Financial Instruments: Disclosure and Presentation*
- IFRS 2 *Share-based Payment*

Background

1 Under IFRS 2, the accounting requirements for a particular share-based payment transaction depend upon whether the transaction is an equity-settled or cash-settled share-based payment transaction. For some share-based payment transactions involving treasury shares, or two or more entities within the same group of entities, there are questions about whether those transactions should be accounted for as equity-settled or cash-settled.

2 An example of such transactions is when an entity grants share options to its employees, and either chooses or is required to buy back its own shares (ie treasury shares), to satisfy its obligations to its employees under the share-based payment arrangement.[*] Although the arrangement between the entity and its employees involves a grant of equity instruments of the entity, there is also a related transfer of cash to another party. This raises the question of whether the share-based payment transaction between the entity and its employees should be classified as equity-settled or cash-settled for the purposes of applying IFRS 2.

3 Some share-based payment arrangements involve two or more entities within the same group of entities, such as a transfer of equity instruments of one entity to the employees of another entity within the same group. Although IFRS 2 applies to such transactions (IFRS 2, paragraph 3), it does not give guidance on how to account for these transactions in the individual or separate financial statements of each entity involved in the arrangement. For example, a subsidiary entity's employees might be granted rights (vested or unvested)[†] to shares of its parent. Those rights might be granted by the subsidiary entity, or the parent entity might grant the rights direct to the subsidiary entity's employees. The question is

---

[*] Although this [draft] Interpretation focuses on share-based payment transactions with employees, it also applies to share-based payment transactions with parties other than employees.

[†] In the remainder of this [draft] Interpretation, all references to rights granted to an entity's employees include both vested rights and unvested rights.

© Copyright IASCF

whether the subsidiary entity should account for services received from its employees under such arrangements as cash-settled or equity-settled share-based payment transactions.

4 This [draft] Interpretation focuses on the most common situations and does not address specifically the wide variety of share-based payment transactions involving groups of entities.

Scope

5 This [draft] Interpretation applies to share-based payment transactions within the scope of IFRS 2.

Issues

6 This [draft] Interpretation addresses share-based payment arrangements in which:

(a) an entity grants to its employees rights to equity instruments of the entity, and either chooses or is required to buy those equity instruments (eg treasury shares) from another party, to satisfy its obligations to its employees under the share-based payment arrangement.

(b) an entity's employees are granted rights to equity instruments of the entity, either by the entity itself or by its shareholder, and the shareholder provides the equity instruments needed to settle the share-based payment arrangement.

(c) a subsidiary entity's employees are granted rights to equity instruments of the parent entity (or another entity in the same group), in particular, arrangements in which:

(i) the *parent* entity grants those rights direct to the *subsidiary* entity's employees, and

(ii) the *subsidiary* entity grants those rights to its employees.

Consensus

7 The entity shall account for a share-based payment transaction as cash-settled if it has a liability to transfer cash or other assets of the entity to its employees under the share-based payment arrangement between the entity and its employees. An entity's own equity instruments

(eg treasury shares) are not assets of the entity, whereas the equity instruments of another entity (eg shares of its parent) are assets of the entity.

8 Share-based payment transactions in which an entity receives services from its employees as consideration for equity instruments of the entity shall be accounted for as equity-settled transactions. This applies irrespective 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. This also applies irrespective 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).

9 Share-based payment transactions in which a parent entity grants rights to its equity instruments* direct to a subsidiary entity's employees shall be accounted for as equity-settled transactions. This applies to the separate or individual financial statements of the parent entity and the subsidiary entity and also to the group's consolidated financial statements.

10 Some share-based payment arrangements involve a parent entity granting rights to its equity instruments to the employees of more than one subsidiary. In some cases, an employee of one subsidiary might transfer employment to another subsidiary during the vesting period, without the transfer affecting the employee's rights under the share-based payment arrangement. The subsidiary entity to which the employee transfers employment shall 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 entity.

11 If a subsidiary entity grants to its employees rights to equity instruments of its parent, the subsidiary entity shall account for the share-based payment transaction with its employees as cash-settled. In this situation, the subsidiary entity has incurred a liability to transfer assets of the entity (the equity instruments of the parent entity) to its employees. This applies irrespective of whether the subsidiary entity and the parent entity enter into a separate agreement whereby the parent entity agrees to provide the equity instruments needed for the subsidiary entity to satisfy its obligations to its employees.

---

* References in paragraphs 9-11 to equity instruments of the parent entity also include equity instruments of another entity in the same group.

 © Copyright IASCF

12 In the situation described in paragraph 11, in the group's consolidated financial statements, the share-based payment transaction between the group and its employees shall be accounted for as an equity-settled transaction. The group is not obliged to transfer cash or other assets of the group to its employees; rather, the group receives services from its employees as consideration for equity instruments of the group. In the group's consolidated financial statements, the subsidiary entity's acquisition and subsequent transfer of the parent entity's equity instruments shall be accounted for as treasury share transactions, in accordance with paragraphs 33 and 34 of IAS 32.

Effective date

13 An entity shall apply this [draft] Interpretation for annual periods beginning on or after [date to be set at three months after the Interpretation is finalised].

Transition

14 An entity shall apply this [draft] Interpretation retrospectively in accordance with IAS 8, subject to the transitional provisions of IFRS 2.

© Copyright IASCF

Appendix

Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*

The amendment in this appendix shall be applied for annual periods beginning on or after [date to be set at three months after the Interpretation is finalised].

A1 IFRS 1 *First-time Adoption of International Financial Reporting Standards* is amended as described below.

In paragraph 25B, the final sentence is amended to read as follows:*

> In this paragraph, references to IFRS 2 shall be read as meaning IFRS 2 as interpreted by [draft] IFRIC [X] *Changes in Contributions to Employee Share Purchase Plans* and [draft] IFRIC [X] *IFRS 2—Group and Treasury Share Transactions*.

* This proposed amendment assumes that paragraph 25B of IFRS 1 was previously amended as proposed in IFRIC draft Interpretation D11 *Changes in Contributions to Employee Share Purchase Plans.*

© Copyright IASCF

Illustrative Example

This Illustrative Example accompanies, but is not part of, the [draft] Interpretation.

IE1 A parent entity grants to 100 employees of its subsidiary the right to receive 200 shares each, conditional upon the completion of two years' service with the subsidiary entity. The fair value of the shares on grant date is CU30 per share. The subsidiary estimates that 80 per cent of the employees will complete the two-year vesting 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.

IE2 As required by paragraph 8 of the [draft] Interpretation, the subsidiary entity accounts for the transaction as an equity-settled share-based payment transaction. In this situation, the parent entity has made a capital contribution to the subsidiary entity, by granting rights to its equity instruments direct to the subsidiary entity's employees. The subsidiary entity recognises the employee services received and capital contribution as follows:

Journal entry	**Year 1 calculation**	**Year 2 calculation**
Dr Employee services received Cr Equity (capital contribution from parent)	100 employees × 200 shares × 80% estimated vesting × 1/2 years × CU30 = CU240,000	100 employees × 200 shares × 81% vesting × CU30 – CU240,000 = CU246,000

IE3 Similarly, in the parent entity's separate financial statements, the parent entity recognises the grant of equity instruments and the capital contribution made to its subsidiary as follows:

Dr Investment in subsidiary (capital contribution) [Y1: CU240,000; Y2: CU246,000]

Cr Equity (equity instruments granted) [Y1: CU240,000; Y2: CU246,000]

IE4 For the purposes of preparing the group's consolidated financial statements, the increase in equity in the subsidiary entity's financial statements, and the increase in the investment asset in the parent entity's separate financial statements, are both eliminated upon consolidation.

IE5 If the parent entity levies an inter-company charge on the subsidiary entity, the amount of that charge is offset against the capital contribution in the individual or separate financial statements of the subsidiary entity and the

© Copyright IASCF

parent entity. If the amount of the inter-company charge exceeds the capital contribution, that excess is accounted for as a distribution from the subsidiary to its parent.

© Copyright IASCF

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the draft Interpretation.

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 Under IFRS 2, the accounting requirements for a share-based payment transaction depend upon whether the transaction is an equity-settled or cash-settled share-based payment transaction. IFRS 2 distinguishes between cash-settled and equity-settled transactions on the basis of the nature of the entity's obligations to the supplier of goods or services under the share-based payment arrangement. Transactions in which the entity is required to transfer cash or other assets of the entity to the counterparty are accounted for as cash-settled transactions; transactions in which the entity receives goods or services as consideration for equity instruments of the entity are accounted for as equity-settled transactions.

BC3 For example, suppose an entity grants share options to its employees. In this situation, the entity's only obligation is to issue or transfer equity instruments to its employees; there is no obligation to transfer cash or other assets of the entity to the employees. The IFRIC concluded that, if the entity chooses or is required to buy those equity instruments from another party, this does not change the nature of the share-based payment arrangement between the entity and its employees. Hence, the transaction between the entity and its employees should be accounted for as equity-settled under IFRS 2.

BC4 Similarly, an entity's shareholder might grant rights to equity instruments of the entity direct to the entity's employees, or the entity itself might grant those rights but the entity's shareholder settles the share-based payment arrangement by providing the necessary equity instruments. IFRS 2 applies to such transactions (IFRS 2, paragraph 3). The IFRIC concluded that such arrangements should be classified as equity-settled under IFRS 2 because, in all cases, the entity has no obligation to transfer cash or other assets to its employees; instead, the entity receives services from its employees as consideration for equity instruments of the entity.

BC5 For a share-based payment arrangement in which a parent entity has granted rights to its equity instruments direct to the subsidiary entity's employees, the subsidiary entity receives services from its employees but has no obligation to transfer cash or other assets of the entity to its employees as payment for those services. Therefore, this transaction does not meet the definition of a cash-settled transaction. Strictly speaking, it also does not meet the definition of an equity-settled transaction, because

© Copyright IASCF

the equity instruments are not equity instruments *of the entity*. However, the IFRIC concluded that the transaction must be classified as either equity-settled or cash-settled, and that classification as equity-settled is the most consistent with IFRS 2. This is because IFRS 2 distinguishes between liabilities and equity on the basis of whether the entity has an obligation to transfer cash or other assets. That distinction is based on the definitions of liabilities and equity in the IASB *Framework*.

BC6 Some share-based payment arrangements involve a parent entity granting rights to its shares to the employees of more than one subsidiary. In some cases, an employee of one subsidiary might transfer employment to another subsidiary during the vesting period, without the transfer affecting the employee's rights under the share-based payment arrangement. From the group's perspective, this event has no accounting effect. However, from the perspective of each subsidiary, an employee has ceased (or commenced) employment during the vesting period (whichever is applicable). Because the equity instruments were granted by the parent, not the subsidiary, the change of employment from one subsidiary to another does not represent a new grant of equity instruments. Therefore, the IFRIC concluded 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 entity.

BC7 In some share-based payment arrangements, instead of the parent entity granting rights to its shares direct to the subsidiary's employees, the subsidiary entity might grant those rights itself. In this situation, the subsidiary entity has incurred a liability to transfer assets of the entity (ie the shares in its parent) to its employees. Therefore, the IFRIC concluded that the subsidiary should account for the share-based payment transaction with its employees as a cash-settled transaction. This conclusion applies irrespective of whether the parent entity and the subsidiary entity enter into a separate agreement whereby the parent entity agrees to provide the equity instruments needed for the subsidiary entity to satisfy its obligations to its employees. In other words, the existence of that separate agreement between the parent and its subsidiary does not change the nature of the arrangement between the subsidiary entity and its employees.

BC8 From the group's perspective, there is no obligation to transfer cash or other assets of the group; rather, the group receives services from its employees as consideration for equity instruments of the group. Therefore, in the group's consolidated financial statements, the IFRIC concluded that the share-based payment transaction between the group and its employees should be accounted for as an equity-settled transaction.

© Copyright IASCF