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July 2009

# IAS Plus Update.

## Clarification of accounting for group cash-settled share-based payment transactions

On 18 June 2009, the International Accounting Standards Board (IASB) issued amendments to IFRS 2 *Share-based Payment*. These amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.

Guidance in this area previously provided in IFRIC 8 *Scope of IFRS 2* and IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* has been incorporated into the amended IFRS 2 and, as a result, these Interpretations will be withdrawn from the effective date of the amendments.

The amendments are effective for annual periods beginning on or after 1 January 2010, with earlier application permitted.

### Key principles

The amendments to IFRS 2:

- provide additional guidance on the accounting for share-based payment transactions among group entities (incorporating guidance previously contained in IFRIC 11); and
- amend the scope of the Standard to incorporate the guidance previously provided in IFRIC 8.

**Share-based payment transactions among group entities**

IFRS 2 applies when an entity enters into a share-based payment transaction regardless of whether the transaction is to be settled by the entity itself, or by another group member on behalf of the entity.

The amendments to IFRS 2 clarify the classification of share-based payment transactions for both the entity that receives the goods or services, and the entity that settles the share-based payment transaction. These amendments, which differ from the proposals set out in the exposure draft issued in December 2007, are summarised below.

**The entity receiving the goods or services** will recognise the transaction as an equity-settled share-based payment transaction only if:

- the awards granted are its own equity instruments; or
- it has no obligation to settle the transaction.

In all other circumstances, the entity will measure the transaction as a cash-settled share-based payment.

Subsequent remeasurement of such equity-settled transactions will only be carried out for changes in non-market vesting conditions.

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**The entity responsible for settling the transaction** will recognise it as an equity-settled share-based payment only if the transaction is settled in its own equity instruments. In all other circumstances, the transaction will be recognised by the entity that settles the award as a cash-settled share-based payment.

The guidance incorporated into IFRS 2 can be illustrated for the most commonly occurring scenarios as follows.

| Entity receiving goods and services | Obligation to settle share-based payment transaction | How is it settled? | Classification | |
|---|---|---|---|---|
| | | | Subsidiary's individual financial statements | Consolidated financial statements |
| Subsidiary | Subsidiary | Equity of the subsidiary | Equity | Equity |
| Subsidiary | Subsidiary | Cash | Cash | Cash |
| Subsidiary | Subsidiary | Equity of the parent | Cash | Equity |
| Subsidiary | Parent* | Equity of the parent | Equity | Equity |
| Subsidiary | Parent* | Cash | Equity | Cash |

* The same classification will result if the settlement obligation lies with the shareholders or another group entity (e.g. a fellow subsidiary).

As the classification may be different at the subsidiary and parent level, the amount recognised by the entity receiving the goods or services may differ from the amount recognised by the entity settling the transaction and in the consolidated financial statements.

Intragroup repayment arrangements will not affect the application of the principles described above for the classification of group-settled share-based payment transactions.

### Amendment of the scope of IFRS 2

The scope of IFRS 2 has been amended to clarify that it applies to all share-based payment transactions, whether or not the goods or services received under the share-based payment transaction can be individually identified. Any unidentifiable goods and services are measured on the grant date as the difference between the fair values of the share-based payment and the identifiable goods and services. This guidance was previously set out in IFRIC 8.

## Effective date

The amendments to IFRS 2 arising from the incorporation of the requirements of IFRIC 8 and IFRIC 11 are subject to the effective date and transitional provisions of the original Interpretations (now withdrawn).

The other amendments to IFRS 2 are to be applied retrospectively for annual periods beginning on or after 1 January 2010 (subject to the transitional provisions in IFRS 2.53-59), with earlier application permitted. If sufficient information for retrospective application is not available, the entity will reflect in its separate or individual financial statements the amounts previously recognised in the group's consolidated financial statements.

Designed and produced by The Creative Studio at Deloitte, London. 31587