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**Status:** Final

**Effective date:**  
Periods beginning 1 March 2007

**Accounting impact:**  
Brings some clarification to the application of IFRS 2 in a group arrangement

# International Financial Reporting Bulletin

## IFRIC 11 Group and Treasury share transactions

### Background

IFRIC 11 provides guidance on applying IFRS 2 to share-based payment transactions where:

- a) employees of a subsidiary are granted rights to equity instruments of its parent (is it equity settled or cash settled in the subsidiary's financial statements?); and
- b) an entity's employees are granted rights to equity instruments of the entity where the entity can choose or is required to buy equity instruments (i.e. treasury shares) from another party (is this equity settled or cash settled?) or where the shareholders of the entity supply the equity instruments.

Although the Interpretation focuses on transactions with employees it also applies to similar share-based payment transactions with suppliers of goods and services other than employees.

Unlike its related exposure draft, IFRIC 11 does not address the accounting in the parent's separate financial statements in (a) above and does not address accounting for an intragroup payment arrangement where a subsidiary might be required to pay the parent for the provision of equity instruments to employees.

IFRS 2 *Share-based Payment* differentiates between:

- equity-settled share-based payment transactions, in which an entity receives goods or services as consideration for its own equity instruments (including shares or share options); and
- cash-settled share-based payment transactions, in which an entity acquires goods or services by incurring liabilities to the supplier of those goods or services for amounts that are based on the price (or value) of its own shares or other equity instruments.

IFRS 2 also notes that 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 (except in very limited and specific circumstances). In addition transfers of equity instruments of the entity's parent, or equity instruments of another entity in the same group as the entity, to parties that have supplied goods or services to the entity are share-based payment transactions.

## Requirements

### *Share-based payment arrangements involving equity instruments of the parent*

The interpretation considers two scenarios:

- a) a parent grants rights to its equity instruments to the employees of its subsidiary; and
- b) a subsidiary grants rights to equity instruments of its parent to its employees.

The interpretation requires that:

- In the case of (a), if the share-based arrangement is accounted for as equity-settled in the consolidated financial statements of the parent then the subsidiary also measures the services received from its employees on an equity-settled basis, with a corresponding credit to equity as a contribution from the parent.
- In the case of (b), the subsidiary accounts for the transaction with its employees as cash-settled. This applies irrespective of how the subsidiary will obtain the equity instruments of its parent.

The IFRIC also considers (in the case of (a)) the effect of an employee transferring between group entities (for example from Sub A to Sub B). If the grant was conditional on the employee working for the group then such a transfer is not a new grant of equity instruments (so the charge in Sub B would be based on the fair value at initial grant) and is not a failure to satisfy a vesting condition in the financial statements of Sub A (so the charge previously recognised in Sub A would not be reversed).

### *Share-based payment arrangements involving an entity's own equity-instruments*

The interpretation confirms that share-based payment arrangements in which an entity receives goods or services as consideration for its own equity instruments are to be accounted for as equity-settled. This applies regardless of whether the entity can choose or is required to buy those equity instruments from another party or if the share-based payment arrangement was granted or settled by the entity itself or by its shareholder(s).

## Effect

In a subsidiary's financial statements, the accounting treatment of transactions in which the employees of the subsidiary are granted rights to equity instruments of its parent will differ, depending on whether the parent or the subsidiary grants those rights. If the subsidiary grants the rights the transaction is deemed cash-settled and it will be necessary for the equity instruments to be fair valued at each reporting date until the grant is settled.

### Action required

Groups should review their share-based payment transactions to identify the effect of IFRIC 11 on the financial statements of subsidiaries. IFRIC 11 applies to periods beginning 1 March 2007 and is to be applied retrospectively in accordance with IAS 8, subject to the transitional provisions of IFRS 2.

#### *Companies reporting in accordance with EU endorsed IFRS*

**IFRIC 11 appears unlikely to be endorsed by the European Commission before June 2007.** This would imply that the amendment is unlikely to be available for early adoption by companies reporting in accordance with EU endorsed IFRS for financial years ended 31 December 2006 (see IFRB 2006/02 for guidance about when an IFRS or Interpretation is regarded as having been endorsed for use by EU companies in their financial statements). However, because IFRIC 11 represents an interpretation of existing (endorsed) IFRS, companies might consider applying its requirements in advance of endorsement through a change of accounting policy. Should this approach be adopted, the transitional provisions of IFRIC 11 would not be applicable, with the new accounting policy instead being adopted on a fully retrospective basis as required by IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.



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