



International Financial Reporting Bulletin

Group Cash-settled Share-based Transactions: Amendments to IFRS 2

August 2009

Status: Final

Effective date:

1 January 2010, retrospectively

Accounting impact:

May be significant

This IFRB supersedes IFRB 15/2008 Exposure Draft of Proposed Amendments to IFRS 2 Share-based Payment and IFRIC 11 IFRS 2 – Group and Treasury Share Transaction.

Background

Group Cash-settled Share-based Payment Transactions: Amendments to IFRS 2 issued in June 2009 contains a series of amendments to IFRS 2 Share-based Payment.

As well as including clarification of the rules for group cash-settled share based payment transactions, it also incorporates the guidance in IFRC 8 *Scope of IFRS 2* and IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* into IFRS 2 itself. (As a result, IFRIC 8 and IFRIC 11 themselves have been withdrawn.)

IFRICs 8 & 11 are now familiar to us, and so this IFRB focuses on the clarifications to group cash-settled arrangements.

Simplified Scope for cash-settled transactions

The scope of IFRS 2 for cash-settled transactions has been simplified. In the past the scope referred to cash-settled transactions as follows:

'cash-settled share-based payment transactions, in which the 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 the entity's shares or other equity instruments of the entity'

IFRS 2 paragraph 2 (b) (pre-amendment)

It now refers to 'cash-settled share-based payment transactions', as including situations where a cash payment is linked to the equity of another group company.

Broader definition of equity-settled

The broader scope of IFRS 2 has been reflected in a slightly broader definition of 'equity-settled share-based payment transaction'. Previously to be classified as equity-settled the consideration to be given had to be in shares or share options of the entity. Now, following an IASB editorial correction to the amendment in July 2009, it is defined as follows:

'A share-based payment transaction in which the entity

- (a) receives goods or services as consideration for its own equity instruments (including shares or share options) or
- (b) receives goods or services but has no obligation to settle the obligation with the supplier.'

(IFRS 2 (amended) Appendix A)

Classification among group entities

Paragraph 3A of the amended standard sets out that a share-based payment arrangement exists where one group entity (or a shareholder of any group entity) incurs an obligation to settle a transaction on behalf of another group entity receiving the related goods or services. The requirements of IFRS 2 apply to both the entity receiving the goods or services and to the entity incurring the obligation.

If a parent agrees to settle a transaction on behalf of a subsidiary then this will be an equity-settled share-based payment transaction in the separate books of the subsidiary. This is because the subsidiary has no obligation to settle the transaction with the supplier as noted above.

If the transaction is to be settled by the parent in its equity instruments it will be equity-settled in both the parent's separate financial statements and in the consolidated financial statements. If it is to be settled by the parent in equity of the subsidiary receiving the services then it will be cash-settled in the parent's separate financial statements and equity-settled in the consolidated financial statements. (IFRS 2 (amended) paragraph 43C and B50)

'The amount recognised by the entity receiving the goods or services may differ from the amount recognised by the consolidated group or by another group entity settling the share-based payment transaction.' (IFRS 2 (amended) paragraph 43A)

An arrangement classified as cash settled will be re-measured at each balance sheet date whereas an equity-settled transaction will not be.

Recharges It is common for group entities to recharge each other for the provision of share based payment arrangements. Such recharges are to be disregarded for the purpose of analysing the share-based payment as equity-settled or cash-settled. (IFRS 2 (amended) paragraph 43D)

Effective date The amendments relating to the incorporation of IFRIC 8 and IFRIC 11 into IFRS 2 include the transitional provisions and effective dates in those interpretations.

The other amendments are effective for accounting periods beginning on or after 1 January 2010. They are to be applied retrospectively, so they might result in the reclassification of some share-based payment arrangements. 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.

Earlier application is permitted, but IFRS preparers in the EU can only adopt these provisions after they have been endorsed by the EU.

Action required Group share-based payment arrangements should be analysed to assess whether these new requirements require them to be accounted for as cash-settled or equity-settled in the separate accounts of the individual entities and in the consolidated accounts. This may result in existing arrangements being reclassified, with consequential revisions to the cumulative share-based payment charge and prior period adjustments.

Appendix

Classification of group share-based payment arrangements

The table below summarises the method of accounting required for group share-based payment arrangements in the financial statements of individual group companies and in the consolidated accounts. For ease of understanding it assumes that the companies involved are a parent and its subsidiary, but the same principles will apply in respect of any companies in the same group.

Entity receiving goods or services	Entity obliged to settle the transaction	Method of settlement	Classification (equity-settled or cash-settled)		
			Subsidiary's separate accounts	Parent's separate accounts	Group consolidated accounts
Subsidiary	Subsidiary	Equity of subsidiary	Equity	N/A	Equity
Subsidiary	Subsidiary	Cash	Cash	N/A	Cash
Subsidiary	Subsidiary	Equity of parent	Cash	N/A	Equity
Subsidiary	Parent	Equity of parent	Equity	Equity	Equity
Subsidiary	Parent	Cash	Equity	Cash	Cash
Subsidiary	Parent	Equity of subsidiary	Equity	Cash	Equity



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