

IFRS Briefing Sheet

IFRIC Interpretation 11 *IFRS 2 Share-based Payment – Group and Treasury Share Transactions*

November 2006, **Issue 57**

This IFRS Briefing Sheet summarises the International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 11 *IFRS 2 Share-based Payment – Group and Treasury Share Transactions*, which was published on 2 November 2006.

arrangement. IFRS 2 specifically includes within its scope transactions in which employees receive equity instruments of the employer or another group entity.

The following definitions are given in IFRS 2:

- *Equity-settled share-based payment transactions* – the entity receives goods or services as consideration for equity instruments of the entity.
- *Cash-settled share-based payment transactions* – 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.

This interpretation addresses the classification of a share-based payment transaction (as equity- or cash-settled), in which equity instruments of the parent or another group entity are transferred, in the financial statements of the entity receiving the services.

Background and Issue

Accounting for share-based payment transactions under IFRS 2 depends on whether the transaction is classified as an equity-settled or cash-settled

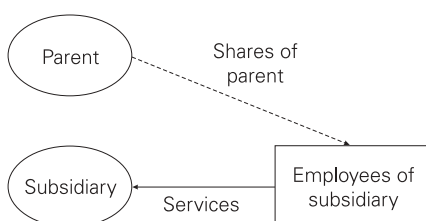
Under IFRS 2 a transfer of equity instruments of the parent or another group entity is classified as an equity-settled arrangement in the consolidated financial statements of the group. However, there is no guidance in IFRS 2 as to how such arrangements should be classified in the financial statements of the entity receiving the services. This issue comes up most frequently in respect of the separate financial statements of a subsidiary, but also is relevant for the subsidiary's individual or consolidated financial statements if these are prepared.

A supplement to KPMG's publication IFRS in Brief

Consensus

The interpretation addresses the accounting for the two scenarios illustrated below in the financial statements of the entity receiving the services.

Transaction 1: Parent Entity Grants Rights to Equity Instruments of Itself Directly to a Subsidiary Entity's Employees



Source: KPMG IFRG Limited

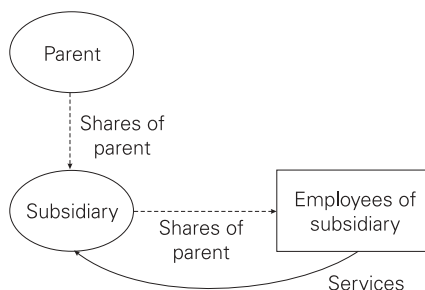
When a parent grants rights to its equity instruments directly to employees of a subsidiary, the transaction does not meet the definition of either an equity-settled or a cash-settled arrangement.

Provided that the transaction is classified as equity-settled in the consolidated financial statements of the parent, the IFRIC concluded that the transaction also should be classified as equity-settled in the financial statements of the subsidiary. The IFRIC reached this conclusion because the subsidiary has not incurred an obligation to transfer cash or a financial asset to its employees. The subsidiary recognises in its equity a contribution from the parent equal to the amount at which the services from the employees are measured.

In draft interpretation D17, the IFRIC proposed guidance on the accounting for payments between the group entities, if any, for the shares. In its redeliberations the IFRIC decided not to address this issue as it did not wish to widen the scope of the

interpretation to address the accounting for intragroup transactions.

Transaction 2: A Subsidiary Grants Rights to its Employees to Equity Instruments of its Parent



Source: KPMG IFRG Limited

A transaction in which a subsidiary grants rights to its employees to equity instruments of its parent also does not meet the definition of either an equity-settled or a cash-settled arrangement. The IFRIC concluded that this transaction should be classified by the subsidiary as a cash-settled arrangement. This is because the subsidiary incurs a liability to transfer equity instruments of another entity; these shares are, or would be, financial assets of the subsidiary.

The IFRIC noted that the above two transactions are accounted for in the same way in the consolidated financial statements of the parent; however, from the perspective of the subsidiary they are different. This is because the parent has the obligation to deliver the shares in the first transaction, whereas it is the subsidiary that has the obligation in the second transaction. Therefore these two transactions should be accounted for differently in the financial statements of the subsidiary.

Classification of the second transaction as cash-settled applies irrespective of how the subsidiary obtains the equity instruments to

satisfy its obligations to employees; this is a separate transaction from its transactions with employees.

Transfer of Employees

IFRIC 11 also provides guidance on arrangements in which a parent grants rights to its equity instruments to employees of a subsidiary and those rights are conditional on the employee providing service within the group for a specified period of time; the Interpretation specifically addresses the situation when an employee is transferred within the group during the vesting period.

The IFRIC concluded that each subsidiary measures the services received from the employee by reference to the parent's grant date fair value of the equity instruments. If an employee subsequently fails to satisfy a vesting condition other than a market condition such that there is "true-up" of the share-based payment at the group level, then each subsidiary adjusts the amount previously recognised in its financial statements. If the employee transfers between two group entities during the vesting period, then this is not deemed to be a forfeiture from the perspective of the former employer.

Transactions Involving an Entity's own Equity Instruments

IFRIC 11 also addresses the classification of transactions involving an entity's own equity instruments. In particular, the interpretation addresses transactions in which:

- an entity grants rights to its own equity instruments to employees and either chooses or is required to purchase equity instruments (i.e., treasury shares) from another party to satisfy its obligations
- an entity or its shareholders grant to employees rights to the entity's

own equity instruments and the shareholders provide the equity instruments to employees.

Under IFRS 2, a share-based payment transaction in which an entity receives services in exchange for its own equity instruments is accounted for as an equity-settled arrangement. The IFRIC concluded that classification as equity-settled applies regardless of whether the entity chooses or is required to buy the equity instruments from

another party to satisfy its obligations. With regard to the second scenario, equity-settled classification applies even if the rights to the equity instruments were granted by an entity's shareholders or the share-based payment arrangement was settled by the entity's shareholders.

Effective Date and Transition

IFRIC 11 is effective for annual periods beginning on or after 1 March 2007. Earlier application is permitted.

Changes in accounting policies should be accounted for retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, subject to the transitional requirements of IFRS 2.

If you would like further information on any of the matters discussed in this issue of *IFRS Briefing Sheet*, please talk to your usual local KPMG contact or call any of KPMG firms' offices.

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