

IFRS Briefing Sheet

IFRIC Interpretation 8 *Scope of IFRS 2*

January 2006, **Issue 42**

This IFRS Briefing Sheet summarises the International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 8 *Scope of IFRS 2 Share-based Payment*, which was published on 12 January 2006.

IFRIC 8 provides guidance on accounting for share-based payment transactions when the fair value of identifiable goods or services received by an entity is less than the fair value of the share-based payment. This includes those transactions in which no identifiable goods or services are received.

Background and Issue

IFRS 2 applies to transactions in which an entity receives or acquires goods or services in exchange for share-based payments, with limited exceptions. Share-based payments include the issue of equity instruments, and the issue of liabilities that are indexed to the value of the issuer's equity instruments.

In some circumstances it may be difficult to identify some or all of the goods or services received by an entity in a share-based payment transaction. Therefore, the identifiable consideration received, if any, may be less than the fair value of the share-based payment at the grant date. For example, a company may issue shares to a charity as a contribution. Although no identifiable goods and services may be received in the transaction, the company may enhance its corporate image as a result.

This interpretation addresses whether share-based payment transactions in which the goods or services received are difficult to identify are within the scope of IFRS 2.

Consensus

With the exception of specific scope exclusions, IFRS 2 applies to share-based payment transactions in which an entity receives goods or services, regardless of whether or not some or all of those goods or services can be identified specifically.

Any unidentifiable goods or services received in a share-based payment transaction should be measured as the difference between the fair value of the share-based payment and the fair value of any identifiable consideration received. Cash-settled share-based payment transactions should be remeasured at each reporting date until settled.

**A supplement to KPMG's
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This interpretation does not require an entity to determine the fair value of both the goods or services received and the share-based payment in every transaction. However, if the fair value of identifiable goods and services received appears to be less than the fair value of the share-based payment, then measurement of both of these items may be necessary in order to determine the fair value of the unidentifiable goods or services.

Continuing the charitable donation example discussed above, the company may expand its customer base or receive other future economic benefits as a result of its enhanced corporate image. Therefore the company receives unidentifiable consideration in the transaction, and IFRS 2 applies. The

company should recognise the unidentifiable consideration received on the grant date at the fair value of the shares issued.

Although not addressed by this interpretation, careful consideration should be given to whether the unidentifiable goods or services received satisfy the asset recognition criteria; in many cases they will not, and an expense will be recognised.

This interpretation does not apply to transactions in which there is no evidence or circumstances that indicate that the entity has received, or will receive in the future, any benefits from the transaction. For example, a transfer of shares from a company's principal shareholders to their children as part of estate planning, in which it is

clear that the company itself receives no goods or services, is outside of the scope of IFRS 2.

Effective Date and Transition

This interpretation is effective for annual periods beginning on or after 1 May 2006. Earlier application is encouraged.

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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