THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

14 March 2008

Our ref: ICAEW Rep 29/08

Your ref:

Sir David Tweedie
Chairman
International Accounting Standards Board
First Floor
30 Cannon Street
London EC4M 6XH

By email: commentletters@iasb.org

Dear David

AMENDMENTS TO IFRS 2 AND IFRIC 11 - GROUP CASH-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

The Institute of Chartered Accountants in England and Wales is pleased to respond to your request for comments on the Exposure Draft of proposed Amendments to IFRS 2 *Share-based payment* and IFRIC 11 *IFRS 2—Group and Treasury Share Transactions* 'Group Cash-settled Share-based Payment Transactions', published by the International Accounting Standards Board in December 2007.

Please contact me if you would like to discuss any of the points raised in the attached response.

Yours sincerely

Desmond Wright

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THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

ICAEW Representation

ICAEW REP 29/08

AMENDMENTS TO IFRS 2 AND IFRIC 11 - GROUP CASH-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

Memorandum of comment submitted in March 2008 by The Institute of Chartered Accountants in England and Wales, in response to the IASB Exposure Draft of proposed Amendments to IFRS 2 *Share-based payment* and IFRIC 11 *IFRS 2—Group and Treasury Share Transactions* 'Group Cash-settled Share-based Payment Transactions', published in December 2007.

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INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales (the Institute) welcomes the opportunity to comment on the Exposure Draft of proposed Amendments to IFRS 2 *Share-based payment* and IFRIC 11 *IFRS 2—Group and Treasury Share Transactions* ‘Group Cash-settled Share-based Payment Transactions’, published by the International Accounting Standards Board in December 2007.

WHO WE ARE

2. The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 130,000 members in more than 140 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.

3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The Institute ensures these skills are constantly developed, recognised and valued.

MAJOR POINTS

Support for the proposals

4. We welcome the proposals in the Exposure Draft, which will go a long way towards providing practical solutions to many of the problems that have arisen in practice.

RESPONSES TO SPECIFIC QUESTIONS

Question 1—Specifying how a subsidiary that receives goods or services from its suppliers (including employees) should account for cash-settled share-based payment arrangements described in new paragraph 3A of IFRIC 11

The proposed amendments specify that:

(a) in the financial statements of a subsidiary that receives goods or services from its suppliers under the arrangements described in new paragraph 3A of IFRIC 11, the subsidiary should apply IFRS 2 to account for the transactions with its suppliers. In other words, in the financial statements of the subsidiary, such cash-settled share-based payments are within the scope of IFRS 2 (see new paragraph 3A of IFRS 2 and new paragraph 11A of IFRIC 11).

5. We agree that these arrangements are within the scope of IFRS 2 (with the subsidiary accounting for a cash-settled share-based payment transaction). However, the scope of the amendment will apply only in a parent/subsidiary or subsidiary/subsidiary group relationship (amendment paragraph 3A). The

current IFRS 2 applies to equity-settled group transactions when any *shareholder* enters into a share-based payment arrangement with employees (IFRS 2.3). Therefore the scope of the proposed amendment for group cash-settled arrangements is narrower. For example, when an investor in an associate provides some of its equity in the associate to employees of the associate, the grant is in scope for the associate. However, based on the proposed wording, if the same investor in the associate provided a cash payment to the employees of the associate based on the price of the associate's equity, we believe that this would not be in scope based on the wording in 3A. The reason for the scope difference is unclear.

6. The scope of IFRS 2 will now cover the subsidiary's accounting for grants by its parent of cash-settled awards over either the parent's or the subsidiary's shares. It still will not cover grants by the subsidiary of cash-settled awards over the parent's shares. All three types are included within IFRS 2/IFRIC 11 where they are equity-settled and there is no obvious reason for this scope difference.

(b) the subsidiary should measure the goods or services received from its suppliers in accordance with the requirements applicable to cash-settled share-based payment transactions, as set out in IFRS 2 (see new paragraph 11B of IFRIC 11).

Do you agree with the proposals? If not, why?

7. We agree.

8. We have identified a conflict between the drafting of paragraph IFRS 2.3A and the remainder of the ED. Proposed IFRS 2.3A refers to the entity's parent having 'incurred a liability to transfer cash or other assets for amounts that are based on the price (or value) of the equity instruments of the entity, its parent, or another entity in the group to parties that have supplied goods or services to the entity.' Paragraph 3 of the introduction, proposed IFRIC 11:3A and paragraph BC2 all contain additional words along the lines that 'the subsidiary does not have any obligation to make such payments to its employees or provide them with its equity instruments.' The phrase about the subsidiary not having any obligation to provide cash or shares to the employees should be included also in proposed IFRS 2:3A, to scope the revision accurately.

9. Paragraphs BC4 - BC6 of the exposure draft explain why the measurement in the subsidiary is based on cash-settled. Paragraphs BC 9 and BC 11 of the original IFRIC 11 explain why, when a parent grants its own equity to employees of a subsidiary, the subsidiary classifies it as equity-settled (BC9) and accounts for the transaction based on the accounting for equity-settled transactions (BC 11). In a group cash-settled scenario, there is still no liability for the subsidiary (consistent with BC 9) and there is no existing requirement in IFRS 2 to 'true up' the IFRS 2 charge if the arrangement is not a cash-settled scheme. The Basis for Conclusions to the amendment should explain more clearly what the principle is which results in the 'push-down' method providing the best answer.

Question 2—Transition

The proposed amendments to IFRS 2 and IFRIC 11 would be required to be applied retrospectively, subject to the transitional provisions of IFRS 2.

Do you agree with the proposal? If not, what do you propose and why?

10. We agree. In theory it should be fairly simple to apply retrospectively since the subsidiary simply needs to mirror the previous years' consolidated accounting with a reclassification of the liability to equity.

OTHER ISSUES

Definitions in IFRS 2.3A inconsistent with Appendix A

11. We have identified inconsistencies between the definitions in Appendix A and proposed paragraph 3A.

    (a) The definitions in Appendix A of share-based payment transaction, share-based payment arrangement, cash-settled share-based payment transaction and equity-settled share-based payment transaction are narrower than in proposed paragraph 3A, in that Appendix A looks narrowly at the entity. We suggest that the wording in these definitions could be revised to conform to the broader definition given within the wording of the standard.

    (b) In Appendix A, the definition of cash-settled includes '... based on the price of the entity's shares or other equity instruments of the entity'. Proposed IFRS 2:3A refers only to '... based on the price ... of the equity instruments of the entity ...'. The apparent reference in IFRS 2 to shares that might not be equity instruments may cause diversity in practice through differing interpretations. It would therefore be very helpful if the IASB could take this opportunity to change the definition in Appendix A to read instead: '... based on the price of the equity instruments of the entity'.

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