Grant Thornton

Technical Accounting Alert

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

Introduction

The IASB published Group Cash-settled Share-based Payment Transactions (Amendments to IFRS 2); issued by AASB as AASB 2009-8 Amendments to Australian Accounting Stadnards – Group Cash-settled Share-based Payment. The publication amends IFRS 2 to:

- clarify the scope of the Standard and the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when that entity has no obligation to settle the share-based payment transaction

- incorporate the guidance in IFRIC 8 Scope of IFRS 2 and IFRIC 11 IFRS 2 - Group and Treasury Share Transactions.

IFRIC 8 and 11 are withdrawn following the publication of the Amendments to IFRS 2.

Relevant standards

References are made to standards issued by the International Accounting Standards Board. The Australian equivalent to each standard included in this alert is shown below:

International Standard reference	Australian equivalent standard
IFRS 2 Share-based Payments	AASB 2 Share-based Payments
IFRIC 8 Scope of IFRS 2	Interpretation 8 Scope of AASB 2
IFRIC 11 IFRS 2- Group and Treasury Share Transactions	Interpretation 11 AASB 2 – Group and Treasury Share Transactions

The Amendments

Background

Paragraph 3 of IFRS 2 required an entity to recognise as share-based payment transactions transfers of equity instruments of the entity's parent (or another entity in the same group) to parties that had supplied goods or services to the entity. IFRIC 11 provided guidance on how the entity that receives the goods or services from its suppliers should account for such transactions in its financial statements.

Summary of the main amendment

The main purpose of the Amendments to IFRS 2 is to specify the accounting, in the financial statements of an entity that receives goods or services from its suppliers (including employees), for similar arrangements that are share-based and cash-settled when the entity itself does not have any obligation to make the required payments to its suppliers.

For example, consider the following arrangements within a group of companies in which the parent entity (not the subsidiary entity) has an obligation to make required cash payments to the employees of the subsidiary entity:

- Arrangement 1 - the employees of the subsidiary will receive cash payments that are linked to the price of the equity instruments of the subsidiary

- Arrangement 2 - the employees of the subsidiary will receive cash payments that are linked to the price of the equity instruments of the parent of the subsidiary

Under either arrangement, the parent of the subsidiary has an obligation to make the required cash payments to the employees of the subsidiary. The subsidiary itself does not have any obligation to make such payments to its employees or provide them with its equity instruments.

The amendment to IFRS 2 clarifies that an entity that receives goods or services from its suppliers (including employees) must apply IFRS 2 even where it itself has no obligation to make the required share-based cash payments.

The subsidiary does not have an obligation under either of the arrangements to settle the transactions with its employees. As a result, the subsidiary accounts for the transaction with its employees as equity-settled*, recognising a corresponding increase in equity as a contribution from its parent.

The parent on the other hand has an obligation under both of the arrangements to settle the transaction with the employees. As the consideration is cash, the parent (and the consolidated group) measures its obligation in accordance with the requirements applicable to cash-settled share-based payment transactions.

* The Amendments to IFRS 2 have amended the definition of equity-settled share-based payment transaction to:

"A share-based payment transaction in which the entity receives goods or services (a) as consideration for its own equity instruments (including shares or share options), or (b) has no obligation to settle the transaction with the supplier."

Withdrawal of IFRIC 11 and IFRIC 8

The Amendments to IFRS 2 do not change the existing requirements of IFRIC 11. Because IFRS 2 was being amended by the project however, the IASB decided that in making the amendments, all the guidance currently found in IFRIC 11 and IFRIC 8 should be incorporated into IFRS 2. Accordingly, IFRIC 11 and IFRIC 8 have been withdrawn following the publication of the Amendments to IFRS 2.

Effective date

Subject to the existing transitional provisions contained in IFRS 2.53-59, the Amendments to IFRS 2 should be applied retrospectively for annual periods beginning on or after 1 January 2010.

If the information necessary for retrospective application is not available, an entity shall use amounts previously recognised in the group's consolidated financial statements in its separate or individual financial statements. Earlier application is permitted.

Grant Thornton comment

We agree with the Amendments to IFRS 2. We consider that they are a natural addition to the scope of IFRS 2. Applying IFRS 2 to the above arrangements is consistent with IFRS 2's main principle of recognising the goods or services received in a share-based payment transaction. The Amendments to IFRS 2 also result in group cash-settled share-based payment transactions being accounted for consistently with group equity-settled transactions and removes a possible incentive to structure arrangements to be outside IFRS 2's scope.

Further information

For further information on any of the information included in this TA alert, please contact your local Grant Thornton Australia contact or a member of the National Audit Support team at NAS@grantthornton.com.au