

4 August 2005

D17 Comment Letters
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

(By email: CommentLetters@iasb.org)

Dear Sir,

IFRIC DRAFT INTERPRETATION D17
IFRS 2 – GROUP AND TREASURY SHARE TRANSACTIONS

1. We are writing to provide our response to the IFRIC Draft Interpretation D17 *IFRS 2 – Group and Treasury Share Transactions*. Our comments below address the question set out in the “Invitation to Comment” section.

Question

Paragraph 9 of the draft Interpretation proposes that share-based payment transactions in which a *parent* entity grants rights to its equity instruments direct to a subsidiary entity’s employees should be accounted for as *equity-settled* transactions. Paragraph 11 proposes that, for transactions in which a *subsidiary* entity grants to its employees rights to equity instruments of its parent, the subsidiary entity should account for those transactions as *cash-settled* transactions. Therefore, in the subsidiary’s individual financial statements, the accounting treatment of transactions in which a subsidiary’s employees are granted rights to equity instruments of its parent would differ, depending on whether the *parent* or the *subsidiary* granted those rights to the subsidiary’s employees. This is because the IFRIC concluded that, in the former situation, the subsidiary *has not* incurred a liability to transfer cash or other assets of the entity to its employees, whereas it *has* incurred such a liability in the latter situation (being a liability to transfer equity instruments of its parent). Do you agree with these proposals?

We agree that share-based payment transactions in which an entity grants to its employees, rights to its equity instruments, should be accounted for as equity-settled transactions. We are of the opinion that this is the appropriate

accounting method even in the separate financial statements of a subsidiary entity that grants to its employees rights to equity instruments of its parent (or any other entity in the group). However, the exposure draft proposes that such a subsidiary entity should account for those transactions as cash-settled on the premise that the subsidiary has incurred a liability to transfer cash or other assets of the entity to its employees.

Our reasons for proposing to account for these transactions as equity-settled are as follows:

(a) Control of the subsidiary by parent

The ED proposes that the accounting method be dependent on whether it is the parent or the subsidiary that grants the rights to the employees directly. In the individual financial statements of the subsidiary, the former will be accounted for as equity-settled and the latter as cash-settled. Such a distinction is driven from the perspective of a liability being incurred by the subsidiary in the latter case. However, this approach ignores the fact that it is the parent that controls the decision as to whether to grant the rights to the employees directly by itself or its subsidiary. It would also be the parent that would subsequently control the decision as to whether to purchase the equity instruments from the market or to issue new instruments to satisfy the obligation towards the employees. Hence, we do not support differing accounting treatment as the "desired" accounting method can be easily engineered.

(b) Non-comparability

Let's compare a scheme whereby the subsidiary grants directly to its employees the rights to the equity instruments of its parent and one whereby the parent grants the rights directly to these employees but at the same time, requires the subsidiary to contribute to the parent its share of the cost of the scheme, which amount may be based on whether new equity instruments are issued or purchased from third parties. Under the proposed ED, the former is accounted for as cash-settled and the latter as equity-settled with the subsidiary's subsequent contribution to the parent being accounted for as a distribution to the parent. The difference in the economics and legal obligations of the subsidiary under the above two schemes is minimal, and in fact, can be identical. Therefore, we do not support differing accounting treatments.

In summary, our position is that group and treasury share transactions should be accounted as equity-settled in the separate financial statements of the subsidiary,



COUNCIL ON CORPORATE
DISCLOSURE & GOVERNANCE

regardless of whether it is the parent or the subsidiary that grants the rights in the parent's equity instruments to employees.

Other comments

As it may be common practice for the parent entity to levy an inter-company charge for the fair value of the options granted to the subsidiary entity's employee, we suggest that a paragraph on the treatment of this inter-company charge be included in the final interpretation in addition to the illustrative example.

We also suggest that more examples be provided to provide better clarity and understanding of the proposed interpretation.

2. Should you require any further clarification, please contact Mr Ramchand Jagtiani, Deputy Director, at the Institute of Certified Public Accountants of Singapore via email at jagtiani@icpas.org.sg. Thank you.

Yours sincerely,

Derek How
Secretary, CCDG