

Amendment to INT FRS 12
Consolidation—Special Purpose Entities
Scope of INT FRS 12

This document is issued as a reference. The amendments in this document have been incorporated into INT FRS 12.

AMENDMENT TO INT FRS 12

Scope of INT FRS 12 Consolidation—Special Purpose Entities

Amendment to INT FRS 12 *Scope of INT FRS 12 Consolidation—Special Purpose Entities* is set out in paragraphs 1-7. The Amendment is accompanied by a Basis for Conclusions. The scope and authority of Interpretations are set out in the *Preface to the Interpretations of Financial Reporting Standards*.

References

- FRS 19 *Employee Benefits*
- FRS 32 *Financial Instruments: Disclosure and Presentation*
- FRS 102 *Share-based Payment*
- INT FRS 12 *Consolidation—Special Purpose Entities*

Background

- 1 Until this Amendment becomes effective, INT FRS 12 excludes from its scope post-employment benefit plans and equity compensation plans (INT FRS 12.6). Until FRS 102 becomes effective, such plans are within the scope of FRS 19.
- 2 FRS 102 is effective for annual periods beginning on or after 1 January 2005. FRS 102 will amend FRS 19 by:
 - (a) removing from its scope employee benefits to which FRS 102 applies, and
 - (b) removing all references to equity compensation benefits and equity compensation plans.
- 3 Furthermore, FRS 32 requires treasury shares to be deducted from equity. When FRS 102 becomes effective, it will amend FRS 32 to state that paragraphs 33 and 34 of FRS 32 (relating to treasury shares) shall be applied to treasury shares purchased, sold, issued or cancelled in connection with employee share option plans, employee share purchase plans, and all other share-based payment arrangements.

Issues

- 4 The first matter addressed by this Amendment is the inclusion of equity compensation plans within the scope of INT FRS 12.
- 5 The second matter addressed by this Amendment is to exclude from the scope of INT FRS 12 other long-term employee benefit plans. Until the Amendment becomes effective, INT FRS 12 does not exclude other long-term employee benefit plans from its scope. However, FRS 19 requires those plans to be accounted for in a manner similar to the accounting for post-employment benefit plans.

Amendment

- 6 Paragraph 6 of INT FRS 12 is amended as follows (new text is underlined).

This Interpretation does not apply to post-employment benefit plans or other long-term employee benefit plans to which FRS 19 applies.

Effective date

- 7 An entity shall apply this Amendment for annual periods beginning on or after 1 January 2005. If an entity applies FRS 102 for an earlier period, this amendment shall be applied for that earlier period.

Basis for Conclusions

In the Basis for Conclusions on INT FRS 12, paragraphs 15A-15E are inserted.

- 15A In 2005, the scope of INT FRS 12 was amended. That Amendment is effective for annual periods beginning on or after 1 January 2005, unless an entity applied FRS 102 for an earlier period, in which case the Amendment is effective for that earlier period. Before that Amendment, INT FRS 12 excluded from its scope equity compensation plans and post-employment benefit plans. Paragraphs 15B-15E summarise the considerations in reaching its consensus to amend the scope of INT FRS 12.
- 15B The issue on whether the scope exclusion in INT FRS 12 for equity compensation plans should be removed when FRS 102 becomes effective was considered. Equity compensation plans were excluded from the scope of INT FRS 12 because they were within the scope of FRS 19 and that Standard did not specify recognition and measurement requirements for equity compensation benefits. However, once FRS 102 became effective, FRS 19 would no longer apply to equity compensation plans. FRS 102 specifies recognition and measurement requirements for equity compensation benefits.
- 15C Also, FRS 102 amended FRS 32, to state that paragraphs 33 and 34, which relate to the treatment of treasury shares, should be applied to treasury shares purchased, sold, issued or cancelled in connection with employee share option plans, employee share purchase plans, and all other share-based payment arrangements. However, in some cases, those shares might be held by an employee benefit trust (or similar entity) set up by the entity for the purposes of its share-based payment arrangements. Removing the scope exclusion in INT FRS 12 would require an entity that controls such a trust to consolidate the trust and, in so doing, to apply the requirements of FRS 32 to treasury shares held by the trust.
- 15D It was therefore concluded that, to ensure consistency with FRS 102 and FRS 32, the scope of INT FRS 12 should be amended by removing the exclusion of equity compensation plans.
- 15E At the same time, the scope exclusion in INT FRS 12 for post-employment benefit plans was discussed. It was noted that, although INT FRS 12 did not exclude other long-term employee benefit plans from its scope, FRS 19 nevertheless requires those plans to be accounted for in a manner similar to the accounting for post-employment benefit plans. It was therefore concluded that, to ensure consistency with FRS 19, the scope exclusion in INT FRS 12 should also apply to other long-term employee benefit plans.