
**INTERPRETATION OF
FINANCIAL
REPORTING STANDARD**

INT FRS 108

Scope of FRS 102

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BASIS FOR CONCLUSIONS

Interpretation of FRS 108 *Scope of FRS 102* (INT FRS 108) is set out in paragraphs 1–14. INT FRS 108 is accompanied by an Illustrative Example and a Basis for Conclusions. The scope and authority of Interpretations are set out in the *Preface* to the Interpretations of Financial Reporting Standards.

INTERPRETATION OF FINANCIAL REPORTING STANDARD INT FRS 108

Scope of FRS 102

References

- FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- FRS 102 *Share-based Payment*

Background

1. FRS 102 applies to share-based payment transactions in which the entity receives or acquires goods or services. 'Goods' includes inventories, consumables, property, plant and equipment, intangible assets and other non-financial assets (FRS 102, paragraph 5). Consequently, except for particular transactions excluded from its scope, FRS 102 applies to all transactions in which the entity receives non-financial assets or services as consideration for the issue of equity instruments of the entity. FRS 102 also applies to transactions in which the entity incurs liabilities, in respect of goods or services received, that are based on the price (or value) of the entity's shares or other equity instruments of the entity.
2. In some cases, however, it might be difficult to demonstrate that goods or services have been (or will be) received. For example, an entity may grant shares to a charitable organisation for nil consideration. It is usually not possible to identify the specific goods or services received in return for such a transaction. A similar situation might arise in transactions with other parties.
3. FRS 102 requires transactions in which share-based payments are made to employees to be measured by reference to the fair value of the share-based payments at grant date (FRS 102, paragraph 11).^{*} Hence, the entity is not required to measure directly the fair value of the employee services received.
4. For transactions in which share-based payments are made to parties other than employees, FRS 102 specifies a rebuttable presumption that the fair value of the goods or services received can be estimated reliably. In these situations, FRS 102 requires the transaction to be measured at the fair value of the goods or services at the date the entity obtains the goods or the counterparty renders service (FRS 102, paragraph 13). Hence, there is an underlying presumption that the entity is able to identify the goods or services received from parties other than employees. This raises the question of whether the FRS applies in the absence of identifiable goods or services. That in turn raises a further question: if the entity has made a share-based payment and the identifiable consideration received (if any) appears to be less than the fair value of the share-based payment, does this situation indicate that goods or services have been received, even though they are not specifically identified, and therefore that FRS 102 applies?

^{*} Under FRS 102, all references to employees include others providing similar services.

5. It should be noted that the phrase 'the fair value of the share-based payment' refers to the fair value of the particular share-based payment concerned. For example, an entity might be required by government legislation to issue some portion of its shares to nationals of a particular country, which may be transferred only to other nationals of that country. Such a transfer restriction may affect the fair value of the shares concerned, and therefore those shares may have a fair value that is less than the fair value of otherwise identical shares that do not carry such restrictions. In this situation, if the question in paragraph 4 were to arise in the context of the restricted shares, the phrase 'the fair value of the share-based payment' would refer to the fair value of the restricted shares, not the fair value of other, unrestricted shares.

Scope

6. FRS 102 applies to transactions in which an entity or an entity's shareholders have granted equity instruments* or incurred a liability to transfer cash or other assets for amounts that are based on the price (or value) of the entity's shares or other equity instruments of the entity. This Interpretation applies to such transactions when the identifiable consideration received (or to be received) by the entity, including cash and the fair value of identifiable non-cash consideration (if any), appears to be less than the fair value of the equity instruments granted or liability incurred. However, this Interpretation does not apply to transactions excluded from the scope of FRS 102 in accordance with paragraphs 3–6 of that FRS.

Issue

7. The issue addressed in the Interpretation is whether FRS 102 applies to transactions in which the entity cannot identify specifically some or all of the goods or services received.

Consensus

8. FRS 102 applies to particular transactions in which goods or services are received, such as transactions in which an entity receives goods or services as consideration for equity instruments of the entity. This includes transactions in which the entity cannot identify specifically some or all of the goods or services received.
9. In the absence of specifically identifiable goods or services, other circumstances may indicate that goods or services have been (or will be) received, in which case FRS 102 applies. In particular, if the identifiable consideration received (if any) appears to be less than the fair value of the equity instruments granted or liability incurred, typically this circumstance indicates that other consideration (i.e. unidentifiable goods or services) has been (or will be) received.
10. The entity shall measure the identifiable goods or services received in accordance with FRS 102.
11. The entity shall measure the unidentifiable goods or services received (or to be received) as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received).
12. The entity shall measure the unidentifiable goods or services received at the grant date. However, for cash-settled transactions, the liability shall be remeasured at each reporting date until it is settled.

* These include equity instruments of the entity, the entity's parent and other entities in the same group as the entity.

Effective Date

13. An entity shall apply this Interpretation for annual periods beginning on or after 1 May 2006. Earlier application is encouraged. If an entity applies this Interpretation to a period beginning before 1 May 2006, it shall disclose that fact.

Transition

14. An entity shall apply this Interpretation retrospectively in accordance with the requirements of FRS 8, subject to the transitional provisions of FRS 102.

Illustrative Example

This example accompanies, but is not part of, INT FRS 108.

- IE1 An entity granted shares with a total fair value of CU100,000* to parties other than employees who are from a particular section of the community (historically disadvantaged individuals), as a means of enhancing its image as a good corporate citizen. The economic benefits derived from enhancing its corporate image could take a variety of forms, such as increasing its customer base, attracting or retaining employees, or improving or maintaining its ability to tender successfully for business contracts.
- IE2 The entity cannot identify the specific consideration received. For example, no cash was received and no service conditions were imposed. Therefore, the identifiable consideration (nil) is less than the fair value of the equity instruments granted (CU100,000).
- IE3 Although the entity cannot identify any specific goods or services received, the circumstances indicate that goods or services have been (or will be) received, and therefore FRS 102 applies.
- IE4 In this situation, because the entity cannot identify the specific goods or services received, the rebuttable presumption in paragraph 13 of FRS 102, that the fair value of the goods or services received can be estimated reliably, does not apply. The entity should instead measure the goods or services received by reference to the fair value of the equity instruments granted.

* In this example, monetary amounts are denominated in 'currency units' (CU).

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, INT FRS 108.

- BC1 This Basis for Conclusions summarises the considerations in reaching the consensus. Greater weight was given to some factors than to others.
- BC2 FRS 102 *Share-based Payment* applies to share-based payment transactions in which the entity receives or acquires goods or services. However, in some situations, it might be difficult to demonstrate that the entity has received goods or services. This raises the question of whether FRS 102 applies to such transactions.
- BC3 This question arose in the context of particular transactions, similar to the transaction described in the Illustrative Example that accompanies the Interpretation. It was concluded that determining whether such transactions were within the scope of FRS 102 raised a further question: if the entity has made a share-based payment and the identifiable consideration received (if any) appears to be less than the fair value of the share-based payment, does this situation indicate that goods or services have been received, even though those goods or services are not specifically identified, and therefore that FRS 102 applies?
- BC4 When FRS 102 was developed, it was noted that the directors of an entity would expect to receive some goods or services in return for equity instruments issued. This implies that it is not necessary to identify the specific goods or services received in return for the equity instruments granted to conclude that goods or services have been (or will be) received. Furthermore, paragraph 8 of the Standard establishes that it is not necessary for the goods or services received to qualify for recognition as an asset in order for the share-based payment to be within the scope of FRS 102. In this case, the Standard requires the cost of the goods or services received or receivable to be recognised as expenses.
- BC5 Accordingly, it was concluded that the scope of FRS 102 includes transactions in which the entity cannot identify some or all of the specific goods or services received. If the identifiable consideration received appears to be less than the fair value of the equity instruments granted or liability incurred, typically*, this circumstance indicates that other consideration (i.e. unidentifiable goods or services) has been (or will be) received.
- BC6 It was also noted that FRS 102 presumes that the consideration received for share-based payments is consistent with the fair value of those share-based payments. For example, if the entity cannot estimate reliably the fair value of the goods or services received, FRS 102 requires the entity to measure the fair value of the goods or services received by reference to the fair value of the share-based payment made to acquire those goods or services.
- BC7 It was noted that it is neither necessary nor appropriate to measure the fair value of goods or services as well as the fair value of the share-based payment for every transaction in which the entity receives goods or non-employee services. However, when the identifiable consideration received appears to be less than the fair value of the share-based payment, measurement of both the goods or services received and the share-

* In some cases, the reason for the transfer would explain why no goods or services have been or will be received. For example, a principal shareholder, as part of estate planning, transfers some of his shares to a family member. In the absence of factors that indicate that the family member has provided, or is expected to provide, any goods or services to the entity in return for the shares, such a transaction would fall outside of the scope of FRS 102 and thus this Interpretation.

based payment may be necessary in order to measure the value of the unidentifiable goods or services received.

- BC8 Paragraph 13 of FRS 102 stipulates a rebuttable presumption that identifiable goods or services received can be reliably estimated. It was noted that goods or services that are unidentifiable cannot be reliably measured and that this rebuttable presumption is relevant only for identifiable goods or services.
- BC9 It was noted that when the goods or services received are identifiable, the measurement principles in FRS 102 should be applied. When the goods or services received are unidentifiable, it was concluded that the grant date is the most appropriate date for the purposes of providing a surrogate measure of the unidentifiable goods or services received (or to be received).
- BC10 It was noted that some transactions include identifiable and unidentifiable goods or services. In this case, it would be necessary to measure the fair value of the unidentifiable goods or services received at the grant date and to measure the identifiable goods or services in accordance with FRS 102.
- BC11 For cash-settled transactions in which unidentifiable goods or services are received, it is necessary to remeasure the liability at each subsequent reporting date in order to be consistent with FRS 102.
- BC12 It was noted that the FRS 102 requirements in respect of the recognition of the expense arising from share-based payments would apply to identifiable and unidentifiable goods or services. Therefore, the decision was not to issue additional guidance on this point.
- BC13 When considering the transitional provisions relating to first-time adopters applying the Interpretation, it was concluded that it was not necessary to amend FRS 101 *First-Time Adoption of Financial Reporting Standards*, because the Interpretation will have no effect unless FRS 102 is effective.