

[DRAFT] INTERPRETATION OF FRS

SCOPE OF FRS 102

Comments to be received by 18 June 2005

INVITATION TO COMMENT

The Council on Corporate Disclosure and Governance (CCDG) invites comments on any aspect of this draft Interpretation *Scope of FRS 102*. Comments are most helpful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments should be submitted in writing, so as to be received by 18 June 2005, preferably by email to: accounting_stds@acra.gov.sg or addressed to:

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[DRAFT] INTERPRETATION OF FRS X

Scope of FRS 102

[Draft] Interpretation of FRS X *Scope of FRS 102* ([draft] INT FRS X) is set out in paragraphs 1-11. [Draft] INT FRS X 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*.

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 include 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, including services, as consideration for the issue of 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. With employee services, for example, it is usually not possible to identify the specific services received in return for a particular component of an employee's pay package. A similar situation might arise in transactions with parties other than employees.
- 3 FRS 102 requires transactions in which equity instruments are granted to employees to be measured by reference to the fair value of the equity instruments granted, measured at grant date (FRS 102, paragraph 11).^{*} Hence, the entity is not required to identify or measure directly the fair value of the employee services received.
- 4 For transactions in which equity instruments are granted 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. This also raises a broader question: if the entity has granted equity instruments and the identifiable consideration received (if any) appears to be less than the fair value of equity instruments granted, does this circumstance indicate that goods or services have been received, albeit not specifically identified for accounting purposes, and therefore FRS 102 applies?
- 5 In raising this question, it should be noted that the phrase 'the fair value of the equity instruments granted' refers to the fair value of the particular equity instruments concerned. For example, an entity might be required by government legislation to issue some portion of its shares to nationals

* Under FRS 102, all references to employees also includes others providing similar services.

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 equity instruments granted' refers to the fair value of the restricted shares, not the fair value of other, unrestricted shares.

Scope

- 6 This [draft] Interpretation applies to transactions in which an entity has 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, and the identifiable consideration received (or to be received), 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 [draft] Interpretation does not apply to transactions excluded from the scope of FRS 102 in accordance with paragraphs 4-6 of that FRS.

Issue

- 7 The issue addressed in the [draft] Interpretation is whether FRS 102 applies to transactions in which the entity cannot specifically identify 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 specifically identify 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 (ie goods or services) has been (or will be) received.

Effective date

- 10 An entity shall apply this [draft] Interpretation for annual periods beginning on or after [date to be set at three months after the Interpretation is finalised].

Transition

- 11 An entity shall apply this [draft] 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, the [draft] Interpretation.

- 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 specifically identify the 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 specifically identify any 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 specifically identify the goods or services received, it will be necessary to rebut the presumption in FRS 102 that the fair value of the goods or services received can be estimated reliably and instead measure the goods or services received by reference to the fair value of the equity instruments granted.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the draft Interpretation.

- BC1 This Basis for Conclusions summarises the considerations in reaching the consensus.
- 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 In particular, this question arose in the context of particular transactions, similar to the transaction described in the Illustrative Example that accompanies the draft Interpretation. It was concluded that determining whether such transactions were within the scope of FRS 102 raised a broader question: if the entity has granted equity instruments and the identifiable consideration received (if any) appears to be less than the fair value of equity instruments granted, does this circumstance indicate that goods or services have been received, albeit not specifically identified for accounting purposes, and therefore FRS 102 applies?
- BC4 It was noted that when FRS 102 was developed, it was concluded that it is not necessary to identify specifically the assets received in return for the equity instruments granted to conclude that assets have been (or will be) received. With employee services, for example, it is usually not possible to identify the specific services received in return for a particular component of an employee's pay package.
- BC5 It was also noted that FRS 102 presumes that the consideration received for equity instruments granted is consistent with the fair value of those equity instruments. 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 equity instruments granted.
- BC6 Therefore, it was concluded that the scope of FRS 102 includes transactions in which the entity cannot specifically identify some or all of the 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. goods or services) has been (or will be) received.
- BC7 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.