PROPOSED FINANCIAL REPORTING STANDARD	ED/FRS

Exposure Draft

Amendments to FRS 102 *Share-based Payment* and INT FRS 111 *FRS 102—Group and Treasury Share Transactions*

Group Cash-settled Share-based Payment Transactions

Comments to be received by 4 February 2008

This exposure draft *Group Cash-settled Share-based Payment Transactions*, proposed amendments to FRS 102 *Share-based Payment* and INT FRS 111 *FRS 102—Group and Treasury Share Transactions* is issued by the Accounting Standards Council (ASC) for comment only and does not necessarily represent the views of ASC.

Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, clearly explain the problem and provide a suggestion for alternative wording with supporting reasoning.

Comments should be submitted in writing, so as to be received by **4 February 2008**, preferably by email to: MOF_Feedback_ASC@mof.gov.sg or addressed to:

Accounting Standards Council
c/o Ministry of Finance
100 High Street #10-01
The Treasury
Singapore 179434

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Introduction

1 This exposure draft contains proposals by the Accounting Standards Council (ASC) to amend FRS 102 *Share-based Payment* and INT FRS 111 *FRS 102— Group and Treasury Share Transactions*.

2 Paragraph 3 of FRS 102 requires 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 have supplied goods or services to the entity. INT FRS 111 provides guidance on how the entity that receives the goods or services from its suppliers should account for such transactions in its financial statements.

3 The purpose of the proposed amendments 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, for example:

- Arrangement 1 – the suppliers of the entity will receive cash payments that are linked to the price of the equity instruments of the entity
- Arrangement 2 – the suppliers of the entity will receive cash payments that are linked to the price of the equity instruments of the parent of the entity.

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

4 The proposed amendment to FRS 102 clarifies that an entity that receives goods or services from its suppliers must apply FRS 102 even though the entity has no obligation to make the required share-based cash payments.

5 The proposed amendment to INT FRS 111 specifies that an entity that receives goods or services from its suppliers under the arrangements described in paragraph 3 should measure the goods or services in accordance with the requirements applicable to cash-settled share-based payment transactions. The proposed amendment to INT FRS 111 does not change its existing requirements.

Invitation to comment

6 ASC invites comments on the proposed amendments to FRS 102 and INT FRS 111, particularly on the questions set out below. Comments are most helpful if they:

(a) comment on the questions as stated;

(b) indicate the specific paragraph or group of paragraphs to which they relate;

(c) contain a clear rationale; and

(d) if applicable, include an alternative ASC should consider.

ASC is not seeking comments on matters in FRS 102 and INT FRS 111 other than those set out in this exposure draft.

Respondents should submit comments in writing so as to be received no later than 4 February 2008.

In considering the comments, ASC will base its conclusions on the merits of the arguments for and against each alternative, not on the number of responses supporting each alternative.

Question 1—Specifying how a subsidiary that receives goods or services from its suppliers (including employees) should account for cash-settled share-based payment arrangements described in new paragraph 3A of INT FRS 111

The proposed amendments specify that:

(a) in the financial statements of a subsidiary that receives goods or services from its suppliers under the arrangements described in new paragraph 3A of INT FRS 111, the subsidiary should apply FRS 102 to account for the transactions with its suppliers. In other words, in the financial statements of the subsidiary, such cash-settled share-based payments are within the scope of FRS 102 (see new paragraph 3A of FRS 102 and new paragraph 11A of INT FRS 111).

(b) the subsidiary should measure the goods or services received from its suppliers in accordance with the requirements applicable to cash-settled share-based payment transactions, as set out in FRS 102 (see new paragraph 11B of INT FRS 111).

Do you agree with the proposals? If not, why?

Question 2—Transition

The proposed amendments to FRS 102 and INT FRS 111 would be required to be applied retrospectively, subject to the transitional provisions of FRS 102.

Do you agree with the proposal? If not, what do you propose and why?

Proposed amendment to FRS 102 *Share-based Payment*

Scope

Paragraph 3A is added. Paragraph 3 is reproduced for ease of reference, but is not proposed for amendment.

3 For the purposes of this FRS, transfers of an entity's equity instruments by its shareholders to parties that have supplied goods or services to the entity (including employees) are share-based payment transactions, unless the transfer is clearly for a purpose other than payment for goods or services supplied to the entity. This also applies to transfers of equity instruments of the entity's parent, or equity instruments of another entity in the same group as the entity, to parties that have supplied goods or services to the entity.

3A Similarly, this FRS also applies to arrangements in which an entity's parent (or another entity in the group) has incurred a liability to transfer cash or other assets for amounts that are based on the price (or value) of the equity instruments of the entity, its parent, or another entity in the group to parties that have supplied goods or services to the entity.

Effective date

Paragraph 60A is added.

60A An entity shall apply [draft] paragraph 3A for annual periods beginning on or after [date to be inserted after exposure]. Earlier application is permitted. If an entity applies that [draft] paragraph for a period beginning before [date to be inserted after exposure], it shall disclose that fact and apply the related [draft] amendments to INT FRS 111 *FRS 102—Group and Treasury Share Transactions* at the same time.

Proposed amendments to INT FRS 111 *FRS 102—Group and Treasury Share Transactions*

Issues

Paragraph 3A is added after paragraph 3. Paragraphs 1, 4 and 5 are amended: new text is underlined and deleted text is struck through. Paragraph 6 is reproduced for ease of reference, but is not proposed for amendment.

1 This Interpretation addresses ~~two~~ three issues. The first is …

3A The third issue concerns cash-settled share-based payment arrangements in which a parent incurs a liability to make cash payments to the employees of its subsidiary. The amounts of the cash payments are based on the price of the equity instruments of either the parent or the subsidiary. Under the arrangements, the parent 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 the required cash payments to its employees or provide them with its equity instruments.

4 This Interpretation addresses how the share-based payment arrangements set out in paragraphs 3 and 3A should be accounted for in the financial statements of the subsidiary that receives services from the employees. For convenience, this Interpretation discusses the issues in terms of a parent and its subsidiary. However, this Interpretation also applies to similar arrangements between an entity and another entity in the same group.

5 There may be an arrangement between a parent and its subsidiary requiring the subsidiary to reimburse ~~pay~~ the parent for providing ~~the provision of~~ the equity instruments or making the cash payments to the employees of the subsidiary. This Interpretation does not address how to account for such an intragroup payment arrangement. Regardless of whether there is a reimbursement arrangement between a parent and its subsidiary, the subsidiary that receives services from its employees shall account for the services in accordance with FRS 102.

6 Although this Interpretation focuses on transactions with employees, it also applies to similar share-based payment transactions with suppliers of goods or services other than employees.

Consensus

After paragraph 11, a heading and paragraphs 11A and 11B are added.

Share-based payment arrangements in which a parent has an obligation to make the required cash payments to the employees of its subsidiary (paragraph 3A)

11A In accordance with paragraph 3A of FRS 102, in the financial statements of the subsidiary that receives services from its employees, the arrangement set out in [draft] paragraph 3A of this Interpretation is within the scope of FRS 102.

11B The subsidiary shall measure the services received from its employees in accordance with the requirements applicable to cash-settled share-based payment transactions. Specifically, the subsidiary shall measure the services received from its employees on the basis of the fair value of the corresponding liability incurred by the parent. Until the liability incurred by the parent is settled, the subsidiary shall recognise any changes in the fair value of the liability in profit or loss and in the subsidiary's equity as adjustments to contributions from the parent.

Effective date

After paragraph 12, paragraph 12A is added.

12A An entity shall apply [draft] paragraphs 11A and 11B of this Interpretation for annual periods beginning on or after [date to be inserted after exposure]. Earlier application is permitted. If an entity applies those [draft] paragraphs for a period beginning before [date to be inserted after exposure], it shall disclose that fact and apply the related [draft] amendments to FRS 102 at the same time.

Transition

Paragraph 13 is reproduced for ease of reference, but is not proposed for amendment.

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

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the proposed amendments to FRS 102 and INT FRS 111.

BC1 This Basis for Conclusions summarises the considerations in proposing amendments to FRS 102 *Share-based Payment* and INT FRS 111 *FRS 102—Group and Treasury Share Transactions*.

BC2 FRS 102 paragraph 3 requires 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 have supplied goods or services to the entity. Some constituents asked for guidance on whether, in the financial statements of an entity that receives services from its employees, similar arrangements that are cash-settled are also within the scope of FRS 102. For example, how should the following arrangements be accounted for in the financial statements of a subsidiary that receives services from its employees?

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

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

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

BC3 It was recognised that, for group equity-settled share-based payment arrangements, FRS 102 paragraph 3 requires an entity to apply FRS 102 even though the entity's suppliers of goods or services are provided with equity instruments of the parent (or another entity in the same group). In addition, it was observed that INT FRS 111 requires a subsidiary to account for the transactions (described in paragraph BC7 of the Basis for Conclusions on INT FRS 111) as share-based payment transactions in its financial statements even though the transactions do not meet the definition of either an equity-settled share-based payment transaction or a cash-settled share-based payment transaction.

BC4 Similarly, for the financial statements of the subsidiary, it was noted that the arrangements described in paragraph BC2 do not meet the definition of either an equity-settled share-based payment transaction or a cash-settled share-based payment transaction. It was considered whether a different conclusion should be reached for arrangements described in paragraph BC2 merely because the arrangements described in paragraph BC7 in the Basis for Conclusions on INT FRS 111 are equity-settled and the arrangements described in paragraph BC2 are cash-settled.

BC5 It was noted that the arrangements described in paragraph BC2 are (a) for the purpose of providing benefits to the employees of the subsidiary in return for employee services, and (b) share-based and cash-settled. In addition, it was observed that the requirements in FRS 102 apply to both cash-settled and equity-settled share-based payment transactions in which an entity receives goods or services as consideration for its equity instruments or by incurring liabilities to the supplier of those goods or services for amounts that are based on the price of its equity instruments.

BC6 For these reasons, it was concluded that, in the financial statements of the subsidiary,

(a) the arrangements described in paragraph BC2 should be within the scope of FRS 102 (not FRS 19 *Employee Benefits*). The subsidiary that receives services from the employees should apply FRS 102 regardless of whether the group share-based payment arrangement is cash-settled or equity-settled.

(b) the subsidiary should measure the employee services in accordance with the requirements applicable to cash-settled share-based payment transactions.

BC7 Consequently, it was proposed to amend FRS 102 to require a subsidiary that receives goods or services from its suppliers (including employees) to apply FRS 102 to group share-based payment arrangements that will be settled by its parent (or another entity in the same group), regardless of whether the arrangements are equity-settled or cash-settled. In addition, it was proposed to amend INT FRS 111 to specify that the subsidiary should measure the goods or services in accordance with the requirements applicable to cash-settled share-based payment transactions.

BC8 Paragraph 30 of FRS 102 requires an entity to measure the goods or services received on the basis of the fair value of the liability incurred. It also requires the entity to remeasure the fair value of the liability at each reporting date and at the date of settlement. It was observed that the parent has an involvement in the cash-settled and share-based arrangement by committing itself to make the required cash payments to the suppliers of its subsidiary. Therefore, consistently with its conclusion on group share-based payment arrangements that are equity settled by the parent, it was concluded that the subsidiary should determine the fair value of the goods or services on the basis of the fair value of the liability incurred by the parent at each reporting date in order to meet the requirement in paragraph 30 of FRS 102. Until the liability is settled by the parent, the subsidiary recognises any changes in fair value of the liability in profit or loss and in equity as adjustments to contributions from the parent.

BC9 It was discussed whether the proposed amendments should address how to account for an intragroup payment arrangement that requires the subsidiary to reimburse the parent for making the required cash payments to the suppliers of goods or services. It was decided not to address that issue because it did not wish to widen the scope of the issue to address how intragroup payment arrangements should be accounted for generally.