EFRAG

European Financial Reporting Advisory Group

Jorgen Holmqvist
Director General
European Commission
Directorate General for the Internal Market
1049 Brussels

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Dear Mr Holmqvist

Adoption of the Amendments to IFRS 2 – *Group Cash-settled Share-based Payment Transactions*

Based on the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards we are pleased to provide our opinion on the adoption of the Amendments to IFRS 2 *Group Cash-settled Share-based Payment Transactions* (the Amendments), which were published by the IASB in June 2009. They were issued as an Exposure Draft in December 2007 and EFRAG commented on that draft.

The Amendments are intended to clarify the scope of IFRS 2 and the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the transaction. The Amendments also incorporate into IFRS 2 the guidance previously included in the following Interpretations:

- IFRIC 8 – *Scope of IFRS 2*
- IFRIC 11 – *IFRS 2- Group and Treasury Share Transactions.*

The Amendments apply for annual periods beginning on or after 1 January 2010. Earlier application is permitted.

EFRAG has carried out an evaluation of the Amendments. As part of that process, EFRAG issued an initial evaluation of the Amendments against the EU endorsement criteria for public comment and, when finalising its advice and the content of this letter, it took the comments received in response into account. EFRAG's evaluation is based on input from standard setters, market participants and other interested parties, and its discussions of technical matters are open to the public.

EFRAG supports the Amendments and has concluded that they meet the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards in that:

- they are not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and

- they meet the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

For the reasons given above, EFRAG believes that it is in the European interest to adopt the Amendments and, accordingly, EFRAG recommends their adoption. EFRAG's reasoning is explained in the attached Appendix.

On behalf of the members of EFRAG, I should be happy to discuss our advice with you, other officials of the EU Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely

Stig Enevoldsen
EFRAG, Chairman

Appendix
Basis for conclusion

This appendix sets out the basis for the conclusions reached, and for the recommendation made, by EFRAG on the Amendments to IFRS 2 Group Cash-settled Share-based Payment Transactions *(the Amendments).*

In its comment letters to the IASB, EFRAG points out that such letters are submitted in EFRAG's capacity as a contributor to the IASB's due process. They do not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of the final IFRS or Interpretation on the issue.

In the latter capacity, EFRAG's role is to make a recommendation about endorsement based on its assessment of the final IFRS or Interpretation against the European endorsement criteria, as currently defined. These are explicit criteria which have been designed specifically for application in the endorsement process, and therefore the conclusions reached on endorsement may be different from those arrived at by EFRAG in developing its comments on proposed IFRSs or Interpretations. Another reason for a difference is that EFRAG's thinking may evolve.

Introduction

1 When evaluating the merits of the Amendments, EFRAG considered whether the accounting that results from their application meet the criteria for EU endorsement.

2 Having formed tentative views on the issues and prepared an initial assessment, EFRAG issued that initial assessment on 10 July 2009 and asked for comments on it by 4 September 2009. EFRAG has considered all the comments received in response, and the main comments received are dealt with in the discussion in this appendix.

Does the accounting that results from the application of the Amendment meet the criteria for EU endorsement?

Relevance

3 According to the Framework, information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or by confirming or correcting their past evaluations. EFRAG considered whether the Amendments would result in the provision of relevant information; in other words, information that has predictive value, confirmatory value or both.

4 Existing IFRS 2 requires that an entity recognises goods or services received in a share-based payment transaction when that transaction is settled in equity instruments either at Group level or by its shareholders, or when the transaction is settled in cash by the entity also receiving the goods or services. However, because of uncertainty as to whether transactions that are settled in cash by another entity in the Group or by its shareholders are within the scope of IFRS 2, the effect of such transactions might not currently be being recognised in financial statements. The Amendments eliminate this uncertainty by ensuring that the effects of these transactions are recognised, thus enhancing the relevance of the information provided.

5 Neither existing IFRS 2 nor IFRIC 11 *IFRS 2 - Group and Treasury Share Transactions* address explicitly how a share-based payment transaction should be accounted in the separate financial statements of an entity that assumes the obligation to settle the transaction when another entity in the Group receives the goods or services. Therefore, currently an entity assuming such an obligation may recognise it when settling it. The Amendments make it clear that in such circumstances the entity should recognise a liability unless it settles the transaction with its own equity instruments thus enhancing the relevance of the information provided.

6 As such, the Amendments ensure that an entity will consistently recognise the cost of goods and services received in its separate financial statements and the obligation incurred whenever there is a share-based payment arrangement in place. This requirement is consistent with the overall objective of IFRS 2, which is to require an entity to reflect in its profit and loss and financial position the effect of share based payment transactions, including expenses associated with transactions in which share options are granted to employees.

7 Based on the above, EFRAG concluded that the application of the Amendments would enhance the relevance of the information provided.

Reliability

8 EFRAG also considered the reliability of the information that will be provided by applying the Amendments. The Framework explains that information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent, and is complete within the bounds of materiality and cost.

9 EFRAG's assessment was that the Amendments do not raise any issues concerning faithful representation or completeness; indeed, EFRAG's assessment is that, by addressing some of the uncertainties that currently exist in how to apply aspects of IFRS 2, the Amendments will enhance the faithfulness of the representation provided. EFRAG considered whether the accounting in the Amendments would raise concerns about risk of error. However, the Amendments do not introduce any new requirements in terms of measurement; they simply extend explicitly the measurement criteria already included in IFRS 2 to arrangements that are settled in cash by another entity in the Group. Therefore, EFRAG does not believe that the Amendments create any new reliability issues.

Comparability

10 The notion of comparability requires that like items and events are accounted for in a consistent way through time and by different entities, and that unlike items and events should be accounted for differently.

11 In EFRAG's view, the clarification that the scope of IFRS 2 includes arrangements that are settled in cash by another entity in the Group to the entity that receives the goods or services eliminates the uncertainty that previously existed on this issue, and will as a result reduce the diversity in practice and enhance comparability. The Amendments will mean that all entities receiving goods or services in a share-based payment transaction shall disclose the effect of that transaction in their statement of comprehensive income and statement of financial position regardless of the manner of the settlement or the settling entity.

12 The Amendments' clarification of how group cash-settled share-based payment transactions should be classified will also eliminate the uncertainty that previously existed on this issue, and will as a result reduce the diversity in practice and enhance comparability. For example, the Amendments require that an entity accounts for all share-based payments transactions in which it receives goods or services as equity settled, unless the entity assumes an obligation to settle the transaction with any asset other than its own equity instruments. This enhances comparability with other transactions in which an entity issues its own equity instruments in transactions with third parties, such as business combinations.

Understandability

13 The notion of understandability requires that the financial information provided should be readily understandable by users with a reasonable knowledge of business and economic activity and accounting and the willingness to study the information with reasonable diligence.

14 Although there are a number of aspects to the notion of 'understandability', EFRAG believes that most aspects are covered by the discussion above about relevance, reliability and comparability (because, for example, information that represents something as similar when it is in fact dissimilar is not comparable, and that lack of comparability will mean it is also not understandable). As a result, EFRAG believes that the main additional issue it needs to consider in assessing whether the information resulting from the application of the Amendments is understandable is whether that information will be unduly complex. In EFRAG's view users are already familiar with IFRS 2 accounting model and the Amendments do not change that model in any significant respect.

True and Fair

15 For the reasons set out above, EFRAG sees no reason to conclude that the Amendments are inconsistent with the true and fair view requirement.

European Interest

16 EFRAG considered whether the costs of implementing the Amendments in the EU might exceed the benefits expected from applying the accounting the Amendments require. Our assessment is that that will not be the case. EFRAG sees no other reason to believe that endorsement of the Amendments would not be in the European interest.

Conclusion

17 After considering all the above, EFRAG concluded that the Amendments satisfy the criteria for EU endorsement and that therefore EFRAG should recommend their endorsement.