STAFF PAPER

14–15 May 2013

IFRS Interpretations Committee Meeting

Project	**IFRS 2 *Share-based Payments* Timing of the recognition of intercompany recharges**
Paper topic	Review of the tentative agenda decision

CONTACT(S) April Pitman apitman@ifrs.org +44(0)20 7246 6492

Introduction

1. In January 2013, the IFRS Interpretations Committee (the Interpretations Committee) discussed a request for clarification about IFRS 2 *Share-based Payments*. The submission related to intragroup recharges made in respect of share-based transactions. The question that the submitter asked was: When should the liability for the intragroup recharge transaction be recognised in the financial statements of the subsidiary:

   (a) at the date of grant of the award; or

   (b) at the date of exercise of the award?

2. Our analysis of this issue was discussed in Agenda Paper 18 of the January 2013 meeting, *IFRS* 2 Share-based Payments*: Timing of the recognition of intercompany charges*. A link to this paper is included in the footnote below.[1]

[1] Agenda paper 18 January 2013 http://www.ifrs.org/Meetings/MeetingDocs/Interpretations%20Committee/2013/January/181301AP18%20-%20IFRS%202%20timing%20of%20the%20recognirtion%20of%20a%20group%20recharge.pdf

3. The Interpretations Committee tentatively decided that they would not add this topic to its agenda because of the breadth of the intercompany recharges topic. The extract from *IFRIC Update* January 2013 is included below for convenience:

> Outreach conducted suggests that there is diversity in practice in the recognition of these liabilities. Some respondents view the recharge and the share-based payments as linked and recognise both from the date of grant over the vesting period. Others think that the recharge is a separate transaction recognised by analogy with liabilities, the distribution of equity or as an executory contract.
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> When discussing accounting for the intercompany recharge transaction, the Interpretations Committee was concerned at the breadth of the topic. It thought that resolving this issue would require it to address the accounting for intragroup payment arrangements generally in the context of common control and that any conclusions drawn could have unintended consequences on the treatment of other types of intercompany transactions. In the absence of guidance about intercompany transactions within existing Standards and the *Conceptual Framework*, they did not think that they would be able to resolve this issue efficiently. For that reason, the Interpretations Committee [decided] not to add this issue to its agenda.

Comment letter summary

4. The comment period for the tentative agenda decision ended on 4 April 2013. We received three responses. These comment letters are attached as Appendices B–D.

5. One respondent, the Canadian Accounting Standards Board, agrees with the tentative agenda decision for the reasons provided in the agenda decision.

6. Another respondent, Deloitte, agrees with the tentative agenda decision for the reasons provided in the agenda decision but goes on to suggest that this and other

issues arising from common control could be better addressed as part of a research project on business combinations under common control.

7. The third respondent, the Italian standard-setter, disagrees with the tentative agenda decision. It thinks that the issue is common and relevant and that there is diversity in practice that affects comparability between financial statements. Because of this diversity in practice, the respondent disagrees with the Interpretations Committee's decision not to add this issue to its agenda.

Staff analysis

8. Two respondents agree with the agenda decision as worded; the third disagrees with the Interpretations Committee's decision not to add this issue to its agenda because there is diversity in practice.

9. In response to the third respondent's concerns about diversity in practice, we note that the Interpretations Committee considered this point in their discussion of the topic in January 2013. Notwithstanding this concern, the Interpretations Committee decided not to add this topic to its agenda because of the greater concerns it had about the breadth of the topic of intragroup payment arrangements and the unintended consequences that any conclusions drawn could have had on other intercompany transactions.

Staff recommendation

10. We recommend confirming the tentative agenda decision as worded in the January 2013 *IFRIC Update*. The full text of the tentative agenda decision is included as Appendix A for convenience.

Question for the Interpretations Committee
1. Does the Interpretations Committee agree with the staff's recommendation to confirm the original wording of the agenda decision?

2. Appendix A includes the staff's proposed wording for the agenda decision, which is unchanged from the published tentative agenda decision. Does the Interpretations Committee agree with that wording?

Appendix A
Finalisation of agenda decision

A1. We recommend confirming the original agenda decision:

IFRS 2 *Share-based Payment*—Timing of the recognition of intercompany charges

The Interpretations Committee received a request for clarification about IFRS 2 *Share-based Payment* relating to intragroup recharges made in respect of share-based payments.

In the submitter's example, the parent company of an international group grants share-based awards to the employees of its subsidiaries. The obligation to settle these awards is the parent's. The awards are based on the employee's service to the subsidiary. The subsidiary and the parent both recognise the share-based transaction in accordance with IFRS 2—typically over the vesting period of the awards. The parent has also entered into recharge agreements with its subsidiaries that require the subsidiaries to pay the parent the value of the share-based awards upon settlement of the awards by the parent.

The submitter asked whether the subsidiary's liability to its parent in respect of these charges should be recognised from the date of grant of the award or at the date of exercise of the award.

Outreach conducted suggests that there is diversity in practice in the recognition of these liabilities. Some respondents view the recharge and the share-based payments as linked and recognise both from the date of grant over the vesting period. Others think that the recharge is a separate transaction recognised by analogy with liabilities, the distribution of equity or as an executory contract.

When discussing accounting for the intercompany recharge transaction, the Interpretations Committee was concerned at the breadth of the topic. It thought that resolving this issue would require it to address the accounting for intragroup payment arrangements generally in the context of common control and that any conclusions drawn could have unintended consequences on the treatment of other types of intercompany transactions. In the absence of guidance about intercompany transactions within existing Standards and the *Conceptual Framework*, they did not think that they would be able to resolve this issue efficiently. For that reason, the Interpretations Committee [decided] not to add this issue to its agenda.