

## **New Zealand Equivalent to IFRIC Interpretation 11**

### **NZ IFRS 2 — Group and Treasury Share Transactions (NZ IFRIC 11)**

**Issued December 2006, and incorporates amendments up to November 2007.**

This Interpretation was issued by the Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants\* (and approved by the Accounting Standards Review Board in December 2006 under the Financial Reporting Act 1993).

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## HISTORY OF AMENDMENTS

### **Table of Pronouncements – NZ IFRIC 11 NZ IFRS 2 — *Group and Treasury Share Transactions***

This table lists the pronouncements establishing and amending NZ IFRIC 11. The table is based on amendments approved as at 30 November 2007.

<b>Pronouncements</b>	<b>Date approved (ASRB approval)</b>	<b>Early operative date</b>	<b>Effective date (annual reporting periods... on or after ...)</b>
NZ IFRIC 11 NZ IFRS 2 — <i>Group and Treasury Share Transactions</i>	Dec 2006 (Approval 84)	Early adoption encouraged	1 Mar 2007

New Zealand Equivalent to IFRIC Interpretation 11 *NZ IFRS 2 — Group and Treasury Share Transactions* (NZ IFRIC 11) is set out in paragraphs 1-13.

NZ IFRIC 11 is based on IFRIC 11 *IFRS 2 — Group and Treasury Share Transactions* (IFRIC 11). NZ IFRIC 11 should be read in the context of the IFRIC's Basis for Conclusions on IFRIC 11. The scope and authority of Interpretations are set out in paragraphs 2 and 7-17 of the *Preface to International Financial Reporting Standards* and paragraph 13 of the *New Zealand Preface*.

Any additional material is shown with grey shading. The paragraphs are denoted with "NZ" and identify the types of entities to which the paragraphs apply.

**Differential Reporting**

Qualifying entities must comply with all the provisions in NZ IFRIC 11.

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#### **References**

- NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- NZ IAS 32 *Financial Instruments: Presentation*
- NZ IFRS 2 *Share-based Payment*

#### **ISSUES**

- 1 This Interpretation addresses two issues. The first is whether the following transactions should be accounted for as equity-settled or as cash-settled under the requirements of NZ IFRS 2:
  - (a) an entity grants to its employees rights to equity instruments of the entity (eg share options), and either chooses or is required to buy equity instruments (ie treasury shares) from another party, to satisfy its obligations to its employees; and
  - (b) an entity's employees are granted rights to equity instruments of the entity (eg share options), either by the entity itself or by its shareholders, and the shareholders of the entity provide the equity instruments needed.
- 2 The second issue concerns share-based payment arrangements that involve two or more entities within the same group. For example, employees of a subsidiary are granted rights to equity instruments of its parent as consideration for the services provided to the subsidiary. NZ IFRS 2 paragraph 3 states that:

For the purposes of this IFRS, 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. [Emphasis added]*

However, NZ IFRS 2 does not give guidance on how to account for such transactions in the individual or separate financial statements of each group entity.
- 3 Therefore, the second issue addresses the following share-based payment arrangements:

- (a) a parent grants rights to its equity instruments direct to the employees of its subsidiary: the parent (not the subsidiary) has the obligation to provide the employees of the subsidiary with the equity instruments needed; and
  - (b) a subsidiary grants rights to equity instruments of its parent to its employees: the subsidiary has the obligation to provide its employees with the equity instruments needed.
- 4 This Interpretation also addresses how the share-based payment arrangements set out in paragraph 3 should be accounted for in the financial statements of the subsidiary that receives services from the employees.
- 5 There may be an arrangement between a parent and its subsidiary requiring the subsidiary to pay the parent for the provision of the equity instruments to the employees. This Interpretation does not address how to account for such an intragroup payment arrangement.
- 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

### **Share-based payment arrangements involving an entity's own equity instruments (paragraph 1)**

- 7 Share-based payment transactions in which an entity receives services as consideration for its own equity instruments shall be accounted for as equity-settled. This applies regardless of whether the entity chooses or is required to buy those equity instruments from another party to satisfy its obligations to its employees under the share-based payment arrangement. It also applies regardless of whether:
- (a) the employee's rights to the entity's equity instruments were granted by the entity itself or by its shareholder(s); or
  - (b) the share-based payment arrangement was settled by the entity itself or by its shareholder(s).

### **Share-based payment arrangements involving equity instruments of the parent**

#### ***A parent grants rights to its equity instruments to the employees of its subsidiary (paragraph 3(a))***

- 8 Provided that the share-based arrangement is accounted for as equity-settled in the consolidated financial statements of the parent, the subsidiary shall measure the services received from its employees in accordance with the requirements applicable to equity-settled share-based payment transactions, with a corresponding increase recognised in equity as a contribution from the parent.
- 9 A parent may grant rights to its equity instruments to the employees of its subsidiaries, conditional upon the completion of continuing service with the group for a specified period. An employee of one subsidiary may transfer employment to another subsidiary during the specified vesting period without the employee's rights

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to equity instruments of the parent under the original share-based payment arrangement being affected. Each subsidiary shall measure the services received from the employee by reference to the fair value of the equity instruments at the date those rights to equity instruments were originally granted by the parent as defined in NZ IFRS 2 Appendix A, and the proportion of the vesting period served by the employee with each subsidiary.

- 10 Such an employee, after transferring between group entities, may fail to satisfy a vesting condition other than a market condition as defined in NZ IFRS 2 Appendix A, eg the employee leaves the group before completing the service period. In this case, each subsidiary shall adjust the amount previously recognised in respect of the services received from the employee in accordance with the principles in NZ IFRS 2 paragraph 19. Hence, if the rights to the equity instruments granted by the parent do not vest because of an employee's failure to meet a vesting condition other than a market condition, no amount is recognised on a cumulative basis for the services received from that employee in the financial statements of any subsidiary.

***A subsidiary grants rights to equity instruments of its parent to its employees (paragraph 3(b))***

- 11 The subsidiary shall account for the transaction with its employees as cash-settled. This requirement applies irrespective of how the subsidiary obtains the equity instruments to satisfy its obligations to its employees.

## **EFFECTIVE DATE**

- 12 An entity shall apply NZ IFRIC 11 in its annual financial statements for periods beginning on or after 1 March 2007. Earlier application is permitted only when an entity complies, or has complied, with NZ IFRS 1 *First-Time Adoption of New Zealand Equivalents to International Financial Reporting Standards* in its annual financial statements for a period beginning on or after 1 January 2005. If an entity applies this NZ IFRIC in its financial statements for a period before 1 March 2007, it shall disclose that fact.

## **TRANSITION**

- 13 An entity shall apply this Interpretation retrospectively in accordance with NZ IAS 8, subject to the transitional provisions of NZ IFRS 2.