Date

12 March 2008

Le Président

Fédération des Experts Comptables Européens AISBL

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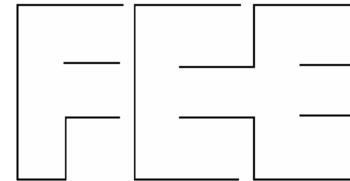

Mr. Stig Enevoldsen
Chairman
Technical Expert Group
EFRAG
Avenue des Arts 13-14
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commentletter@efrag.org

Dear Mr. Enevoldsen,

Re: EFRAG Draft Comment Letter on IASB Exposure Draft of Proposed Amendments to IFRS 2 *Share-Based Payment* and IFRIC 11 IFRS 2 – *Group and Treasury Share Transactions*

1. FEE (Fédération des Experts Comptables Européens - Federation of European Accountants) is pleased to submit its comments on the EFRAG Draft Comment Letter on IASB Exposure Draft of Proposed Amendments to IFRS 2 *Share-Based Payment* and IFRIC 11 IFRS 2 – *Group and Treasury Share Transactions* (the "ED").

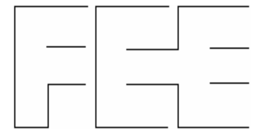
2. Like EFRAG, we support the IASB's decision to address this subject. We support the proposal to clarify the accounting treatment relating to the arrangements described in the ED on how an entity should account for goods and services it receives from its suppliers (including employees), for certain arrangements that are share-based and cash-settled. We also agree with most of the consensus reached regarding the amendments to IFRIC 11.

3. However, we share some of the concerns raised by EFRAG regarding the way the IASB is proposing to address the issues. We also feel that the proposed amendments will create an even more rules based standard. It would be better having a general principle in place to address the issues. We believe that EFRAG could usefully put more emphasis on this major concern in its comment letter and insist on the need of developing robust principles within IFRS 2 that would apply:

    a. To the vast diversity of known and future group arrangements;
    b. Regardless of which entity within the group is granting the award and;
    c. In consolidated and separate financial statements of any affected entity within the group.

4. We agree with EFRAG that the scope of the specific issues addressed is too narrow and that it is still not clear whether some arrangements would be included or excluded from the suggested scope. We believe that EFRAG should illustrate this ambiguity by pointing out the differences in the terminology used in ED IFRS 2, IFRIC 8 and ED IFRIC 11. For example, paragraph 3 of IFRS 2, as well as paragraph 6 of IFRIC 8, refer to the transfer of equity instruments, or liabilities incurred by shareholders, whereas the proposed paragraph 3A of IFRS 2 only considers liabilities incurred by the entity's parent or another entity in the group, and the proposed paragraph 3A of IFRIC 11 only deals with parent's liabilities. It is unclear

Association Internationale reconnue par Arrêté Royal en date du 30 décembre 1986



whether these differences in wording are intended and what the accounting consequences are. EFRAG should also include additional examples of arrangements not addressed by the proposed amendments to better illustrate the difficulty to interpret and apply the various requirements. Particularly, group “cash-settled” arrangement may involve several entities within a group; one entity receiving employee services, another granting equity instruments (its own equity instruments, or equity instruments of the entity benefiting from employee services, or equity instruments of another entity in the group) to those employees, and a third one repurchasing from those employees the equity instruments issued. It would be helpful to clarify further the principle to follow in order to have a more overall view of the various cases of transactions that would fall under the scope of IFRS 2 and IFRIC 11 and how to account for these.

5. While we understand the logic of the reasoning proposed by EFRAG in paragraph 15 of its draft comment letter (i.e. “because the subsidiary does not have an obligation to make the required cash payments related to the goods or services, it seems reasonable to view the transaction from the perspective of the supplier of the goods and services (i.e. the employee) and ask what that supplier does receive.”) in order to clarify the rationale to remeasure the employee benefit expense in the financial statements of the subsidiary, we note that the IFRIC developed another reasoning in paragraph BC16 of IFRIC 11 (i.e. “The IFRIC noted that arrangements described in paragraph BC7(a) and (b) might be the same in the consolidated financial statements of the parent, and also from the perspective of the employees who receive the equity instruments. However, from the perspective of the subsidiary, the IFRIC observed that the two arrangements are different.”). We believe that EFRAG should ask for the clarification of the principles that apply to the various situations and draw the attention of the Board to the need of ensuring consistency and explaining clearly the differences.

6. Regarding the accounting by an entity for the arrangements as a capital contribution from another group entity, we do not agree with EFRAG that this might not always be appropriate. Our understanding is that there will always be a parent-subsidiary relationship, even if indirectly, because of the parent’s ability to direct the actions of its subsidiary.

7. Finally, we note that this is the first occasion on which the accounting for capital commitments is addressed explicitly in a standard. It would be helpful to address this issue in more general terms to clarify how extensively the introduced accounting is to be applied, together with the appropriate principles and practice.

8. Our responses to the Invitation to comment of the ED are presented in the Appendix to this letter.

We would be pleased to discuss any aspect of this letter that you may wish to raise with us.

Yours sincerely,

Jacques Potdevin
President

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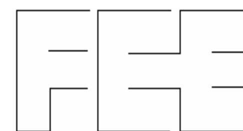


APPENDIX

Responses to the Invitation to comment of the ED: Proposed Amendments to IFRS 2 Share-Based Payment and IFRIC 11 IFRS 2 – Group and Treasury Share Transactions

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 IFRIC 11

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 IFRIC 11, the subsidiary should apply IFRS 2 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 IFRS 2 (see new paragraph 3A of IFRS 2 and new paragraph 11A of IFRIC 11).

(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 IFRS 2 (see new paragraph 11B of IFRIC 11).

Question 1: Do you agree with the proposals? If not, why?

SCOPE

Proposed new paragraph 3A of IFRS 2

1. We agree with EFRAG that an implicit objective of IFRS 2 is to ensure that when an entity enters into a transaction whereby it receives goods or services from its suppliers (or its employees) it accounts for those transactions appropriately. We support this proposal of the ED to amend IFRS 2 to scope in group cash-settled share-based payment arrangements in order to meet this objective.

2. However, like EFRAG, we are concerned that the arrangements described in the proposed new paragraph 3A will not meet IFRS 2's definition of a share-based payment. It would be more appropriate to address group-based payment arrangements more broadly.

Proposed new paragraph 3A of IFRIC 11 and Group arrangements with a choice of settlement

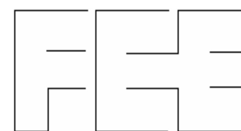
3. We broadly agree with EFRAG and the proposed new paragraph 3A of IFRIC 11, subject to a broader approach to group-based payment arrangements as in paragraph 2 above.

Parent entity's separate financial statements

4. We agree with EFRAG that it would helpful to clarify how the entity that provides the required cash payments should account for the arrangements. Additional guidance on this would be useful, particularly when addressing group-based payment arrangements.

Group arrangements that do not involve a parent-subsidiary relationship

5. We do not share EFRAG's concern that accounting for these arrangements as a capital contribution might not always be appropriate. Our understanding is that there will always be a parent-subsidiary relationship, even if indirectly as a consequence of the parent's ability to direct the actions of its subsidiary. Similar arrangements between an entity and another entity in the same group will involve indirectly a parent-subsidiary relationship. In addition, we note that it is difficult to ignore any legal aspects and in substance, these transactions involve necessarily the parent's entity.



6. Regarding the comments in paragraph 8 of the EFRAG draft comment letter on the need to address group share-based payment arrangements more broadly, we suggest that EFRAG places greater emphasis on this matter in its cover letter.

7. As noted in our covering letter, we agree with EFRAG that the scope of the specific issues addressed is too narrow and that it is still not clear whether some arrangements would be included or excluded from the suggested scope. We believe that EFRAG should illustrate this ambiguity by pointing out the differences in the terminology used in ED IFRS 2, IFRIC 8 and ED IFRIC 11. For example, paragraph 3 of IFRS 2, as well as paragraph 6 of IFRIC 8, refer to the transfer of equity instruments, or liabilities incurred by shareholders, whereas the proposed paragraph 3A of IFRS 2 only considers liabilities incurred by the entity's parent or another entity in the group, and the proposed paragraph 3A of IFRIC 11 only deals with parent's liabilities. It is unclear whether these differences in wording are intended and what the accounting consequences are. EFRAG should also include additional examples of arrangements not addressed by the proposed amendments to better illustrate the difficulty to interpret and apply the various requirements. Particularly, group "cash-settled" arrangement may involve several entities within a group; one entity receiving employee services, another granting equity instruments (its own equity instruments, or equity instruments of the entity benefiting from employee services, or equity instruments of another entity in the group) to those employees, and a third one repurchasing from those employees the equity instruments issued. It would be helpful to clarify further the principle to follow in order to have a more overall view of the various cases of transactions that would fall under the scope of IFRS 2 and IFRIC 11 and how to account for these.

ACCOUNTING FOR THE ARRANGEMENTS

Measuring the goods or services received

8. We agree with the proposal of the ED to that the entity receiving the goods or services should also measure the arrangement as cash-settled in its own separate financial statements.

Are the arrangements always a capital contribution?

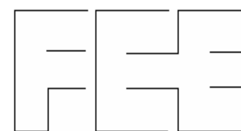
9. Yes, as discussed earlier in this letter.

10. Referring to the example in paragraph 17 of the EFRAG draft comment letter, we believe that the parent of subsidiary "A" - granting the cash-settled arrangement to the employees of subsidiary "B" - is involved in this arrangement, even if indirectly. Consequently, we view the accounting of this arrangement as a capital contribution and not as some form of income in its profit and loss.

OTHER

11. In the proposed amendments to IFRIC 11, paragraph 5 is amended to specify that, regardless of whether there is a reimbursement arrangement between a parent and its subsidiary, the subsidiary, which receives services from its employees, shall account for the services in accordance with IFRS 2.

12. We believe that the issue of how to account for intragroup payment arrangements that require the subsidiary to reimburse the parent for making the required cash payments to the suppliers of goods or services should be addressed. These kind of inter-company arrangements are very common in practice and it would be necessary to understand their link with the provisions of the proposed amendments. We understand the reason why the IASB decided not to address this issue as explained in BC9. However, we do not find this convincing. We believe that intercompany agreements requiring the reimbursement as noted earlier are part or, in any case, are strictly linked to the subject of group and treasury share transactions. Therefore, the scope should be widened to address the accounting for these arrangements generally.



13. Also, in the proposed amendments, we see an inconsistency when the charges of the subsidiary to account for the arrangements by the parent to the employees are adjusted to fair value based on the fact that there is a liability until settlement, whereas the subsidiary itself does not have any obligation of payments (in the separate financial statements) and therefore no liability as such (end of paragraph 3A in the proposed amendments to IFRIC11). While we understand the logic of the reasoning for this as proposed by EFRAG in paragraph 15 of its draft comment letter (i.e. "because the subsidiary does not have an obligation to make the required cash payments related to the goods or services, it seems reasonable to view the transaction from the perspective of the supplier of the goods and services (i.e. the employee) and ask what that supplier does receive.") in order to clarify the rationale to remeasure the employee benefit expense in the financial statements of the subsidiary, we note that the IFRIC developed another reasoning in paragraph BC16 of IFRIC 11 (i.e. "The IFRIC noted that arrangements described in paragraph BC7(a) and (b) might be the same in the consolidated financial statements of the parent, and also from the perspective of the employees who receive the equity instruments. However, from the perspective of the subsidiary, the IFRIC observed that the two arrangements are different."). We believe that EFRAG should ask for the clarification of the principles that apply to the various situations and draw the attention of the Board to the need of ensuring consistency and explaining clearly any differences.

14. It would be helpful to explicitly clarify that the arrangements described in the ED are seen through the eyes of the employees and make it more understandable why, therefore, fair value would be considered the most appropriate measurement.

Question 2 — Transition

The proposed amendments to IFRS 2 and IFRIC 11 would be required to be applied retrospectively, subject to the transitional provisions of IFRS 2

Question 2: Do you agree with the proposal? If not, what do you propose and why?

15. We agree with EFRAG and support the retrospective application of the proposed amendments to IFRS 2 and IFRIC 11, subject to the transitional provisions of IFRS 2.

16. We support EFRAG's comments on the recommendation to clarify whether the relief in IFRS 1 to a first time adopters of IFRS on the application of IFRS 2, in particular when applied to a share-based payment liability, can be applied to the separate financial statements of the entity that receives the goods or services, when applying the amendments in the ED.