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IFRIC 8 clarifies the scope of IFRS 2

On 12 January 2006, the International Financial Reporting Interpretations Committee (IFRIC) issued IFRIC 8 **Scope of IFRS 2**. The Interpretation clarifies that IFRS 2 **Share-based Payment** applies to share-based payment transactions in which the entity cannot specifically identify some or all of the goods or services received.

Scope

IFRIC 8 applies to share-based payment transactions (as defined in IFRS 2) when the identifiable consideration received (or to be received) by the entity (if any) appears to be less than the fair value of the equity instruments granted or the liability incurred.

IFRIC 8 does not apply to transactions that are specifically excluded from the scope of IFRS 2 as set out in paragraphs 3 to 6 of the Standard.

The issue

The Interpretation addresses the issue of whether IFRS 2 applies to share-based payment transactions in which the entity cannot identify specifically some or all of the goods or services received. Constituents had raised with the IFRIC that situations arise in which it may be difficult to demonstrate that the entity has received goods or services (e.g. Black Economic Empowerment transactions in South Africa).

A consequence of addressing this issue is the question of whether other non-identifiable consideration has been received if the entity has made a share-based payment and the identifiable consideration received (or to be received) appears to be less than the fair value of the equity instruments granted or the liability incurred.

The consensus

The IFRIC concluded as follows:

- IFRS 2 applies to share-based payment transactions in which the entity cannot identify specifically some or all of the goods or services received;
- in the absence of specifically identifiable goods or services, other circumstances may indicate that goods or services have been (or will be) received, in which case IFRS 2 applies;
- if the identifiable consideration received (if any) appears to be less than the fair value of the equity instruments granted or the liability incurred, typically this circumstance indicates that other consideration (i.e. unidentifiable goods or services) has been (or will be) received;
- the entity should measure the identifiable goods or services received (or to be received) in accordance with IFRS 2;
- the entity should measure the unidentifiable goods or services received (or to be received) as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received);

- the unidentifiable goods or services received (or to be received) should be measured at grant date; and
- for cash-settled transactions in which unidentifiable goods or services are received, the liability should be measured at each subsequent reporting date in order to be consistent with IFRS 2. Subsequent re-measurements of the liability do not affect the measurement of the unidentifiable goods or services received (or to be received) as those are measured at grant date.

Implementation issues

Non-reciprocal arrangements

The Basis for Conclusions of IFRIC 8 acknowledges that, in some cases, there may be no consideration. The reason for the transfer would explain why no goods or services have been or will be received (e.g. a principal shareholder, as part of estate planning, transfers some of his shares to a family member for nil consideration). Such a transaction would fall outside of the scope of IFRIC 8 (and, therefore, of IFRS 2) where there is no indication that any consideration has been or will be received for the share-based payment.

However, genuine non-reciprocal arrangements are expected to be very rare. The IFRIC noted that directors of an entity would generally expect to receive some goods or services for equity instruments issued.

Are entities required to compare the fair value of the share-based payment with the fair value of the consideration received for every transaction?

By introducing the concept of unidentifiable consideration, being the excess (if any) of the fair value of the equity instruments granted or liability incurred over the fair value of the goods or services received in return, some have questioned whether IFRIC 8 could be taken to require a comparison of these amounts for every share-based payment transaction.

The Basis for Conclusions of IFRIC 8 confirms that this is not the case – that the comparison is only necessary "when the identifiable consideration received appears to be less than the fair value of the share-based payment". However, the Interpretation does not provide any more specific guidance as to the circumstances that should trigger a detailed comparison.

Effective date and transition

Entities are required to apply IFRIC 8 for annual periods beginning on or after 1 May 2006. Earlier application is encouraged. If an entity applies IFRIC 8 for a period beginning before 1 May 2006, that fact should be disclosed. The Interpretation should be applied retrospectively in accordance with the requirements of IAS 8 **Accounting Policies, Changes in Accounting Estimates and Errors**, but subject to the general transitional provisions of IFRS 2.

There are no special transitional arrangements for first-time adopters applying IFRS 1 **First-time Adoption of International Financial Reporting Standards**.

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