

IFRIC Interpretation 8

Scope of IFRS 2

IFRIC Interpretation 8

Scope of IFRS 2

IFRIC Interpretation 8

Scope of IFRS 2

References

- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- IFRS 2 *Share-based Payment*

Background

- 1 IFRS 2 applies to share-based payment transactions in which the entity receives or acquires goods or services. ‘Goods’ includes inventories, consumables, property, plant and equipment, intangible assets and other non-financial assets (IFRS 2, paragraph 5). Consequently, except for particular transactions excluded from its scope, IFRS 2 applies to all transactions in which the entity receives non-financial assets or services as consideration for the issue of equity instruments of the entity. IFRS 2 also applies to transactions in which the entity incurs liabilities, in respect of goods or services received, that are based on the price (or value) of the entity’s shares or other equity instruments of the entity.
- 2 In some cases, however, it might be difficult to demonstrate that goods or services have been (or will be) received. For example, an entity may grant shares to a charitable organisation for nil consideration. It is usually not possible to identify the specific goods or services received in return for such a transaction. A similar situation might arise in transactions with other parties.
- 3 IFRS 2 requires transactions in which share-based payments are made to employees to be measured by reference to the fair value of the share-based payments at grant date (IFRS 2, paragraph 11).^{*} Hence, the entity is not required to measure directly the fair value of the employee services received.
- 4 For transactions in which share-based payments are made to parties other than employees, IFRS 2 specifies a rebuttable presumption that the fair value of the goods or services received can be estimated reliably. In these situations, IFRS 2 requires the transaction to be measured at the fair value of the goods or services at the date the entity obtains the goods or the counterparty renders service (IFRS 2, paragraph 13). Hence, there is an underlying presumption that the entity is able to identify the goods or services received from parties other than employees. This raises the question of whether the IFRS applies in the absence of identifiable goods or services. That in turn raises a further question: if the entity has made a share-based payment and the identifiable consideration received (if any) appears to be less than the fair value of the share-based payment, does this situation indicate that goods or services have been received, even though they are not specifically identified, and therefore that IFRS 2 applies?
- 5 It should be noted that the phrase ‘the fair value of the share-based payment’ refers to the fair value of the particular share-based payment concerned. For example, an entity might be required by government legislation to issue some portion of its shares to nationals of a particular country, which may be transferred only to other nationals of that country. Such a transfer restriction may affect the fair value of the shares concerned, and therefore those shares may have a fair value that is less than the fair value of otherwise identical shares that do not carry such restrictions. In this situation, if the question in paragraph 4 were to arise in the context of the restricted shares, the

^{*} Under IFRS 2, all references to employees include others providing similar services.

phrase ‘the fair value of the share-based payment’ would refer to the fair value of the restricted shares, not the fair value of other, unrestricted shares.

Scope

- 6 IFRS 2 applies to transactions in which an entity or an entity’s shareholders have granted equity instruments* or incurred a liability to transfer cash or other assets for amounts that are based on the price (or value) of the entity’s shares or other equity instruments of the entity. This Interpretation applies to such transactions when the identifiable consideration received (or to be received) by the entity, including cash and the fair value of identifiable non-cash consideration (if any), appears to be less than the fair value of the equity instruments granted or liability incurred. However, this Interpretation does not apply to transactions excluded from the scope of IFRS 2 in accordance with paragraphs 3–6 of that IFRS.

Issue

- 7 The issue addressed in the Interpretation is whether IFRS 2 applies to transactions in which the entity cannot identify specifically some or all of the goods or services received.

Consensus

- 8 IFRS 2 applies to particular transactions in which goods or services are received, such as transactions in which an entity receives goods or services as consideration for equity instruments of the entity. This includes transactions in which the entity cannot identify specifically some or all of the goods or services received.
- 9 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. In particular, if the identifiable consideration received (if any) appears to be less than the fair value of the equity instruments granted or liability incurred, typically this circumstance indicates that other consideration (ie unidentifiable goods or services) has been (or will be) received.
- 10 The entity shall measure the identifiable goods or services received in accordance with IFRS 2.
- 11 The entity shall 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).
- 12 The entity shall measure the unidentifiable goods or services received at the grant date. However, for cash-settled transactions, the liability shall be remeasured at each reporting date until it is settled.

Effective date

- 13 An entity shall apply this Interpretation for annual periods beginning on or after 1 May 2006. Earlier application is encouraged. If an entity applies this Interpretation to a period beginning before 1 May 2006, it shall disclose that fact.

* These include equity instruments of the entity, the entity’s parent and other entities in the same group as the entity.

Transition

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

