

Group Share-based Payment Arrangements

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KPMG LLP (UK)

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Introduction

For accounting periods beginning on or after 1 January 2006, all UK companies, excluding those falling within the scope of the FRSE, will have changed their accounting for share-based payments to follow FRS 20 (IFRS 2) *Share-based Payment*. In practice, difficulties have arisen in applying the standard to the individual (separate) financial statements of parent and subsidiary companies. This has led to two UITF Abstracts being issued: UITF 41 (IFRIC 8) *Scope of FRS 20 (IFRS 2)* and UITF 44 (IFRIC 11) *Group and Treasury Share Transactions*. The purpose of this publication is to bring together and illustrate the effect of these interpretations. It also provides additional guidance taken from the KPMG publication *Insights into IFRS (Insights) 4th Edition 2007/8*. It is appropriate to refer to the guidance on IFRS as the requirements of FRS 20/UITF 41/UITF 44 are identical to IFRS 2/IFRIC 8/IFRIC 11.

The scenarios set out on the following pages illustrate some of the many possible ways in which groups

remunerate their employees through the use of shares or awards based on the value of shares. For each scenario we explain the classification of the arrangement in the group accounts, parent company accounts and separate subsidiary accounts. This publication assumes that UITF 41 (effective date 1 May 2006) and UITF 44 (effective date 1 March 2007) have been adopted (early adoption generally being advisable).

This publication makes no specific reference to the requirement to spread the share-based payment charge over the vesting period, but this is implicit in each journal entry illustrated. Accordingly, the accounting entries given in this guidance will occur over the vesting period, not as a one-off accounting entry as at grant date, unless the award vests immediately.

The issue of the effect of share-based payments on distributable profits is not addressed, and reference should be made to the applicable ICAEW guidance issued on the subject of distributable profits from time to time. This publication does not address the tax accounting for such arrangements.

Equity-settled share-based payment transaction – a share-based payment transaction in which the entity receives goods or services as consideration for equity instruments of the entity (including shares or share options).

Cash-settled share-based payment transaction – a share-based payment transaction in which the entity acquires goods or services by incurring a liability to transfer cash or other assets to the supplier of those goods or services for amounts that are based on the price (or value) of the entity's shares or other equity instruments of the entity.

Ref: FRS 20 Appendix A, FRS 20.2

In an *equity-settled* arrangement involving a stand alone company in which the company receives goods or services as consideration for its shares, the company will record the following accounting entry:

Dr P&L account
Cr Equity

In a *cash-settled* arrangement involving a stand alone company in which the company acquires goods or services by incurring liabilities to the supplier of those goods or services for amounts that are based on the price (or value) of the company's shares, the company will record the following accounting entry:

Dr P&L account
Cr Liability (remeasured until settlement)

Background

Share-based payment arrangements within the scope of FRS 20 include not only transactions involving the company's own shares, but also shares of its parent, its subsidiary or of other companies in the group, whether granted by the company or a shareholder (FRS 20.3). However, FRS 20 does not address the issue of how to account for such transactions in the individual (separate) financial statements of each group company and therefore it is necessary to refer to UITF 41 and UITF 44. Please see the overviews on page 3.

The requirement to treat grants made by shareholders and grants made by the company over shares of other group companies as share-based payments of the company refers only to equity-settled transactions. Cash-settled awards made over shares of other group companies or those made by shareholders are not covered specifically by FRS 20. UITF 41.6 has confused matters by appearing to extend the scope of FRS 20.

The lack of clarity regarding the scope of IFRS 2, and therefore FRS 20, led to IFRIC first discussing the issue in July 2007. In December 2007, the IASB published an exposure draft of proposed amendments to IFRS 2 and IFRIC 11. The purpose of the proposed amendments is to provide guidance on how group cash-settled share-based payment arrangements should be accounted for in the separate financial statements of the subsidiary. The exposure draft proposes requiring attribution of cash-settled share-based payments granted by a parent to suppliers of goods and services (which would include employees) of a subsidiary, in the financial statements of the subsidiary. The exposure draft is silent on the accounting in the individual financial statements of the parent. Our working assumption in this publication is that any resulting interpretation of or amendments to IFRS would be carried into UK GAAP by the UITF/ASB.

Where indicated with an asterisk, we believe that the scenarios illustrated would be affected by the proposed amendments. The explanations documented below reflect our current interpretation of the guidance available, prior to the finalisation of any amendments to the standard and related Abstracts. However, these are subject to change. For the latest position, please consult your KPMG contact.

Note that the accounting for share-based payments is determined by the particular facts and circumstances of each arrangement and therefore careful consideration should be given to each individual arrangement before concluding on the appropriate accounting treatment.

UITF 41 (IFRIC 8) *Scope of FRS 20 (IFRS 2) – an overview*

The Abstract considers the situation in which a company has granted a share-based payment, but either there are no immediately obvious goods or services received in return or the value of identifiable goods or services received is less than the value of the share-based payment. In our view, it is directly relevant to the circumstances in which a parent grants a share-based payment to employees of a subsidiary, but also has wider implications not considered here. UITF 41 confirms that such transactions are within the scope of FRS 20.

Under UITF 41, a transaction without immediately obvious goods or services is deemed to be for 'unidentifiable goods and services' and the Abstract requires the transaction to be accounted for under FRS 20. The effect of this is to force companies to account for share-based payment arrangements even when it is not immediately obvious what goods or services have been received in return. When a parent grants a share-based payment to employees of a subsidiary, the parent receives services from employees indirectly through its subsidiary. This can be viewed as an increase in the investment in the subsidiary by the parent and should be accounted for as such.

It is unclear whether a liability to pay cash based on another group company's shares falls within the scope of FRS 20. The Abstract does not clarify this. Therefore, it is not immediately obvious from UITF 41.6 that the Abstract or FRS 20 apply to such an arrangement. This lack of clarity is directly relevant to the circumstances in which a parent grants a cash-settled share-based payment over the subsidiary's shares to employees of the subsidiary and a subsidiary grants a cash-settled share-based payment over the parent's shares to its employees (see pages 6 and 7 for further discussion).

UITF 44 (IFRIC 11) *Group and Treasury Share Transactions – an overview*

Where the share-based payment is equity-settled in the group, the Abstract provides guidance on the accounting in the financial statements of a subsidiary which receives services in the following scenarios:

(i) Parent company grants rights to equity instruments of itself directly to a subsidiary company's employees

Provided that the transaction is classified as equity-settled in the group accounts, the transaction also should be classified as equity-settled in the financial statements of the subsidiary. This is because the subsidiary has not incurred an obligation to transfer cash or a financial asset to its employees. The subsidiary recognises in equity a contribution from the parent equal to the value of the share-based payment.

Ref: UITF 44.8, Insights 4.5.165.10

(ii) A subsidiary grants rights to equity instruments of its parent to its employees

This transaction should be classified by the subsidiary as a cash-settled arrangement because the subsidiary incurs an obligation to transfer equity instruments of another company; these shares are, or would be, financial assets of the subsidiary. Classification of the arrangement as cash-settled applies irrespective of how the subsidiary obtains the shares to satisfy its obligations to the employees.

Ref: UITF 44.11, Insights 4.5.165.20

UITF 44 provides guidance only on classification in the subsidiary when the share-based payment is equity-settled in the group. However, please refer to the comments on page 2 relating to the proposed amendments to IFRS 2 and IFRIC 11.

Determining which company is the grantor for group share-based payment arrangements

UITF 44 introduced a new principle, namely that the classification by the subsidiary of a share-based payment arrangement will vary depending on whether the parent or the subsidiary is the grantor. The Abstract provides no guidance on the application of this principle, and therefore the guidance in Insights 4.5.165.40 has been published in order to assist clients and KPMG staff on this matter. This guidance is also applicable to UK GAAP.

In our view, the determination of which company is the grantor of a group share-based payment arrangement should be based on the overall substance of the arrangement. This will require judgement based on the facts and circumstances of each arrangement. In our view, there is a rebuttable presumption that the grantor is the company that has the legal obligation to deliver shares to the employees.

However, there may be other facts and circumstances that, in substance, indicate that a company other than the one that legally has the obligation in respect of the share-based payment arrangement is the grantor. When the parent has the legal obligation, in order to conclude that the subsidiary is in substance the grantor, we believe that the evidence needs to show that the parent is legally obliged in name only and therefore is acting as an agent on behalf of the subsidiary. We believe that it often will be difficult to obtain sufficient evidence to overcome the presumption that the parent is the grantor when the parent has the legal obligation to the employees.

Below are the indicators discussed in Insights. The list of examples is not intended to be exhaustive and no one indicator is intended to be persuasive evidence that the presumption should be overcome.

Ref: Insights 4.5.165.40

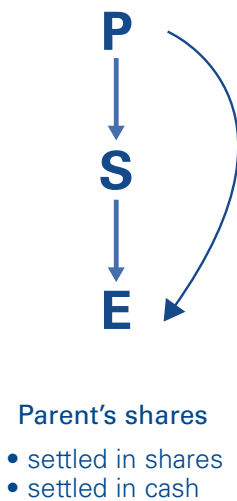
Factors which may overcome the presumption that the parent is the grantor

The subsidiary has significant influence over key terms – e.g. vesting conditions/exercisability	The subsidiary has the authority to approve the grant independent of the parent	The subsidiary includes the grant in an employment contract (and is doing more than just clarifying or conveying the terms of the group scheme)
Comment:	Notwithstanding these factors, in our view, it often will be difficult to obtain sufficient evidence to overcome the presumption that the parent is the grantor when the parent has the legal obligation to the employees	

Factors which may overcome the presumption that the subsidiary is the grantor

A consistent group-wide plan across all subsidiaries	Rights are conditional on service within the <u>group</u> (not just the subsidiary). In other words the employee can transfer between subsidiaries and keep his rights to the share-based payment
Comment:	In our view, these factors provide <u>strong</u> evidence that the parent is the grantor and are likely to be sufficient to overcome the presumption that the subsidiary is the grantor.

Grant by parent over its own shares to employees of subsidiary



Settled in parent's shares

Group accounts – the group has an obligation to transfer shares – equity-settled by definition.

Parent's accounts – equity-settled as the parent has an obligation to transfer shares. As explained in the overview of UITF 41 on page 3, in our view, the parent should account for the share-based payment as it is within the scope of FRS 20. The parent should recognise an increase in its cost of investment in the subsidiary which may trigger the need for an impairment test.

Dr Cost of investment in subsidiary
Cr Equity

Ref: UITF 41.8-10
Insights 4.5.160.35

Subsidiary's accounts – as explained in the overview of UITF 44 on page 3 the transaction should be classified as equity-settled in the subsidiary. The subsidiary should recognise a capital contribution from its parent equal to the value of the share-based payment.

Dr P&L account
Cr Equity – capital contribution

Ref: UITF 44.8
Insights 4.5.165.10

Cash-settled over parent's shares

Group accounts – the group has an obligation to transfer cash based on the value of its shares – cash-settled by definition.

Parent's accounts – cash-settled as the parent has an obligation to transfer cash based on the price of its shares. As explained in the overview of UITF 41 on page 3, in our view, the parent should account for the share-based payment as it is within the scope of FRS 20. The parent should recognise an increase in its cost of investment in the subsidiary which may trigger the need for an impairment test.

Dr Cost of investment in subsidiary
Cr Liability[#]

[#] A plain reading of FRS 20.30 would suggest that remeasurement should be recognised in the profit and loss account. However, see page 12 for a commentary on this issue.

Ref: UITF 41.6

***Subsidiary's accounts** – it is unclear whether from the subsidiary's perspective this is within the scope of FRS 20 and this question was first discussed by IFRIC in July 2007. It would appear consistent with the objective of FRS 20 to account for this as a share-based payment in the financial statements of the subsidiary and therefore, in our view, it may be appropriate to apply the standard by analogy. If the standard is applied by analogy, the share-based payment is attributed to the subsidiary to reflect its receipt of services and a capital contribution from the parent.

Dr P&L account^{##}
Cr Equity – capital contribution

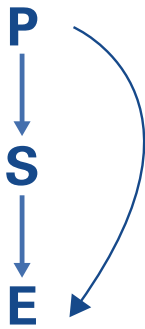
^{##} See page 12 for commentary on the accounting treatment of the share-based payment in the financial statements of the subsidiary.

Alternatively, depending on the facts and circumstances, the subsidiary may judge it inappropriate to apply the standard by analogy in which case no entries in relation to this arrangement would be made. However, it is our strong preference that FRS 20 is applied by analogy.*

Ref: FRS 20.3 (by analogy)
UITF 44.8 (by analogy)
Insights 4.5.30.50

*Refer to discussion on page 2 relating to the proposed amendments to IFRS 2 and IFRIC 11. The proposed amendments would bring such arrangements within the scope of IFRS 2 and would require attribution of a cash-settled share-based payment to the entity receiving the services.

Grant by parent over its subsidiary's shares to employees of subsidiary



Subsidiary's shares

- settled in shares
- settled in cash

Settled in subsidiary's shares

Group accounts – an equity instrument is defined in FRS 20 as “a contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities”. As the definition refers to “a” residual interest, we believe that an instrument can evidence an interest in only part of the assets and liabilities of the group i.e. a subsidiary, and still meet the definition of an equity instrument. Therefore, we believe this arrangement should be classified as equity-settled.

Whilst under IFRS this is consistent with the classification of minority interests as equity, we believe that the classification of minority interests under UK GAAP as neither equity nor liability should not be affected by FRS 20.

Parent's accounts – UITF 41 brings the arrangement within the scope of FRS 20 but does not provide guidance on how to account for the award. It would appear consistent with the guidance in UITF 44 to classify the transaction as cash-settled as the subsidiary's shares are, or would be, a financial asset in the accounts of the parent. At present, we have not identified an alternative accounting treatment for the liability.

Dr Cost of investment in subsidiary
Cr Liability#

A plain reading of FRS 20.30 would suggest that remeasurement should be recognised in the profit and loss account. However, see page 12 for commentary on this issue.

Ref: UITF 41.8-10
UITF 44.11 (by analogy)

Subsidiary's accounts – equity-settled by definition. FRS 20 includes within its scope transfers of a company's shares by its shareholders to parties that have supplied goods or services to the company, including employees. A share-based payment expense should be recognised in the company which has received the services, which in this scenario is the subsidiary. The subsidiary recognises a capital contribution from the parent equal to the value of the share-based payment.

Dr P&L account
Cr Equity – capital contribution

Ref: FRS 20.3, FRS 20.2a, FRS 20 BC 19-22

Cash-settled over subsidiary's shares

Group accounts – the group has an obligation to transfer cash based on the value of shares issued by a group company – cash-settled by definition.

Parent's accounts – it is unclear whether the liability is within the scope of FRS 20. It would appear consistent with the objective of FRS 20 and UITF 41 to account for this as a share-based payment in the financial statements of the parent but other treatments may also be appropriate under FRS 12 or FRS 26. If the transaction is accounted for under FRS 20, we believe that it should be classified as cash-settled because the parent has an obligation to transfer cash.

Dr Cost of investment in subsidiary
Cr Liability#

A plain reading of FRS 20.30 would suggest that remeasurement should be recognised in the profit and loss account. However, see page 12 for commentary on this issue.

Ref: FRS 20.3 (by analogy)
UITF 41.8-10 (by analogy)

***Subsidiary's accounts** – it is unclear whether from the subsidiary's perspective this is within the scope of FRS 20 and this question was first discussed by IFRIC in July 2007. It would appear consistent with the objective of FRS 20 to account for this as a share-based payment in the financial statements of the subsidiary and therefore, in our view, it may be appropriate to apply the standard by analogy. If the standard is applied, the share-based payment is attributed to the subsidiary to reflect its receipt of services and a capital contribution from the parent.

Dr P&L account##
Cr Equity – capital contribution

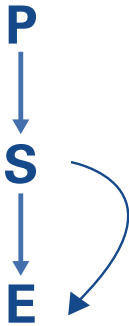
See page 12 for commentary on the accounting treatment of the share-based payment in the financial statements of the subsidiary.

Alternatively, depending on the facts and circumstances, the subsidiary may judge it inappropriate to apply the standard by analogy in which case no entries in relation to this arrangement would be made. However, it is our strong preference that FRS 20 is applied by analogy.*

Ref: FRS 20.3 (by analogy)
UITF 44.8 (by analogy)
Insights 4.5.30.50

*Refer to discussion on page 2 relating to the proposed amendments to IFRS 2 and IFRIC 11. The proposed amendments would bring such arrangements within the scope of IFRS 2 and would require attribution of a cash-settled share-based payment to the entity receiving the services.

Grant by subsidiary over its parent's shares to its own employees



Parent's shares

- settled in shares
- settled in cash

Settled in parent's shares

Group accounts – the group has an obligation to transfer shares – equity-settled by definition.

Parent's accounts – the parent is not a party to the transaction which is between the subsidiary and its employees. Therefore, no share-based payment accounting is required in the parent.

Subsidiary's accounts – as explained in the overview of UITF 44 on page 3, this is required to be classified as a cash-settled share-based payment transaction.

Ref: UITF 44.11
Insights 4.5.165.20

Cash-settled over parent's shares

Group accounts – the group has an obligation to transfer cash based on the value of its shares – cash-settled by definition.

Parent's accounts – the parent is not a party to the transaction which is between the subsidiary and its employee. Therefore, no share-based payment accounting is required in the parent.

Subsidiary's accounts – under this arrangement with its employees, the subsidiary agrees to pay an amount of cash depending on the share price of another group company. In our view this transaction is outside the scope of FRS 20 for the purposes of the subsidiary's own financial statements.

As there is uncertainty regarding both vesting and amount (share price variation), the arrangement falls within the scope of FRS 12 and we believe that UITF 25 should be applied by analogy to determine the measurement of the liability. The Abstract states that it is not possible to make a reliable estimate of the future share price of a company. However, the Abstract notes that FRS 12 requires the amount recognised to be a best estimate and UITF 25 confirms that the market price of the shares provides a reliable basis for making such an estimate. Where it is considered probable that the awards will be exercised, the liability should be accrued over the vesting period and calculated using the intrinsic value method i.e. the difference between the market value of the shares at the balance sheet date and the exercise price.

Note that under IFRS, this arrangement would fall within the scope of IAS 19 (not IAS 37) and would be accounted for as a long-term employee benefit. Refer to Insights 4.5.60.40.

Grant by subsidiary over its own shares to its own employees



Subsidiary's shares

- settled in shares
- settled in cash

Settled in subsidiary's shares

Group accounts – an equity instrument is defined in FRS 20 as “a contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.” As the definition refers to “a” residual interest, we believe that an instrument can evidence an interest in only part of the assets and liabilities of the group i.e. a subsidiary, and still meet the definition of an equity instrument. Therefore, we believe this arrangement should be classified as equity-settled.

Whilst under IFRS this is consistent with the classification of minority interests as equity, we believe that the classification of minority interests under UK GAAP as neither equity nor liability should not be affected by FRS 20.

Parent's accounts – the parent is not a party to the transaction which is between the subsidiary and its employees. Therefore, no share-based payment accounting is required in the parent.

Subsidiary's accounts – the subsidiary has an obligation to transfer its shares to its employees – equity-settled by definition.

Ref: FRS 20.2

Cash-settled over subsidiary's shares

Group accounts – the group has an obligation to transfer cash based on the price of shares issued by a group company – cash-settled.

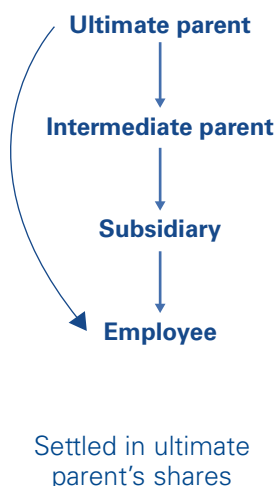
Parent's accounts – the parent is not a party to the transaction which is between the subsidiary and its employees. Therefore, no share-based payment accounting is required in the parent.

Subsidiary's accounts – the subsidiary has an obligation to transfer cash to its employees based on the price of its shares – cash-settled by definition.

Ref: FRS 20.2

Share-based payment arrangements involving an intermediate parent

Grant by ultimate parent over shares of the ultimate parent to employees of a subsidiary which is owned through an intermediate parent



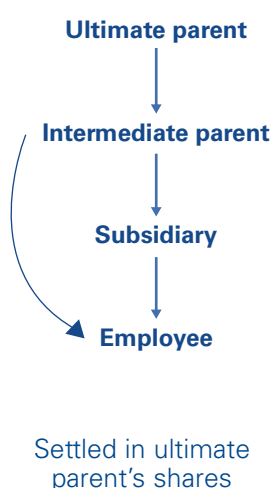
- Group → **equity-settled** as the group has an obligation to transfer shares.
- Ultimate parent → as discussed in the overview of UITF 41 on page 3, a share-based payment should be recognised and an increase in the cost of investment in the intermediate parent. The award is classified as **equity-settled** as the ultimate parent has an obligation to transfer its own shares.
- Intermediate parent (individual accounts) → accounting policy choice
 - i) In our view, as the intermediate parent does not receive services in respect of the share-based payment arrangement and is not a party to it, the intermediate parent is not required to recognise the share-based payment arrangement in its own financial statements.
 - ii) Alternatively, the intermediate parent may recognise an attributed **equity-settled** share-based payment arrangement in its own financial statements. Therefore:

Dr Cost of investment
Cr Equity

The accounting policy elected by the intermediate parent should be applied consistently within its own financial statements.
- Subsidiary → as explained in the overview of UITF 44 on page 3, this transaction should be classified as **equity-settled** in the subsidiary's financial statements with a capital contribution recognised in equity.

Ref: Insights 4.5.30.70

Grant by intermediate parent over shares of the ultimate parent to employees of a subsidiary, settled in shares



- Group → **equity-settled** as the group has an obligation to transfer shares.
- Ultimate parent → not a party to the transaction therefore no share-based payment accounting is required.
- Intermediate parent (individual accounts) → UITF 41 brings the arrangement within the scope of FRS 20 but does not provide guidance on how to account for the award. In our view, the award should be classified as **cash-settled** as the intermediate parent has incurred an obligation to transfer shares of its parent and these shares are, or would be, financial assets of the intermediate parent (UITF 44 by analogy). Therefore:

Dr Cost of investment
Cr Liability#

A plain reading of FRS 20.30 would suggest that remeasurement should be recognised in the profit and loss account. However, see page 12 for commentary on this issue.
- Subsidiary → UITF 44 does not consider arrangements whereby the grant is over shares of a parent company different to the parent company that is granting the award. However, we believe it is appropriate to apply UITF 44 by analogy in determining classification of the arrangement and therefore, the award should be classified as **equity-settled** in the subsidiary's accounts as the subsidiary has not incurred an obligation to transfer cash or a financial asset to its employees.

Ref: Insights 4.5.165.140

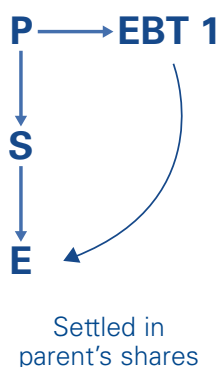
Accounting for equity-settled share-based payment arrangements granted by an Employee Benefit Trust

Under UK GAAP (UITF 38) an Employee Benefit Trust (EBT) or Employee Share Ownership Plan (ESOP) should be treated as an extension of the sponsor in the separate financial statements of that sponsor (Approach 1).

Whilst under IFRS this approach may be used, note that there is an alternative to treat the EBT/ESOP as a separate legal entity from the sponsor (Approach 2). Under IFRS, we believe that this is an accounting policy choice that should be applied consistently to all similar transactions.

In the illustration below we only show Approach 1 as this is the required approach under UK GAAP and it is, in our experience, the most common practice used in the UK by IFRS adopters. Under Approach 1, as the trust is treated as a branch/ extension of the sponsor any awards granted by the EBT/ESOP are regarded as an award by the sponsor. Assets and liabilities of the trust are accounted for as assets and liabilities of the sponsor.

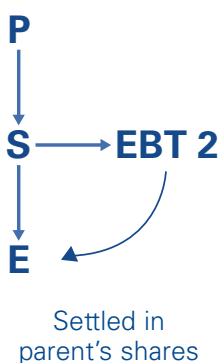
Ref: Insights 4.5.360



EBT 1 grants an equity-settled share-based payment over the parent's shares to the subsidiary's employees. The parent is the sponsor of EBT 1 and therefore the award is considered to be a grant by the parent. The accounting treatment is therefore the same as that applied when the parent has granted an award:

- Group → *equity-settled* share-based payment
- Parent → *equity-settled* share-based payment (Dr Cost of investment, Cr Equity)
- Subsidiary → *equity-settled* share-based payment (Dr P&L account, Cr Equity – capital contribution)

Refer to page 5 "Grant by parent over its own shares to employees of subsidiary" for further guidance.



EBT 2 grants an equity-settled share-based payment over the parent's shares to the subsidiary's employees. The subsidiary is the sponsor of EBT 2 and therefore the award is considered to be a grant by the subsidiary. The accounting treatment is therefore the same as that applied when the subsidiary has granted an award:

- Group → *equity-settled* share-based payment
- Parent → no share-based payment accounting
- Subsidiary → *cash-settled* share-based payment (Dr P&L account, Cr Liability)

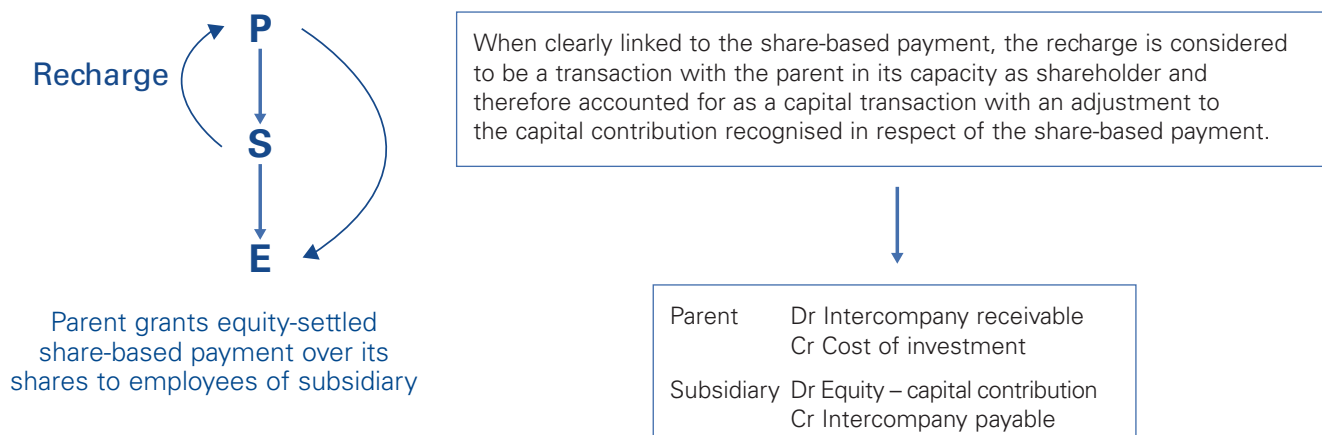
Refer to page 7 "Grant by subsidiary over its parent's shares to its own employees" for further guidance.

Accounting for 'linked clearly' recharge arrangements for group share-based payment arrangements

Below is an overview of the accounting by the subsidiary and parent for recharge arrangements that are 'linked clearly' to group share-based payment arrangements. In our view, in assessing whether a recharge is 'linked clearly' to the share-based payment arrangement, the primary determinant should be whether the amount of the payment is based on the value of the share-based payment e.g. the IFRS 2 charge or intrinsic value. For more detailed guidance, please refer to Insights 4.5.167. This guidance is also applicable to UK GAAP.

A recharge asset/liability should be measured initially at fair value when the parent and subsidiary have a shared understanding of the terms and conditions of the recharge arrangement. The initial measurement of the asset/liability should be recognised over the period of the recharge arrangement.

The recharge asset/liability should be remeasured at each reporting date until settlement. In our view, changes in fair value from initial recognition to settlement should be treated as a true-up of the initial estimate of the net capital contribution (i.e. an adjustment to the cost of investment /capital contribution respectively).

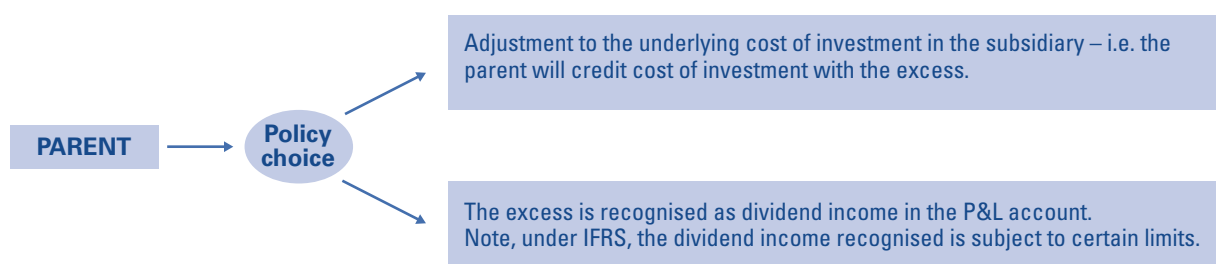


Accounting for the "excess"

In some circumstances a 'linked clearly' recharge may exceed the share-based payment capital contribution in the subsidiary or the increase in the cost of investment in the parent.

The *subsidiary* will debit equity with the excess as this is a net capital distribution.

With regards the financial statements of the *parent*, if the excess is a result of a timing difference, e.g. where the subsidiary pays the full recharge amount in advance rather than over the vesting period, the excess continues to be credited to cost of investment. If this results in the cost of investment in the subsidiary being **temporarily** below zero, a deferred income balance should be recognised. If this is a **permanent** excess, the guidance is as follows:



Commentary on accounting for remeasurement

A cash-settled liability should be remeasured at each reporting date for changes in fair value to settlement date with changes in fair value recognised in the profit or loss (FRS 20.30). In certain of the scenarios discussed above (marked with # and ##), the share-based payment is accounted for as cash-settled in the individual financial statements of the parent and as a capital contribution in the subsidiary.

Due to the lack of clarity in the standard regarding the capital contribution by the parent, a question arises as to whether the capital contribution is considered to be the cash payment or the value of the employee services received (being the grant date fair value). With regards to the # and ## marked arrangements, we comment on the issues arising on the remeasurement of the share-based payment opposite.

Parent

When an award is classified as cash-settled in the financial statements of the parent and the grant date fair value is debited to cost of investment over the vesting period, a plain reading of FRS 20.30 would imply that the remeasurement should be recognised in the profit and loss account of the parent. This would also suggest that FRS 20 intends that the contribution to the subsidiary is viewed as the value of the employee services received.

However, some believe that if the cash payment (or fair value of the shares at settlement date) is considered to be the capital contribution to the subsidiary, the remeasurement, as well as the grant date fair value, should be debited or credited to cost of investment.

Subsidiary

Where the parent grants an award of cash to employees of its subsidiary, whether based on the value of its own shares or those of the subsidiary, the subsidiary may recognise a share-based payment charge as a capital contribution from the parent (Dr Profit & loss account, Cr Equity – capital contribution). However, there is no guidance on how the attributed award should be measured in the subsidiary.

The accounting treatment adopted will depend on whether the cash payment or the value of the employee services received is considered to be the capital contribution. Therefore, the subsidiary may:

- i) recognise the grant date fair value plus the remeasurement (attribution of cash payment); or
- ii) recognise the grant date fair value with no remeasurement (attribution of the value of the employee services received).

In light of the potential for a double-hit of remeasurement (i.e. where both the parent and subsidiary account for the remeasurement in the profit or loss), there is currently no consensus on either the appropriate treatment of the remeasurement in the parent or the related issue of the accounting in the subsidiary of the attributed share-based payment.

As noted on page 2, the IASB has published an exposure draft of proposed amendments to IFRS 2 and IFRIC 11. It proposes that all aspects of IFRS 2's requirements for cash-settled share-based payments should be applied when a cash-settled share-based payment granted by a parent to suppliers of goods or services to a subsidiary is attributed to the subsidiary. Therefore, not only the grant date fair value of the share-based payment would be attributed but also the remeasurement expense. The exposure draft is silent on the accounting in the individual financial statements of the parent.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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