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18 March 2008

Re: EXPOSURE DRAFT OF PROPOSED Amendments to
IFRS 2 *Share-based Payment* and
IFRIC 11 *IFRS 2 - Group and Treasury Share Transactions*
Group Cash-settled Share-based Payment Transactions

Dear Sirs,

We are pleased to provide you with our observations on your draft comment letter to ED amendments of IFRS 2 and IFRIC 11. Our comments thereon are as follows.

SUMMARY

We are in support of the proposal to extend the scope of both IFRS 2 and IFRIC 11 to encompass the arrangements described in the ED; however, we believe the consensus reached in the amendment to IFRIC 11- that the arrangements described in paragraph 3A of the amendments to IFRIC 11 ought to be measured based on the requirements of a cash-settled transaction is appropriate only in the presence of a cash-settled share-based payment arrangement together with an intragroup payment arrangement, as follows:

- if, as a result of an intragroup payment arrangement, the subsidiary is required to reimburse the parent for making the required cash payments to the suppliers of goods or services (including employees) in a cash-settled share-based payment arrangement, then from the subsidiary's perspective, it shall measure the goods or services in accordance with the requirements applicable to cash-settled share-based payment transactions. Consequently, the subsidiary will measure the goods or services it receives initially on the basis of the fair value of the corresponding liability incurred by the parent, and in subsequent periods it will recognise any changes in the fair value of that liability in profit or loss with a corresponding adjustment to the liability due to the parent. This treatment views the cash-settled share-based payment transactions provided by the parent together with intragroup payment arrangement as linked transactions.

However, in the absence of such a combined arrangement we believe the substance of the arrangement should be accounted for as an equity-settled arrangement. Specifically:

- an entity that receives goods or services from its suppliers (including employees) under the arrangements described in the proposed paragraph 3A of IFRS 2 should measure the goods or services in accordance with the requirements applicable to equity-settled share-based payment transactions. In support of this view, the entity, which is a subsidiary, does not bear the fair value risk nor the payment obligation associated with a cash-settled share-based payment arrangement provided by the parent or another entity in the parent's group; such fair value risk and payment obligation reside with the parent or another entity in the parent's group that offered the cash-settled share-based payment arrangement to the suppliers (including employees) of the entity.

Our comments to the appendix of your draft comment letter, which address the answers to the questions proposed by the IASB, are set forth in the Annex to this letter.

Yours sincerely,

Angelo Casò

ANNEX

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:

- **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).**

- **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?

Proposed new paragraph 3A of IFRS 2

We agree with EFRAG's views indicated in paragraphs 1, 2 and 3.

We recommend that paragraph 1 should further detail that an entity may enter into a share-based payment transaction either "directly" or "indirectly" in the case that the arrangement is offered by the parent or another entity in the parent's group or by the entity's shareholders.

Proposed new paragraph 3A of IFRIC 11

We agree with EFRAG's views indicated in paragraph 4.

Group arrangements with a choice of settlement

We also agree with EFRAG's views indicated in paragraphs 5, 6, 7 and 8.

We recommend that paragraph 8 illustrate group or similar schemes not currently addressed by IFRS 2 nor IFRIC 11. For example a share-based payment arrangement (either equity-settled or cash-settled) provided to suppliers (including employees) of an entity that is an associate of an investor, whereby the investor has significant influence over the entity; and, similarly, a share-based payment arrangement provided to suppliers (including employees) of an entity that is a joint venture of an investor, whereby the investor has joint control over the entity.

Parent entity's separate financial statements

We agree with EFRAG's views indicated in paragraphs 9 and 10.

We recommend that the comment in paragraph 9 be assertive indicating that guidance is "required" rather than stating such "might be helpful".

Group arrangements that do not involve a parent-subsidiary relationship

With respect to paragraphs 11 and 12, we are in agreement with paragraph 12 but we are not in agreement with paragraph 11 based on our alternative accounting that the arrangements described in paragraph 3A of the amendments to IFRIC 11 ought to be measured based on the substance of the arrangement from the entity's perspective. Consequently, paragraph 11 should be revised as follows in order to be aligned with the alternative accounting treatment:

> The words used in the amendment to IFRIC 11 discuss group cash-settled share-based payment transactions in terms of a parent and its subsidiary, with the subsidiary receiving the goods or services (and capital contribution, which we believe should only relate to fair value measured at the grant date of the share-based payment arrangement) and the parent paying for them. In the case of a cash-settled share-based payment arrangement together with an intragroup payment arrangement, the subsidiary will measure the goods or services it receives initially on the basis of the fair value of the corresponding liability incurred by the parent, and in subsequent periods will recognise any changes in the fair value of that liability in profit or loss with a corresponding adjustment to the liability due to the parent. However, as specifically noted in paragraph 4 of the amendments to IFRIC 11, the guidance in IFRIC 11 (as amended) will also apply to similar arrangements between an entity and another entity within the same group.

Measuring the goods and services received

With respect to paragraphs 13, 14 and 15, we recommend completing the description of the accounting treatment proposed under paragraph 11B of the IFRIC 11 exposure draft in paragraph 13 as follows:

> Consequently, the subsidiary will measure the goods or services it receives initially on the basis of the fair value of the corresponding liability incurred by the parent, and in subsequent periods will recognise any changes in the fair value of that liability in profit or loss with a corresponding adjustment to the subsidiary's equity as adjustments to contributions from the parent (or other group entity of the parent) until the liability incurred by the parent is settled.

Paragraph 14 is revised to indicate our disagreement the IASB's proposal as well as provide the alternative accounting treatment.

> We do not agree with this conclusion. In BC8 of the ED, the IASB supports its proposal to measure such arrangements in the same way as cash-settled arrangements by referring to the involvement the parent entity has with the arrangements. Although we agree that the parent is involved in one way or another with the arrangements, we find this argument unconvincing for the purpose of transferring the same accounting treatment to the subsidiary. Instead, the accounting for the transaction is to be viewed from the perspective of the entity. The subsidiary that receives goods or services from its suppliers (including employees) under the arrangements described in the proposed paragraph 3A of IFRS 2 shall measure the goods or services in accordance with the requirements applicable to equity-settled share-based payment transactions. In support of this view, the entity, which is a subsidiary, does not bear the fair value risk nor the payment obligation associated with a cash-settled share-based payment arrangement provided by the parent or another entity in the parent's group; such fair value risk and payment obligation reside with the parent or another entity in the parent's group that offered the cash-settled share-based payment arrangement to the suppliers (including employees) of the entity.

Consequently, we do not agree with paragraph 15 as it is no longer consistent with the alternative accounting treatment discussed above and it should be deleted and substituted with a discussion on intragroup payment arrangements as follows:

> In BC9 of the IFRIC 11 exposure draft, the Board discussed whether the proposed amendments should address how to account for an intragroup payment arrangement that requires the subsidiary to reimburse the parent for making the required cash payments to the suppliers of goods or services. The Board decided not to address that issue.
>
> We address this issue here in the context of the alternative accounting treatment discussed in paragraph 14 above to highlight that as the facts change so does the accounting. For example if, as a result of an intragroup payment arrangement, the subsidiary is required to reimburse the parent for making the required cash payments to the suppliers of goods or services (including employees) in a cash-settled share-based payment arrangement, then from the subsidiary's perspective, it shall measure the goods or services in accordance with the requirements applicable to cash-settled share-based payment transactions. Consequently, the subsidiary will measure the goods or services it receives initially on the basis of the fair value of the corresponding liability incurred by the parent, and in subsequent periods will recognise any changes in the fair value of that liability in profit or loss with a corresponding adjustment to the liability due to the parent. This treatment views the cash-settled share-based payment transactions provided by the parent together with intragroup payment arrangement as linked transactions.

Are the arrangements always a capital contribution

With respect to paragraph 16, we are not in agreement based on our disagreement with the IASB's proposals. Similar to the changes we propose to paragraph 11 of your appendix, the capital contribution should only relate to fair value measured at the grant date of the share-based payment arrangement. Consequently, paragraph 16 should be revised as follows in order to be aligned with the alternative accounting treatment:

> Generally, we agree that, when dealing with arrangements that involve the subsidiary receiving the goods or services and the parent cash-settling, the 'credit side' of the arrangements represents a capital contribution from the parent to its subsidiary which is accounted for in equity, but it should only relate to the fair value measured at the grant date of the share-based payment arrangement. However, as explained below, we are less comfortable with this if the arrangement does not involve a parent and its subsidiary.

With respect to paragraph 17, we do not agree with the example as the wording does not transmit that EFRAG is convinced of the proposal to credit the profit or loss account for contributions from fellow subsidiaries. Consequently, the example should be deleted and paragraph 18 should be amended to delete the references to "entity A" and "entity B" of the deleted example.

We do not agree with paragraph 19 because the entity that provides the cash-settled share-based payment arrangement bears the fair value risk and payment obligation. The revised paragraph, aligned with alternative accounting treatment is as follows:

> In the absence of a cash-settled share-based payment arrangement together with an intragroup payment arrangement, we believe that changes in the fair value of the liability (incurred by the parent entity) represents an expense that should therefore be recognised by the parent in its profit or loss as it bears the fair value risk. We do not agree that the re-measurement ought to be recognized by the entity as an additional expense paid for by the parent entity nor that it represents an additional contribution by the parent entity. This should alleviate concerns, if any, regarding the recognition of an additional capital contribution by the subsidiary when the liability is re-measured by the parent entity.

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?

We do not agree with the IASB' proposal nor EFRAG's view expressed in paragraph 20 that the proposed amendments should be applied retrospectively; rather they should be applied prospectively, subject to the transitional provisions of IFRS 2, which require full retrospective application for unsettled cash-settled transactions and, additionally, unsettled cash-settled transactions as of the date of application of the amendments to the standard. It would be impracticable to restate prior periods, including interim periods, under a retrospective application for arrangements that have already been settled.