

International Accounting Standards Board
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Exposure Draft 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

Grant Thornton International is pleased to comment on the International Accounting Standards Board's (the Board) 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** (the ED). We have considered the ED, as well as the accompanying draft Basis for Conclusions.

Our responses to the questions in the ED's Invitation to Comment are set out below.

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).

Do you agree with the proposals? If not, why?

We agree with the proposals. We consider that the proposed amendments are a natural addition to the scope of IFRS 2 and IFRIC 11. Including these arrangements is consistent with IFRS 2's main principle of recognising the goods or services received in a share based payment transaction. The amendment will also result in group cash-settled share-based payment transactions being accounted for consistently with group equity-settled transactions and will remove a possible incentive to structure arrangements to be outside IFRS 2's scope.

We note that proposed paragraph 3A to IFRS 2 addresses situations in which the parent or other group entity incurs a liability on behalf of the reporting entity and brings such transactions into the scope of IFRS 2. However, it does not address a situation in which the reporting entity incurs a liability to transfer cash or other assets for amounts based on the price (or value) of the equity instruments of its parent or another group entity. IFRIC 11 does not address this situation either. This could lead to the (in our view) anomalous outcome that IFRS 2 applies to such a transaction at group level but that IAS 19 *Employee Benefits* applies in the individual financial statements of the reporting entity.

Accordingly, we recommend that IFRS 2.2(b) be amended as follows:

"*cash-settled share-based payment transactions*, in which the entity 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 entity's shares or other equity instruments of the entity, **or the equity instruments of its parent or another entity in the same group**, and ..."

A similar amendment would also be helpful in the definition of a cash-settled share-based payment arrangement in IFRS 2 Appendix A.

Without qualifying our overall support, we note that the amendment addresses only a narrow category of "group arrangements" and their recognition in separate financial statements. The amendment will also lead to group cash-settled share-based payment arrangements being treated differently to other group arrangements. For example, parent entities commonly pay for certain corporate services provided to more than one group entity. The cost or value of those services may or may not be recharged to the entities to which they are provided. If these cash payments are not linked to the price of the equity instruments of the entity or other group entity, they will not be recognised in the financial statements of the entity receiving the goods or services. Typically, the amount that would be recognised is the recharge (if any). Such arrangements would however be disclosed in the financial statements as related party transactions in accordance with IAS 24 *Related Party Disclosures*.

We recommend that the Board should address the broader issue of accounting for intra-group transactions between related parties in a separate project as soon as practicable.

Question 2 - Transition

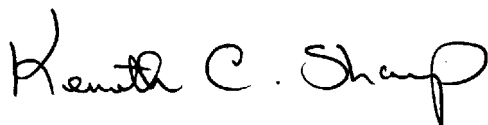
The proposed amendments to IFRS 2 and IFRIC 11 would be required to be applied retrospectively, subject to the transitional provisions of IFRS 2.

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

We agree.

If you have any questions on our response, or wish us to amplify our comments, please contact our Director of International Financial Reporting, Andrew Watchman (andrew.watchman@gtuk.com or telephone + 44 207 391 9510).

Yours sincerely,

A handwritten signature in black ink that reads "Kenneth C. Sharp". The signature is written in a cursive style with a large initial 'K' and a distinct 'P' at the end.

Kenneth C Sharp
Global Leader - Assurance Services
Grant Thornton International