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IFRIC Interpretation 8
Illustrative Example

This example accompanies, but is not part of, IFRIC 8.

IE1 An entity granted shares with a total fair value of CU100,000[*] to parties other than employees who are from a particular section of the community (historically disadvantaged individuals), as a means of enhancing its image as a good corporate citizen. The economic benefits derived from enhancing its corporate image could take a variety of forms, such as increasing its customer base, attracting or retaining employees, or improving or maintaining its ability to tender successfully for business contracts.

IE2 The entity cannot identify the specific consideration received. For example, no cash was received and no service conditions were imposed. Therefore, the identifiable consideration (nil) is less than the fair value of the equity instruments granted (CU100,000).

IE3 Although the entity cannot identify any specific goods or services received, the circumstances indicate that goods or services have been (or will be) received, and therefore IFRS 2 applies.

IE4 In this situation, because the entity cannot identify the specific goods or services received, the rebuttable presumption in paragraph 13 of IFRS 2, that the fair value of the goods or services received can be estimated reliably, does not apply. The entity should instead measure the goods or services received by reference to the fair value of the equity instruments granted.

[*] In this example, monetary amounts are denominated in ‘currency units’ (CU).

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Basis for Conclusions on IFRIC Interpretation 8

This Basis for Conclusions accompanies, but is not part of, IFRIC 8.

BC1 This Basis for Conclusions summarises the IFRIC's considerations in reaching its consensus. Individual IFRIC members gave greater weight to some factors than to others.

BC2 IFRS 2 *Share-based Payment* applies to share-based payment transactions in which the entity receives or acquires goods or services. However, in some situations, it might be difficult to demonstrate that the entity has received goods or services. This raises the question of whether IFRS 2 applies to such transactions.

BC3 This question arose in the context of particular transactions, similar to the transaction described in the Illustrative Example that accompanies the Interpretation. The IFRIC concluded that determining whether such transactions were within the scope of IFRS 2 raised 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 those goods or services are not specifically identified, and therefore that IFRS 2 applies?

BC4 The IFRIC noted that, when the International Accounting Standards Board developed IFRS 2, the Board concluded that the directors of an entity would expect to receive some goods or services in return for equity instruments issued (IFRS 2 paragraph BC37). This implies that it is not necessary to identify the specific goods or services received in return for the equity instruments granted to conclude that goods or services have been (or will be) received. Furthermore, paragraph 8 of the Standard establishes that it is not necessary for the goods or services received to qualify for recognition as an asset in order for the share-based payment to be within the scope of IFRS 2. In this case, the Standard requires the cost of the goods or services received or receivable to be recognised as expenses.

BC5 Accordingly, the IFRIC concluded that the scope of IFRS 2 includes transactions in which the entity cannot identify some or all of the specific goods or services received. If the identifiable consideration received appears to be less than the fair value of the equity instruments granted or liability incurred, typically[1], this circumstance indicates that other consideration (ie unidentifiable goods or services) has been (or will be) received.

[1] In some cases, the reason for the transfer would explain why no goods or services have been or will be received. For example, a principal shareholder, as part of estate planning, transfers some of his shares to a family member. In the absence of factors that indicate that the family member has provided, or is expected to provide, any goods or services to the entity in return for the shares, such a transaction would fall outside of the scope of IFRS 2 and thus this Interpretation.

BC6 The IFRIC also noted that IFRS 2 presumes that the consideration received for share-based payments is consistent with the fair value of those share-based payments. For example, if the entity cannot estimate reliably the fair value of the goods or services received, IFRS 2 requires the entity to measure the fair value of the goods or services received by reference to the fair value of the share-based payment made to acquire those goods or services.

BC7 The IFRIC noted that it is neither necessary nor appropriate to measure the fair value of goods or services as well as the fair value of the share-based payment for every transaction in which the entity receives goods or non-employee services. However, when the identifiable consideration received appears to be less than the fair value of the share-based payment, measurement of both the goods or services received and the share-based payment may be necessary in order to measure the value of the unidentifiable goods or services received.

BC8 Paragraph 13 of IFRS 2 stipulates a rebuttable presumption that identifiable goods or services received can be reliably estimated. The IFRIC noted that goods or services that are unidentifiable cannot be reliably measured and that this rebuttable presumption is relevant only for identifiable goods or services.

BC9 The IFRIC noted that when the goods or services received are identifiable, the measurement principles in IFRS 2 should be applied. When the goods or services received are unidentifiable, the IFRIC concluded that the grant date is the most appropriate date for the purposes of providing a surrogate measure of the unidentifiable goods or services received (or to be received).

BC10 The IFRIC noted that some transactions include identifiable and unidentifiable goods or services. In this case, it would be necessary to measure the fair value of the unidentifiable goods or services received at the grant date and to measure the identifiable goods or services in accordance with IFRS 2.

BC11 For cash-settled transactions in which unidentifiable goods or services are received, it is necessary to remeasure the liability at each subsequent reporting date in order to be consistent with IFRS 2.

BC12 The IFRIC noted that the IFRS 2 requirements in respect of the recognition of the expense arising from share-based payments would apply to identifiable and unidentifiable goods or services. Therefore, the IFRIC decided not to issue additional guidance on this point.

BC13 When considering the transitional provisions relating to first-time adopters applying the Interpretation, the IFRIC concluded that it was not necessary to amend IFRS 1 *First-time Adoption of International Financial Reporting Standards*, because the Interpretation will have no effect unless IFRS 2 is effective.

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