

IFRS 2 Share-based Payment (May 2006)

Scope of IFRS 2: Share plans with cash alternatives at the discretion of the entity

The IFRIC considered whether an employee share plan in which the employer had the choice of settlement in cash or in shares, and the amount of the settlement did not vary with changes in the share price of the entity should be treated as a share-based payment transaction within the scope of IFRS 2 *Share-based Payment*.

The IFRIC noted that IFRS 2 defines a share-based payment transaction as a transaction in which the entity receives goods or services as consideration for equity instruments of the entity or amounts that are based on the price of equity instruments of the entity. IFRIC further noted that the definition of a share-based payment transaction does not require the exposure of the entity to be linked to movements in the share price of the entity. Moreover, it is clear that IFRS 2 contemplates sharebased payment transactions in which the terms of the arrangement provide the entity with a choice of settlement, since they are specifically addressed in paragraphs 41 – 43 of IFRS 2. The IFRIC, therefore, believed that, although the amount of the settlement did not vary with changes in the share price of the entity, such share plans are sharebased payment transactions in accordance with IFRS 2 since the consideration may be equity instruments of the entity. The IFRIC also believed that, even in the extreme circumstances in which the entity was given a choice of settlement and the value of the shares that would be delivered was a fixed monetary amount, those share plans were still within the scope of IFRS 2. The IFRIC believed that, since the requirements of IFRS 2 are clear, the issue is not expected to create significant divergence in practice. The IFRIC, therefore, decided not to take the issue onto the agenda.