Rechnungslegungs Interpretations
Accounting Interpretations Committee

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Berlin, 18 July 2005

Bob Garnett
Chair of the
International Financial Reporting Interpretations Committee
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Dear Bob

Comment Letter on IFRIC Interpretation D17 *IFRS 2 – Group and Treasury Share Transactions*

We appreciate the opportunity to comment on the draft Interpretation IFRIC D17. We fully endorse IFRIC´s aim to support the IASB in establishing and improving International Financial Reporting Standards. In this respect we support IFRIC's objective to clarify whether share-based payments transactions involving treasury shares or equity instruments of other entities within the same group are classified as equity-settled or cash-settled in the separate financial statements of the entity that receives the services.

Referring to the issues in paragraph 6 (a), 6 (b) and 6 (c) (ii) the AIC agrees with the Consensus as set out in the paragraphs 7-8 and 10-12 of IFRIC D17.

However, we do not agree with the IFRIC's conclusion in paragraph 9 and BC5 of D17 for a share-based payment arrangement in which a subsidiary entity is granting rights to equity instruments of its parent company (or another entity in the same group) to its employees (issue in paragraph 6 (c) (i)). The IFRIC concluded that this transaction shall be accounted for as an equity-settled transaction because the subsidiary entity receives services from its employees but has no obligation to transfer cash or other assets of the entity to its employees as payment for those services (BC5).

We object to this conclusion because both classes of transactions stated in paragraph 6 (c) have the same economic substance, i.e. they are characterised by similar granting and payment arrangements. In particular, the AIC believes that – also in the case of the parent company granting rights directly to the employees of the subsidiary (paragraph 6 (c) (i)) – the subsidiary entity does have an obligation to transfer assets of the entity to its employees. The rationale for this is that granting of the rights by the parent company represents a capital contribution to the subsidiary entity that is then transferred by the subsidiary to its employees.

Another argument against the classification of the transaction stated in paragraph 6 (c) (i) is – as IFRIC is explicitly saying in paragraph BC5 – that this transaction does not meet the definition of an equity-settled transaction in paragraph 2 (b) of IFRS 2 because the equity instruments are not equity instruments of the entity, but of the parent company. The argumentation given in paragraph BC5 why the IFRIC classified the transaction as an equity-settled transaction despite of the conflict with paragraph 2 (b) of IFRS 2 is not convincing and should be strengthened if the IFRIC decides not to change its consensus regarding the transaction described in paragraph 6 (c) (i).

If you would like further clarification of the issues set out in this comment letter, please do not hesitate to contact me.

With best regards

Dr. Stefan Schreiber
AIC, Chairman