



MALAYSIAN INSTITUTE OF ACCOUNTANTS
FINANCIAL REPORTING STANDARDS IMPLEMENTATION COMMITTEE
("FRSIC")

FRSIC Issue No. 35 [2010]
Scope of FRS 2 in Relation to Transfer of Shares

The issue:

Whether equity instruments of an entity transferred by a shareholder (at no consideration or at a token sum) to employees of the investee or third party who has rendered assistance to the entity is within the scope of FRS 2 "Share-based Payments".

The following scenarios provide examples to such transactions:

Scenario 1

Wong owns 100% equity interest in S Berhad, a company to be listed on Bursa Malaysia. Prior to the listing exercise, Wong sold 10 million of his shares in S Berhad for a nominal amount of RM1 to Chan as appreciation for his assistance rendered to S Berhad during its early years. The fair value of this 10 million shares in S Berhad was RM20 million.

Scenario 2

Wong owns 100% equity interest in S Berhad, a company to be listed on Bursa Malaysia. Although there were no service arrangements signed between Chan and S Berhad, Chan had been assisting Wong in the listing exercise. As appreciation for Chan's service, Wong transferred 10 million of his ordinary shares in S Berhad to Chan for no consideration.

Scenario 3

Wong owns 40% equity interest in S Berhad, a company to be listed on Bursa Malaysia. Prior to the listing exercise, Wong transferred 10 million of his shares in S Berhad to certain key employees of S Berhad for a nominal amount of RM 1. The fair value of this 10 million shares in S Berhad was RM20 million.

Scenario 4

Wong owns 40% equity interest S Berhad, a company to be listed on Bursa Malaysia. Prior to the listing exercise, Wong transferred 10 million of his shares in S Berhad to certain key employees of a subsidiary of S Berhad for \$0.50 per share. In addition, S Berhad issued 2 million new ordinary shares to the CEO of S Berhad for \$0.50 per share. The fair value of S Berhad as at that point in time was \$0.80 per share.

Current accounting practice as observed by the Submitter:

Divergent accounting treatments are being practice by financial statements preparers in Malaysia.

Reasons for the FRSIC to address the issue:

To provide guidance to preparers as to the appropriate accounting treatment in situations described above.

Submitter's proposal or recommendation to address the issue:

FRS 2.2 states that:

"An entity shall apply this FRS in accounting for all share-based payment transactions including:

- a) *equity-settled share-based payment transactions*, in which the entity receives goods or services as consideration for equity instruments of the entity (including shares or share option), ..."

FRS 2.3 states that:

"For the purposes of this FRS, transfers of an entity's equity instruments by its shareholders to parties that have supplied goods or services to the entity (including employees) are share-based payment transactions, unless the transfer is clearly for a purpose other than payment for goods or services supplied to the entity. This also applies to transfers of equity instruments of the entity's parent, or equity instruments of another entity in the same group as the entity, to parties that have supplied goods or services to the entity."

In addition, Amendments to IFRS 2 "Share-based Payments" – Group Cash-settled Share-based Payment Transactions (effective 1 January 2010) has resulted in, among others, the removal of IFRS 2.3 and inclusion of IFRS 2.3A, as follows:

"A share-based payment transaction may be settled by another group entity (or a shareholder of any group entity) on behalf of the entity receiving or acquiring the goods or services. Paragraph 2 also applies to an entity that

- a) receives goods or services when another entity in the same group (or a shareholder of any group entity) has the obligation to settle the share-based payment transaction, or
- b) has an obligation to settle a share-based payment transaction when another entity in the same group receives the goods or services

unless the transaction is clearly for a purpose other than payment for goods or services supplied to the entity receiving them."

The above amendments to IFRS 2 forms part of MASB ED 68 (issued in November 2009) and corresponding amendments to FRS 2 is expected to be effective on 1 January 2011.

Based on the above, the transfer of Wong's shares in S Berhad employees and non-employees of S Berhad and subsidiaries of S Berhad are within the scope of FRS 2: Share-based payments. In addition, the issue of new shares by S Berhad to employees of S Berhad at below market price is also within the scope of FRS 2.

Submitted on:

9 April 2010

Corresponding Guidance:

ISSUE WAS REJECTED FROM FURTHER DELIBERATION.

The FRSIC's deliberation: FRSIC decided not to take up the issue since the standard is clear on the accounting treatment for share-based payment transactions.

[Last updated: 7 May 2010]