

Institute of Chartered Accountants of New Zealand
FINANCIAL REPORTING STANDARD NO. 30
1994



REPORTING SHARE OWNERSHIP ARRANGEMENTS INCLUDING EMPLOYEE SHARE OWNERSHIP PLANS

*Issued by the Financial Reporting Standards Board
Institute of Chartered Accountants of New Zealand*

*Approved December 1994 by the Accounting Standards Review Board
under the Financial Reporting Act 1993*

CONTENTS

	<i>Paragraph</i>
Introduction.....	1.1
Application.....	2.1
Statement of Purpose	3.1
Definitions	4.1
Financial Reporting	
Disclosure of Shares Held by the ESOP	5.1
Disclosure of Control of the ESOP	5.2
Disclosure of Financial Commitments.....	5.4
Disclosure of Financial Position and Performance of the ESOP	5.6
Comparison of FRS-30 with International and Australian Accounting Standards.....	Appendix

This Standard replaces FRS-30: Reporting Share Ownership Arrangements Including Employee Share Ownership Plans (1993), although that Standard will continue to apply until the completion of accounting periods which end prior to 1 April 1995.

This Standard should be read in the context of the Explanatory Foreword to General Purpose Financial Reporting published by the Council, Institute of Chartered Accountants of New Zealand.

The Accounting Standards Review Board (the Board) has approved FRS-30: Reporting Share Ownership Arrangements Including Employee Share Ownership Plans, for the purposes of the Financial Reporting Act 1993, to apply to reporting entities, the Crown and all departments, Offices of Parliament and Crown entities (each of which is defined in the Act) other than as expressly exempted by the terms of the Standard.

The Board has also approved this Standard to apply to local authorities (as defined in the Act) from 1 July 1998.

FRS-30

1 INTRODUCTION

COMMENTARY

1.1 Users of financial reports of an entity are interested in its share ownership arrangements particularly where the entity deals with equity in ways that are not available to all equity holders.

1.2 It is a widely held view that it is beneficial to assist employees to acquire shares in the entity. The form and degree of such assistance, and who has the rights to exercise the powers attaching to the shares in the entity held by employee share ownership plans or share ownership arrangements (hereafter collectively ESOPs) is important information to non-employee shareholders and other users of financial reports of the entity.

1.3 In ESOPs, employees may be entitled to specific shares (allocated plans) or equivalent benefits (unallocated plans). There are widely varying practices in establishing when employees are entitled to have shares registered in their own names, or when employees are entitled to dividends or other benefits. Some ESOPs may borrow funds from a third party to acquire shares in the entity. Interest and repayments on these borrowed funds may be met from dividends received in respect of shares held by the ESOP or may be met by the entity. ESOPs may also borrow from the entity or a related party to acquire entity shares. Shares held by ESOPs are often pledged as security for loans provided for the purchase of the shares.

1.4 Share ownership arrangements and employee share ownership plans raise complex issues of recognition and measurement. As an initial approach, this standard requires disclosures about employee share ownership plans or share ownership arrangements to assist users of financial reports with establishing the extent and materiality of the ESOPs.

1.5 Financial reporting standards are paragraphs in bold type-face in this Standard. Where appropriate, interpretive commentary paragraphs in plain type-face follow the financial reporting standards.

2 APPLICATION

STANDARD

2.1 This Standard applies to general purpose financial reports of entities which control or provide financial assistance to an ESOP or which are committed to assist one or more employee(s) to participate in an ESOP except where exempted by paragraphs 2.2 and 2.3.

2.2 This Standard does not apply to the reports from an ESOP to:

- its beneficiaries; or
- the entity which controls or provides financial assistance to an ESOP or which is committed to assist employee(s) to participate in an ESOP.

2 - 320.2

2.3 Entities which qualify for exemption in accordance with the *Framework for Differential Reporting* are not required to comply with paragraph 5.6 of this standard.

2.4 The financial reporting standards set out in this Standard shall apply to all financial reports where such application is of material consequence. A statement, fact, or item is material if it is of such a nature or amount that its disclosure, or the method of treating it, given full consideration of the circumstances applying at the time the financial report is completed, is likely to influence the users of the financial report in making decisions or assessments.

2.5 This Standard applies to general purpose financial reports covering periods ending on or after 1 April 1995.

3 STATEMENT OF PURPOSE

COMMENTARY

3.1 The purpose of this Standard is to specify the disclosures required in the general purpose financial report of an entity which has an ESOP.

4 DEFINITIONS

STANDARD

The following terms are used in this Standard with these meanings:

4.1 “Control” over an ESOP by an entity means the power to appoint or remove a majority of the trustees (or the equivalent of the trustees) of the ESOP (employee share ownership plan or share ownership arrangement) or any other power, scheme, or arrangement whereby the entity is able to direct the decisions of the governing body of the ESOP.

4.2 “Employee” means any person who supplies services to the entity or related parties by way of an employee/employer relationship. Employee includes all officers of the entity and related parties and all executive or non-executive directors or their equivalents.

4.3 “Employee share ownership plan” or “share ownership arrangement” or “ESOP” means:

- (a) any scheme, formal or informal, by which an entity, through sponsorship, promotion, or commitment of its own resources or those of a related party, enables employee(s) to have an interest in or derive any benefit from shares (as defined in paragraph 4.7) either directly or indirectly whether utilising a trust or some other entity structure; or
- (b) any arrangement, formal or informal, by which an entity controls or provides financial assistance to any other entity which has an interest in the first entity’s shares.

FRS-30

This meaning does not include temporary arrangements for immediate transfer of majority ownership and control of an entity to employees (“management buy-outs”).

4.4 “Fair value” is the amount for which an item could be exchanged between knowledgeable and willing parties in an arm’s length transaction.

4.5 “Market value of shares” means, for entities listed on a stock exchange, the quoted price of shares on the stock exchange; for unlisted entities, it means the fair value of shares.

4.6 “Related party”. Parties are considered to be related if one party has the ability, directly or indirectly, to control or exercise significant influence over the other party in making operating, investing and financing decisions to the extent that one of the parties might be prevented from fully pursuing its own separate interests. Parties are also considered to be related when they are subject to common outside control or significant influence. In considering each possible related party relationship, attention should be directed to the substance of the relationship and not merely to the legal form (SSAP-22, *Related Party Disclosures*).

4.7 “Shares” are any shares, rights to shares, potential rights to shares or their equivalent in an entity with an ESOP or in the entity’s parent or subsidiary or in-substance subsidiary or associate entity or related party.

5 FINANCIAL REPORTING

Disclosure of Shares Held by the ESOP

STANDARD

5.1 The general purpose financial report of an entity with an ESOP shall disclose by way of note:

- (a) a description of the ESOP including those entitled to participate in the ESOP and the mechanism establishing the price at which shares are allocated;
- (b) the number and percentage of shares held by the ESOP, classified by class of share. The classification shall show the voting rights attaching to the shares held, the amount paid up and details of any amounts not paid up;
- (c) the number of shares held by the ESOP which have been allocated to employee(s) and the number of shares which remain unallocated; and whether any of the shares are subject to put and/or call options;
- (d) the rights of the entity or its related parties to acquire shares held by the ESOP and the terms of those rights.

Disclosure of Control of the ESOP

STANDARD

5.2 The general purpose financial reports of an entity with an ESOP shall disclose by way of note the identities of all persons and entities (and their relationship with the entity or related party) who:

- (a) have the power to control the appointment and/or removal of trustees, or their equivalents, of the ESOP; or**
- (b) have the power to control the exercise of any right to vote attached to any shares held by the ESOP.**

COMMENTARY

5.3 Shareholders and other users of financial reports of an entity are to be informed about all persons and entities who have rights to exercise the powers attaching to shares held for the future benefit of employees or other parties.

Disclosure of Financial Commitments

STANDARD

5.4 The general purpose financial reports of an entity with an ESOP shall disclose by way of note:

- (a) the amount, terms and repayment dates of any advances made by the entity to the ESOP;**
- (b) the amount, terms and repayment dates of any advances made from external sources to the ESOP;**
- (c) any guarantees and any financial or credit assistance given by the entity in respect of advances made to the ESOP from external sources and/or the extent to which the shares held by the ESOP are pledged to secure borrowings from the entity or advances from external sources.**

COMMENTARY

5.5 Shareholders of an entity who do not benefit directly from an ESOP and other users of financial reports of the entity are to be informed of the assistance rendered by the entity to the ESOP and of any obligations incurred by the entity in supporting the ESOP.

Disclosure of Financial Position and Performance of the ESOP

STANDARD

5.6 The general purpose financial report of an entity with an ESOP or ESOPs which, in aggregate, at any time during the reporting period, are entitled to exercise a material interest in the voting rights attached to the relevant entity's shares, shall disclose by way of note:

FRS-30

- (a) **an abbreviated statement of financial position of each ESOP disclosing separately:**
 - (i) **the cost of shares held showing separately allocated and unallocated shares;**
 - (ii) **the market value of shares held showing separately the market value of allocated and unallocated shares;**
 - (iii) **any funding of the ESOP provided by the entity or related parties;**
 - (iv) **any funding of the ESOP provided by external parties including employee(s);**
 - (v) **the surplus or deficit of assets compared to liabilities based on the market value of assets showing separately the trustees' interest in the surplus and any surplus that has been allocated to employee(s), the employing entity and to any other parties or to which other parties have rights;**
- (b) **an abbreviated statement of financial performance of each ESOP disclosing separately:**
 - (i) **income received from:**
 - **the entity or related parties;**
 - **employee(s);**
 - **other parties;**
 - (ii) **expenses paid to:**
 - **the entity or related parties;**
 - **employee(s);**
 - **other parties;**
 - (iii) **distributions made to:**
 - **the entity or related parties;**
 - **employee(s);**
 - **other parties;**
 - (iv) **any changes in market value of the assets held showing separately the extent to which those changes in market value relate to:**
 - **the trustees' interests;**
 - **the allocated interest of any employee(s);**
 - **the interests of any other party.**

COMMENTARY

5.7 An entitlement to exercise five percent or more of the voting rights attached to an entity or its parent's shares is considered to be a material interest. In the determination of whether an interest in the voting rights attached to the shares of an entity's subsidiary or in-substance subsidiary or associate entity or related party is material, the materiality standard in paragraph 2.4 is to be applied.

APPENDIX

Comparison of FRS-30 with International and Australian Accounting Standards

This comparison appendix, which was prepared as at 1 December 1994 and deals only with significant differences in the standards, is produced for information purposes only and does not form part of the standards in FRS-30.

Neither the International Accounting Standards Committee nor the Australian Accounting Standards Board nor the Australian Public Sector Accounting Standards Board has issued a financial reporting standard equivalent to FRS-30.

HISTORY

Previously issued accounting standards superseded by this Financial Reporting standard:

FRS-30: Reporting Share Ownership Arrangements Including Employee Share Ownership Plans (issued in March 1993 and effective for periods ending on or after 30 September 1993)

FRS-30

2 - 320.8
(Next page is 2 - 327)

Rvsd 03/96