IFRS Global office
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IFRS in Focus
IASB proposes amendments to IFRS 2 related to the classification and measurement of share-based payment transactions

Contents

The Bottom Line

- The IASB proposes amendments to IFRS 2 that, if finalised, would clarify
  - the accounting for the effects of vesting conditions on a cash-settled share-based payment;
  - the classification of share-based payment transactions with net settlement features; and
  - the accounting for a modification to the terms and conditions of a share-based payment that changes the transaction from cash-settled to equity-settled.
- The IASB did not propose an effective date for the proposed amendments. However, early application is proposed to be permitted. The ED proposes prospective application but permits retrospective application if certain criteria are met.
- Comments on the proposals are due by 25 March 2015.

This edition of IFRS in Focus outlines the proposed amendments to IFRS 2 *Share-based Payment* set out in the recent Exposure Draft ED/2014/5 *Classification and Measurement of Share-based Payment Transactions* ('the ED') issued in November 2014 for public comment.

Why are the amendments being proposed?

The International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC) have received a number of requests related to IFRS 2 *Share-based Payment*. The requests mainly focused on:

- the accounting for cash-settled share-based payment transactions that include a performance condition;
- share-based payments settled net of tax withholdings; and
- the modification of a share-based payment transaction from cash-settled to equity-settled.

The IASB acknowledged these concerns and decided to address the issues together in one narrow-scope project.

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

When would the proposed amendments apply?

The ED does not propose an effective date. Early adoption of the proposed amendments will be permitted.

The IASB proposes prospective application for the proposed amendments. However, it also proposes to permit retrospective application, if the entity has all necessary information and if the information is available without the use of hindsight.

The comment period for the ED ends on 25 March 2015.

What are the changes proposed by the Exposure Draft?

Accounting for the effects of vesting conditions on cash-settled share-based payments

IFRS 2 specifies that the liability for a cash-settled share-based payment is measured at fair value on each reporting date. However, the Standard is silent on how vesting conditions affect the fair value of those liabilities. The IASB therefore proposes to clarify that accounting for the effect of vesting and non-vesting conditions on cash-settled share-based payments should follow the same approach as for equity-settled share-based payments.

Observation

By analogy to equity-settled share-based payments, the IASB proposes that service and non-market performance conditions should not be taken into account when estimating the fair value of the liability arising from a cash-settled share-based payment. Instead, those vesting conditions should be taken into account by adjusting the number of awards expected to vest. As a result, on vesting, the liability would reflect the number of awards that were ultimately vested. To illustrate this, the ED proposes an example for the accounting for share appreciation rights.

Conversely, market conditions and non-vesting conditions would be taken into account when estimating the fair value of the cash-settled share-based payment awards at each reporting date.

As a result of the proposals, the cumulative amount ultimately recognised for the cash-settled share-based payment should equal the amount of cash paid.

Classification of share-based payment transactions with net settlement features

The IASB proposes to specify that a share-based payment transaction with employees in which the entity settles the share-based payment arrangement net (by withholding a specified number of equity instruments to meet its minimum statutory tax withholding requirements) should be classified as equity-settled in its entirety, provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

Observation

The IASB considered an alternative view on the above issue, under which each component of the share-based payment would be accounted for based on its respective manner of settlement. As a result, the portion withheld would be classified and accounted for as cash-settled, with the portion that is settled by the issue of equity instruments classified and accounted for as equity-settled.

However, the portions of the share-based payment would have to be reclassified between cash-settled and equity-settled whenever there was a change of the estimate of tax laws and tax rates. As a result of the significant operational challenge this would impose, the IASB rejected this alternative view.

Accounting for a modification to the terms and conditions of a share-based payment transaction that changes the transaction from cash-settled to equity-settled

The IASB proposes that on modification of a share-based payment that changes the transaction from cash-settled to equity-settled, the original liability recognised in respect of the cash-settled share-based payment is derecognised and the equity-settled share-based payment is recognised at the modification date fair value to the extent services have been rendered up to the modification date. The ED proposes that any difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date would be recognised in profit and loss immediately.

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