

CLASSIFICATION AND MEASUREMENT OF SHARE-BASED PAYMENT TRANSACTIONS (PROPOSED AMENDMENTS TO IFRS 2) INTERNATIONAL FINANCIAL REPORTING BULLETIN 2014/26



Summary

The International Accounting Standards Board (IASB) published ED/2014/5 *Classification and Measurement of Share-based Payment Transactions* (Proposed amendments to IFRS 2) (the ED) on 25 November 2014.

The proposed amendments address the classification and measurement of share-based payment transactions for a number of issues where existing guidance is not clear. The following clarifications and additional guidance are proposed by the ED:

- Effects of vesting and non-vesting conditions on the measurement of a cash-settled share-based payment are accounted for in accordance with the guidance for equity-settled share-based payment in IFRS 2.19-21A
- Share-based payment transactions with certain net settlement features are classified as equity-settled if they would have been classified as equity settled without the net settlement feature
- Accounting for a modification that changes the classification of a share-based payment agreement from cash-settled to equity-settled has been clarified with regard to:
 - Derecognition of the liability,
 - Measurement on change of classification, and
 - Accounting for the difference arising on the date of modification

The deadline for comments on ED/2014/5 *Classification and Measurement of Share-based Payment Transactions* is 25 March 2015.

STATUS

Exposure Draft

EFFECTIVE DATE

To be confirmed

ACCOUNTING IMPACT

Clarification of different aspects of the accounting for share-based payment transactions, being:

- Measurement: Effects of vesting conditions
- Classification: Effects of net-settlement features and modifications.

Background

The accounting for cash-settled share-based payment transactions that include performance obligations currently lacks guidance for the impact of vesting and non-vesting conditions. In particular, it is not clear whether the effects of those conditions on the fair value measurement of an equity-settled share-based payment scheme are applicable to cash-settled plans by analogy or whether further conditions needed to be considered.

The proposed amendment to the classification of share-based payment transactions with net settlement features originated from a submission to the IFRS Interpretations Committee. The submission referred to situations where an entity withholds a certain number of equity instruments and settles (in cash) the employee's obligation to pay taxes associated with the share-based payment scheme. Diversity existed in practice, with the withheld portion (liability to pay cash) being either:

- Separately accounted for and classified as a cash-settled share-based payment transaction; or
- Included within the equity-settled share-based payment transaction and not accounted for separately.

The IASB was also asked to clarify the accounting for modifications of share-based payment transactions from cash-settled to equity-settled as the current version of IFRS 2 provides no such guidance.

Proposed changes to IFRS 2

Effects of vesting conditions on the measurement of cash-settled schemes

IFRS 2 requires liabilities from cash-settled share-based payment transactions to be measured at the end of each reporting period at the fair value of the cash-settled share-based payment, taking into account the terms and conditions at the grant date and the extent to which the employees have rendered service to date. However, IFRS 2 does not explicitly include any guidance on how to account for the effects of vesting and non-vesting conditions on the measurement of the liability.

The proposed amendment clarifies the accounting for cash-settled share-based payment transactions. It would require that the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payment transactions are accounted for using the same approach as for the measurement of equity-settled share-based payments in IFRS 2.19-21A.

Classification of share-based payments with net settlement features

In some jurisdictions, entities withhold part of an equity-settled share-based payment award, the fair value of which is equal to the amount of an employee's tax obligation in relation to a share-based payment scheme (a net settlement). The entities then transfer the tax payment (in cash) directly to the tax authorities.

The proposed amendment, which adds paragraph 33D to IFRS 2, clarifies that if a withholding tax arising in conjunction with an equity-settled share-based payment scheme, is settled net, the transaction should be classified as equity-settled in its entirety, if the entire share-based payment would otherwise be classified as equity settled if it had not included the net settlement feature.

Modification of terms and conditions that change classification from cash- to equity-settled

Modifications of share-based payment schemes sometimes result in a change in classification from cash-settled to equity-settled. Common scenarios are:

- Changes in the terms and conditions;
- Replacement of a cash-settled share-based payment scheme by the award of a new equity-settled share-based payment scheme.

The accounting for those changes is currently not addressed in IFRS 2. To account for the changes that arise upon the modification the ED proposes that:

- The transaction is measured by reference to the modification-date fair value of the equity instruments granted
- The original liability is derecognised and the equity-settled share-based payment is recognised to the extent services have been rendered up to the modification date
- The difference between the original liability and the amount recognised in equity is recognised in profit or loss.


Effective Date and Transition

An effective date for this project has not yet been proposed.

The IASB proposes prospective application for the amendment that clarifies the effects of vesting conditions on the measurement of cash-settled share-based payment transactions for both new and outstanding awards because it will only affect the amount and timing of changes but not the cumulative expense.

The remaining proposed changes to IFRS 2 would also be applied prospectively, in order to allow for a consistent application of all proposed amendments of the ED. However, if an entity wished to apply the proposed changes retrospectively, it would be allowed to do so if the necessary information is available without the use of hindsight.

The deadline for comments on ED/2014/5 *Classification and Measurement of Share-based Payment Transactions* is 25 March 2015.



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