IFRS AT A GLANCE

IFRS 2 *Share-based Payment*

As at 1 January 2016

IFRS 2 *Share-based Payment*

Effective Date
Periods beginning on or after 1 January 2005

SCOPE

IFRS 2 applies to all share-based payment transactions, which are defined as follows:

- Equity-settled, in which the entity receives goods or services as consideration for equity instruments of the entity (including shares or share options)
- Cash-settled, in which the entity receives goods or services by incurring a liability to the supplier that is based on the price (or value) of the entity's shares or other equity instruments of the entity
- Transactions in which the entity receives goods or services and either the entity or the supplier of those goods or services have a choice of settling the transaction in cash (or other assets) or equity instruments.

IFRS 2 does not apply to:

- Transactions in which the entity acquires goods as part of the net assets acquired in a business combination to which IFRS 3 *Business Combinations* applies
- Share-based payment transactions in which the entity receives or acquires goods or services under a contract within the scope of IAS 32 *Financial Instruments: Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement*
- Transactions with an employee in his/her capacity as a holder of equity instruments.

- IFRS 2 also applies to transfers by shareholders to parties (including employees) that have transferred goods or services to the entity. This would include transfers of equity instruments of the entity or fellow subsidiaries by the entity's parent entity to parties that have provided goods and services
- IFRS 2 also applies when an entity does not receive any specifically identifiable good/services.

RECOGNITION

- Recognise the goods or services received or acquired in a share-based payment transaction when the goods are obtained or as the services are received
- Recognise an increase in equity for an equity-settled share-based payment transaction
- Recognise a liability for a cash-settled share-based payment transaction
- When the goods or services received or acquired do not qualify for recognition as assets, recognise an expense.

MEASUREMENT

EQUITY-SETTLED

Transactions with employees

- Measure at the fair value of the equity instruments granted at grant date
- The fair value is never remeasured
- The grant date fair value is recognised over the vesting period.

Transactions with non-employees

- Measure at the fair value of the goods or services received at the date the entity obtains the goods or receives the service
- If the fair value of the goods or services received cannot be estimated reliably, measure by reference to the fair value of the equity instruments granted.

CHOICE OF SETTLEMENT

Share-based payment transactions where there is a choice of settlement

- If the counterparty has the right to choose whether a share-based payment transaction is settled in cash or by issuing equity instruments, the entity has granted a compound instrument (a cash-settled component and an equity-settled component)
- If the entity has the choice of whether to settle in cash or by issuing equity instruments, the entity shall determine whether it has a present obligation to settle in cash and account for the transaction as cash-settled or if no such obligation exists, account for the transaction as equity-settled.

CASH-SETTLED

Cash-settled share-based payment transactions

- Measure the liability at the fair value at grant date
- Re-measure the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period
- Liability is recognised over the vesting period (if applicable).

VESTING CONDITIONS

Performance condition – requires counterparty to:

- complete a specified period of service (i.e. service condition); and
- fulfil specified performance targets while rendering the service.

The period of service cannot extend beyond the end of the service period and may start before commencement of the service period if it is not substantially before the start of the service period.

Performance targets are either defined with reference to a:

Market condition

Market condition – performance condition, upon which the exercise price, the vesting or exercisability of an equity instrument depends, that is related to the market price of the entity's equity instruments (including share options) or those of another entity within the group.

- Included in grant date fair value calculation
- No adjustment to the number of shares or vesting date amount for actual results.
- Requires counterparty to complete a specified period of service.

Non-market condition

Relates to operations of the entity or an entity within the group.

Service condition – requires the counterparty to complete a specified period of service.

A performance target is not required to be met.

- Excluded from grant date fair value calculation
- Adjustment to the number of shares and/or vesting date amount for actual results.

NON-VESTING CONDITIONS

- Included in the grant date fair value calculation
- No adjustment to the number of shares or vesting date amount for actual results.

GROUP SETTLED SHARE-BASED PAYMENTS

An entity that receives goods or services (receiving entity) in an equity-settled or a cash-settled share-based payment transaction is required to account for the transaction in its separate or individual financial statements.

- The entity receiving the goods or services recognises them, regardless of which entity settles the transaction, this must be on an equity-settled or a cash-settled basis assessed from the entities own perspective (this might not be the same as the amount recognised by the consolidated group)
- The term 'group' has the same definition as per IFRS 10 *Consolidated Financial Statements* that it includes only a parent and its subsidiaries.

For further information about how BDO can assist you and your organisation, please get in touch with one of our key contacts listed below. Alternatively, please visit www.bdointernational.com/Services/Audit/IFRS/IFRS Country Leaders where you can find full lists of regional and country contacts.

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