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## Amendments to IFRS 2 *Share-based Payment*

*Project Updates are provided for the information and convenience of constituents who wish to follow the IASB's deliberations. All conclusions reported are tentative and may be changed as the project develops.*

### Introduction

In December 2007, the Amendments to IFRS 2 were approved by the Board. The Amendments were published on 17 January 2008 and the new requirements come into effect on 1 January 2009, although earlier adoption is permitted.

This project report is structured as follows:

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### Objective

1. IFRS 2 describes vesting conditions as including service conditions and performance conditions but is silent on whether other features of a share-based payment transaction are vesting conditions.
2. IFRS 2 also specifies the accounting treatment when an entity cancels a grant of equity instruments. However, it does not state how cancellations by a party other than the entity should be accounted for.
3. The original objective of the project is to amend IFRS 2 *Share-based Payment* to clarify the definition of vesting conditions and provide guidance on the accounting treatment of cancellations by parties other than the entity.
4. In light of the comment letters received the Board has also agreed to include clarification of the definition of vesting conditions and the treatment of all non-vesting conditions. In addition, the Board agreed to include some additional Implementation Guidance to clarify the requirements.

### Next Steps

5. The next due process step is IASB approval of the issue of the final Amendment by vote and publication of the final Amendment.

6. A final amendment is expected to be published by the first quarter of 2008.

## Background

7. The International Financial Reporting Interpretations Committee (IFRIC) initially considered these issues in its draft Interpretation D11 Changes in Contributions to Employee share Purchase Plans, which was published for comment in December 2004. However, the IFRIC was unable to reach a consensus and the issues were referred to the Board.
8. At the April IASB meeting, the Board agreed that these issues should be clarified and the Exposure Draft of the proposed amendment to IFRS 2 was published for comment on 2 February 2006.
9. The Exposure Draft proposed the following:
  - a. Vesting conditions are restricted to service conditions and performance conditions;
  - b. Cancellations by parties other than the entity will be accounted for in the same way as cancellations by the entity (paragraph 28 of IFRS 2); and
  - c. The amendments above will be applied retrospectively in annual periods beginning on or after 1 January 2007.
10. The comment period closed on 2 June and just over 50 comment letters were received. Most respondents agreed with the restriction of vesting conditions to service and performance conditions only. However some respondents asked for further clarification of the definition of a performance condition.
11. However, the proposed treatment of cancellations has been a controversial issue. Almost 50% of respondents were supportive of the proposed amendments. However a small majority disagreed with the proposed treatment of cancellations either on the grounds that all cancellations are not the same in substance or because cancellations by employees in certain types of plans should be treated differently.
12. At the July meeting, the Board reaffirmed its proposal to restrict vesting conditions to service conditions and performance conditions and to require the same accounting treatment for all cancellations. However, noting that the rationale for the amendment was given in the Basis for Conclusions, the Board asked the staff to consider revising the definition of a vesting condition in the standard to incorporate the information currently given in the Basis.
13. The Board also asked the staff to propose a definition of a performance condition, and to clarify the categorisation of conditions that affect whether an equity instrument could be received by a counterparty. In particular, the Board asked the staff to clarify the treatment of non-compete provisions.
14. Finally, the Board asked the staff to explore whether there might be some types of events that are not one of the stated possible events under IFRS 2 and that might, therefore, require an accounting treatment, different from that of a lapse, forfeiture or cancellation.

*Distinguishing between vesting conditions and other features of a share-based payment transaction*

15. The Board noted that the Basis for Conclusions to IFRS 2 describes vesting conditions as those conditions that ensure that the counterparty provides the services required to 'pay' for the equity instruments issued.
16. The Board acknowledged that additional features, such as a contribution requirement or a requirement to hold an initial grant of shares, may constitute terms that must be satisfied in order for the equity instrument to be issued to the counterparty. These additional features are taken into account in the measurement of the fair value of the equity instrument. However, they are not vesting conditions because they do not ensure that the counterparty provides the services required to 'pay' for the equity instruments.
17. The Board also asked the staff to propose a definition of a performance condition. In particular, the Board asked the staff to clarify the treatment of non-compete provisions.

*Accounting treatment for cancellations by parties other than the entity*

18. The Board noted the following key points:
  - The fair value of the equity instrument takes into account all the factors that a knowledgeable, willing market participant would take into account at the grant date, including the probability that counterparties will cancel their participation in a plan;
  - Suitable non-arbitrary and unambiguous criteria to distinguish between a cancellation by a counterparty and a cancellation by the entity do not exist at present and developing such criteria would be a difficult and lengthy process. The Board was not convinced that the potential improvement in financial reporting would be commensurate with the resources that would be required;
  - Also, requiring more than one method of accounting for cancellations would create incentives for structuring transactions to achieve a desired accounting result, particularly because the different methods being considered (ie the acceleration of expense method and the continuation of expense method) produce significantly different accounting results. Therefore the Board concluded that cancellations by a counterparty should be treated the same as a cancellation by the entity.
  - The Board also noted that cancellations or settlements by an entity are economically equivalent to cancellations or settlements by a third party on the entity's behalf and should therefore receive the same accounting treatment.
19. Therefore, the Board concluded that cancellations by parties other than the entity should be treated in the same way as a cancellation by the entity.

*Treatment of non-vesting conditions and accounting for SAYE and similar plans*

20. The Board also agreed the staff proposal to include some additional information in the Implementation guidance to clarify the categorisation of all the conditions (vesting conditions and non-vesting conditions) that affect whether an equity instrument could be received by a counterparty.

21. Finally, the Board noted that it is possible that SAYEs and similar plans indicate that there are some types of events, the accounting treatment of which is not adequately specified under IFRS 2. The Board asked the staff to explore whether, for example, when an employee exercises a choice to stop making contributions to an SAYE, this should be accounted for differently from a lapse, forfeiture or cancellation (the only options currently specified under IFRS 2).
22. At the October meeting, the Board agreed that failure to meet a non-vesting condition when the counterparty can choose whether that condition is met shall be treated the same as a cancellation. In particular, cessation of contributions to an SAYE plan should be treated as a cancellation. There shall be no change to the accounting on failure to meet non-vesting conditions when neither the counterparty nor the entity can choose whether the condition is met. In this case, the entity shall continue recognising the expense over the remainder of the vesting period.
23. The Board also agreed to finalise its proposals in respect of vesting conditions and cancellations and, further, to clarify the following:
- Definition of vesting conditions
  - The accounting treatment of non-vesting conditions
  - The accounting treatment for SAYE plans

The Board also agreed to include some additional Implementation Guidance in the final Amendment to clarify its proposals.

24. The first pre-ballot draft of the final amendment was issued for fatal flaw review on Thursday 23 November 2006.
25. As a result of this review, the Board decided, at the January 2007 meeting, to clarify in the Standard that performance conditions must require an explicit or implicit service requirement. The Board also asked the staff to include a flowchart in the Implementation Guidance to help with the evaluation of whether a condition is a service condition, performance condition or non-vesting condition.

#### *Comparison with US GAAP*

26. At the May 2007 meeting, the Board acknowledged that the clarification in the amendment highlights some of the existing divergences between IFRS 2 and SFAS 123(R), particularly with respect to the treatment of non-vesting conditions. However, the Board noted that these differences are not new and were not created by the amendment. Therefore, the Board directed the staff to prepare a ballot draft of the Amendment, subject to any further editorial changes.

#### *Effective date and transition requirements*

27. The Board agreed an effective date of 1 January 2008 with retrospective application. Earlier application is encouraged.

#### *Ballot Draft*

28. A ballot draft was issued on 23 May. The deadline for returning ballot forms is 15 June.

*Post Ballot draft deliberations*

29. The Board has asked the staff to clarify how the grant date should be determined under IFRS 2 and also to reconsider whether the Amendment should be finalised in independently of any further work on the determination of the grant date.
30. At the November 2007 meeting, the Board acknowledged that there was no indication that the amendment will create any new implementation difficulties for IFRS 2 or new divergence from SFAS 123(r). Furthermore, the amendment is already in the final stages of the publication due process. Therefore the Board directed the staff to proceed with the finalisation of the Amendment.

*Stage 8: Publication of the Amendment*

31. The Board approved the ballot draft of the Amendment in December 2007. A final amendment was published on 17 January 2008. The new requirements come into effect on **1 January 2009**, although earlier adoption is permitted.

**Contact information**

32. Staff contacts
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