



**International
Accounting Standards
Board**

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Note: These notes are based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting: March 2006, London

Project: IFRS 2 Share-based Payment - Share plans with cash alternatives at the discretion of employees – grant date and vesting periods (Agenda Paper 10(ii))

Introduction

1. There are a number of bonus plans that provide employees with a choice of having cash at one date or shares at a later date.
2. For example,
 - On 1 January 20X1, Company X entered into a bonus arrangement with its employees. The terms of the arrangement allow the employees to choose on 31 March 20X2 either (1) a cash payment based on between 25 and 50 per cent of the employees' salary on 31 March 20X2 (the exact percentage would depend on Company X's profitability) or (2) a certain number of shares with value equivalent to 150% of the cash payment.

- If, on 31 March 20X2, the employees choose to have shares instead of a cash payment, they are required to work for Company X for a further three years and shares would be delivered to them on 30 March 20X5.
3. The issue is how IFRS 2 should be applied to such a share plan. In particular, assuming that the transaction is a share-based payment transaction in accordance with IFRS 2, the questions that arise are (1) when the grant date is and (2) what the vesting period is.

Recommendation

Question 1: When is the grant date?

4. IFRS 2 Appendix A defines “grant date” as the date at which the entity and another party (including an employee) agree to a share-based payment arrangement, being when the entity and the counterparty have a shared understanding of the terms and conditions of the arrangement. At grant date the entity confers on the counterparty the right to cash, other assets, or equity instruments of the entity, provided the specified vesting conditions, if any, are met. If that agreement is subject to an approval process, grant date is the date when that approval is obtained.
5. The staff believes that the grant date in the example set out in paragraph 2 of this agenda paper should be 1 January 20X1. On 1 January 20X1, both Company X and the employees understood the terms and conditions of the arrangement, including the formula that would be used to determine the amount of settlement.
6. An alternative view is that the grant date may be 31 March 20X2 because the employees do not know exactly how much the cash payment would be or how many shares would be offered until 31 March 20X2.
7. The staff does not agree with this view. The phrase “a shared understanding of the terms and conditions of the arrangement” does not require that all parties know the exact amount to be paid or the exact number of shares to be delivered. For example, on 1

January 20X1, Company A entered into an arrangement with its employees whereby Company A would issue shares to them on 31 December 20X1. The number of shares that would be delivered to the employees depended on Company A's profitability for the year ended 31 December 20X1. Since all parties involved understood the terms on 1 January 20X1, 1 January 20X1 should be viewed as the grant date, not 31 December 20X1.

8. In addition, since the terms of each bonus arrangement vary, the staff believes that the determination of "grant date" is a matter of fact and the management should determine grant date based on the terms and conditions of each bonus arrangement. Therefore, the staff recommends that the question in connection with the determination of grant date should not be taken onto the agenda.

Question 2) What are the vesting periods for the equity component and debt component of the transaction?

9. IFRS 2.38 states that the entity shall account separately for the goods or services received or acquired in respect of each component of the compound financial instrument. The debt component shall be accounted for in accordance with the requirements applying to cash-settled share-based payment transactions. The equity component shall be accounted for in accordance with the requirements applying to equity-settled share-based payment transactions.
10. Therefore, the staff believes that the vesting period for the equity component and that of the debt component should be considered separately.
11. IFRS 2 Appendix A defines "vesting period" as the period during which all the specified vesting conditions of a share-based payment arrangement are to be satisfied. "Vesting conditions" are conditions that must be satisfied for the counterparty to become entitled to receive cash, other assets or equity instruments of the entity, under a share-based payment arrangement.

12. For the debt component, the vesting period is 1.25 years. For the equity component, because employees are entitled to shares only if they complete a 4.25-year service period, the vesting period should be 4.25 years. The staff notes that the requirements of IFRS 2 in respect of the determination of vesting periods are clear and does not recommend that the issue should be taken onto the IFRIC agenda.

13. The Agenda Committee recommends that the issue should not be taken onto the agenda.
[Last sentence deleted].