STAFF PAPER

November 2015

REG IASB Meeting

IFRS IC meeting: July 2015

Project	**Narrow-scope amendment—IFRS 2 (ED/2014/5) Classification and Measurement of Share-based Payment Transactions**
Paper topic	Suggested wording for the amendments to IFRS 2

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Purpose of this paper

1. The objective of this paper is to illustrate the recommendations set out in Agenda Paper 12A of November 2015. The amendments to the proposals in the ED have been marked-up.

2. Editorial comments on the draft wording should be sent to the staff outside of the meeting.

Question to the IASB

Question to the IASB
Does the IASB have any comments on the suggested wording of the proposed amendments to IFRS 2 as presented in **Appendix A** of this paper?

Appendix A—Suggested wording for the proposed amendments to IFRS 2

A1. The proposed amendment to IFRS 2 that was presented in the ED is reproduced below along with our proposed changes, which have been tracked.

~~Proposed a~~Amendments to IFRS 2 *Share-based Payment*

Paragraphs 19, 30 and 33 are amended and paragraphs 29A, 33A–33H, 51(c)~~D~~ and 63D–63G ~~-~~are added. Headings before paragraphs 33, 33A and ~~33D~~ 33E are added. New text is underlined. Paragraphs 31–32 have~~s~~ not been amended but are~~is~~ included for ease of reference.

Treatment of vesting conditions

19 A grant of equity instruments might be conditional upon satisfying specified vesting conditions. For example, a grant of shares or share options to an employee is typically conditional on the employee remaining in the entity's employ for a specified period of time. There might be performance conditions that must be satisfied, such as the entity achieving a specified growth in profit or a specified increase in the entity's share price. Vesting conditions~~,~~ (other than market conditions and non-vesting conditions), shall not be taken into account when estimating the fair value of the shares or share options at the measurement date. Instead, vesting conditions (other than market conditions and non-vesting conditions) shall be taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognised for goods or services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Hence, on a cumulative basis, no amount is recognised for goods or services received if the equity instruments granted do not vest because of failure to satisfy a vesting condition, eg the counterparty fails to complete a specified service period, or a performance condition is not satisfied, subject to the requirements of paragraph 21.

Cash-settled share-based payment transactions

29A The requirements in paragraphs 30–33D apply to all cash-settled share-based payment transactions. Share-appreciation rights are an example of cash-settled share-based payment transactions as mentioned in paragraph 31 of IFRS 2.

30 For cash-settled share-based payment transactions, the entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability (subject to the requirements of paragraphs 32–33D~~C~~). Until the liability is settled, the entity shall remeasure the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

…

31 For example, an entity might grant share appreciation rights to employees as part of their remuneration package, whereby the employees will become entitled to a future cash payment (rather than an equity instrument), based on the increase in the entity's share price from a specified level over a specified period of time. Alternatively,~~Or~~ an entity might grant to its employees a right to receive a future cash payment by granting to them a right to shares (including shares to be issued upon the exercise of share options) that are redeemable, either mandatorily (eg upon cessation of employment) or at the employee's option.

32 The entity shall recognise the services received, and a liability to pay for those services, as the employees render service. For example, some share appreciation rights vest immediately, and the employees are therefore not required to complete a specified period of service to become entitled to the cash payment. In the absence of evidence to the contrary, the entity shall presume that the services rendered by the employees

in exchange for the share appreciation rights have been received. Thus, the entity shall recognise immediately the services received and a liability to pay for them. If the share appreciation rights do not vest until the employees have completed a specified period of service, the entity shall recognise the services received, and a liability to pay for them, as the employees render service during that period.

~~Effects of conditions on the measurement of a cash-settled share-based payment~~

33 The liability shall be measured, initially and at the end of each reporting period until settled, at the fair value of the share appreciation rights, by applying an option pricing model, taking into account the terms and conditions on which the share appreciation rights were granted, and the extent to which the employees have rendered service to date.

Effects of vesting and non-vesting conditions on the measurement of a cash-settled share-based payment

33A A grant of cash-settled share-based payments might be conditional upon satisfying specified vesting conditions. For example, a grant of share appreciation rights to an employee could be conditional on the employee remaining in the entity's employment for a specified period of time. There might be performance conditions that must be satisfied, such as the entity achieving a specified growth in profit or a specified increase in the entity's share price. Vesting conditions~~,~~ (other than market conditions and non-vesting conditions), shall not be taken into account when estimating the fair value of the cash-settled share-based payment at the measurement date. Instead, vesting conditions (other than market conditions and non-vesting conditions) shall be taken into account by adjusting the number of awards included in the measurement of the transaction amount so that, ultimately, the amount recognised for goods and services received as consideration for the awards granted shall be based on the number of awards that eventually vest and are settled.

33B To apply the requirements in paragraphs ~~33~~33A, the entity shall recognise an amount for the goods or services received during the vesting period. That amount shall be based on the best available estimate of the number of awards that are expected to vest. It shall revise that estimate, if necessary, if subsequent information indicates that the number of awards that are expected to vest differs from previous estimates. On the vesting date, the entity shall revise the estimate to equal the number of awards that ultimately vested.

33C Market conditions, such as a target share price upon which vesting (or exercisability) is conditioned, as well as non-vesting conditions, shall be taken into account when estimating the fair value of the cash-settled share-based payment granted and when remeasuring the fair value of the awards at the end of each reporting period and at the date of settlement.

~~33C~~33D As a result of applying paragraphs 30–33C~~B~~, the cumulative amount ultimately recognised for goods or services received as consideration for the cash-settled share-based payment is equal to the cash paid.

Classification of share-based payment transactions with net settlement features regarding tax withholding obligations

33E~~D~~ An entity may be obliged by tax laws or regulations to withhold an amount for an employee's tax obligation associated with share based payments and transfer the amount, normally in cash, to the taxation authorities. To fulfil this obligation the terms of some employee share-based payment arrangements permit or require the entity to deduct from the total number of equity instruments, which would otherwise be issued to the employee upon exercise (or vesting) of the share-based payment, the number of equity instruments needed to equal the monetary value of the statutory tax withholding obligation. This particular type of share-based payment with a net settlement feature shall be accounted for, in its entirety, in accordance with the requirements in IFRS 2 that apply to equity-settled share-based payment transactions.

33F The requirement in paragraph 33E applies ~~In such cases,~~ if, in the absence of such an obligation to withhold and settle an employee's tax obligation~~a net settlement feature~~, the entire share-based payment transaction would have been classified as an equity-settled share-based payment. ~~, the share-based payment that includes a net settlement feature shall be accounted for, in its entirety, in accordance with the requirements that apply to equity-settled share-based payment transactions in paragraphs 10–29.~~

33G If there is a difference between the compensation cost recognised during the vesting period and the amount of cash paid to the tax authority, this difference shall be accounted for in accordance with paragraph 29 of IFRS 2.

33H An ~~If~~ entity might have withheld a higher number of equity instruments ~~withheld is more~~ than the number of equity instruments needed to equal the monetary value of the statutory tax withholding obligation. In such a case, after the vesting period, an entity should reverse the amount recognised in equity for the shares withheld in excess and account for this excess as a cash-settled share-based payment (if such an amount was paid in cash or other assets to the employee). ~~required to satisfy the tax obligation associated with the share-based payment, and this excess is paid in cash or other assets, that payment shall be accounted for as a cash-settled share-based payment~~.

…

51 To give effect to the principle in paragraph 50, the entity shall disclose at least the following:

(a)…

(b)…

(c) the estimated amount of cash that an entity will pay in connection with the withholding of the employee's tax obligation in a share-based payment transaction, indicating when such an amount of cash is expected to be paid.

Effective date

…

63D [Draft] *Classification and Measurement of Share-based Payment Transactions* (Amendments to IFRS 2), issued in [date to be inserted after exposure], amended paragraphs 30 and 33 and added paragraphs 29A, 33A–33H~~D~~, 51(c), 63E–63G and B44~~1~~A–B44~~1~~B and their related headings. An entity shall apply those amendments ~~prospectively~~ to new and outstanding (non-vested) share~~-~~based payments for annual periods beginning on or after [date to be inserted]. An entity shall not make adjustments to comparative information, except when applying the guidance in paragraph 63F.

63E The transition guidance shall be applied as follows:

(a) Modifications that change the classification from cash-settled to equity-settled: the new accounting would apply to the modifications that occur after the date the amendments are first applied.

(b) Cash-settled share-based payments that are subject to vesting and non-vesting conditions: an entity shall adjust the carrying amount of the liability in the statement of financial position in the period of change on the date the amendment is first applied, and recognise the effect of the change in retained earnings (or another appropriate component of equity) at the beginning of the annual period in which the amendment is first applied.

(c) Awards with net settlement features: an entity shall reclassify the current carrying value of the liability to equity for those awards (or components of awards) that were accounted for as cash-settled awards but that now meet the criteria to be accounted for as equity-settled awards. This reclassification shall be recognised in equity at the beginning of the annual period in which the amendment is first applied.

63F ~~However, an~~An entity may instead apply the amendments retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provided that the entity has the information necessary to do so and this information is available without the use of hindsight.

63G Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

In Appendix B, paragraphs B4~~41~~A–B4~~41~~B and their related heading are added. New text is underlined.

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

B4~~41~~A If the terms and conditions of a cash-settled share-based payment transaction are modified during or outside the vesting period in such a way that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled share-based payment transaction from the date of the modification. The equity-settled share-based payment transaction is recognised to the extent that services have been rendered up to the modification date and measured at the fair value of the equity instruments granted as of the modification date. The portion of the equity-settled share-based payment transaction for which goods or services have been received is recognised as an increase in equity. The liability for the cash-settled share-based payment transaction is derecognised and any difference between the amount of the liability derecognised and the amount of equity recorded (on the basis of the services rendered up to the modification date) is recognised immediately in profit or loss. If, as a result of the modification the vesting period is extended or shortened, the accounting for the modification in accordance with this paragraph should reflect the modified vesting period.

B4~~41~~B A cash-settled share-based payment may be cancelled or settled (other than a grant that is cancelled by forfeiture when the vesting conditions are not satisfied). If equity instruments are granted and, on the date when those equity instruments are granted, the entity identifies them as replacement equity instruments for the cancelled cash-settled share-based payment, the entity shall account for the granting of the replacement equity instruments in accordance with the guidance in paragraph ~~B41A~~B44A.

~~Proposed a~~Amendments to the Guidance on implementing IFRS 2 *Share-based Payment*

Paragraph IG19 is amended and paragraphs IG19A –IG19B are~~is~~ added. ~~and~~ IG Example 12A, ~~and~~ IG Example 12B and IG Example 12C are~~is~~ added.~~.~~ Deleted text is struck through and new text is underlined.

Cash-settled share-based payment transactions

…

IG19 For example, an entity might grant share appreciation rights to employees as part of their remuneration package, whereby the employees will become entitled to a future cash payment (rather than an equity instrument), based on the increase in the entity's share price from a specified level over a specified period of time. If the share appreciation rights do not vest until the employees have completed a specified period of service, the entity recognises the services received, and a liability to pay for them, as the employees render service during that period. The liability is measured, initially and at the end of each reporting period until settled, at the fair value of the share appreciation rights, on the basis of paragraphs 33–33C of IFRS 2, by applying an option pricing model, and the extent to which the employees have rendered service to date. Changes in fair value are recognised in profit or loss. Therefore, if the amount recognised for the services received was included in the carrying amount of an asset recognised in the entity's statement of financial position (eg inventory), the carrying amount of that asset is not adjusted for the effects of the liability remeasurement. Example 12 illustrates these requirements~~.~~ when a cash-settled share-based payment transaction is subject to the completion of a service condition. Example 12A illustrates these requirements when a cash-settled share-based payment transaction is subject to the attainment of a non-market performance condition.

IG Example 12
…

IG Example 12A

Background

An entity grants 100 cash-settled share appreciation rights (SARs) to each of its 500 employees on the condition that the employees remain in its employment for the next three years and the entity reaches a revenue target (CU1 billion in sales) by the end of Year 3.

For simplicity, it is assumed that no employees are expected to leave and that none of the employee compensation is capitalised as part of the cost of an asset.

During Year 1, the entity ~~estimates~~ expects ~~a 40 per cent probability~~ that the revenue target will not be ~~attained~~ achieved by~~at~~ the end of Year 3. During Year 2, the entity's revenue increased significantly and it expects that it will continue to grow. Consequently, the entity expects~~estimates a 70 per cent probability~~ that the revenue target will be achieved~~attained at~~ by the end of Year 3.

At the end of Year 3, the revenue target was ~~attained~~ achieved and 150 employees exercise their SARs, another 150 employees exercise their SARs at the end of Year 4 and the remaining 200 employees exercise their SARs at the end of Year 5.

Using an option pricing model, the entity estimates the fair value of the SARs, ignoring the revenue target performance condition, at the end of each year until the cash-settled share-based payments are settled. At the end of Year 3, all SARs held by the employees vest. The intrinsic values of the SARs at the date of exercise (which equals the cash paid out) at the end of Years 3–5 are also shown in the following table.

IG Example 12A

Year	Fair value of one SAR	Intrinsic value of one SAR
1	CU14.40	–
2	CU15.50	–
3	CU18.20	CU15.00
4	CU21.40	CU20.00
5	–	CU25.00

Application of requirements	Number of employees expected to satisfy the service condition	Best estimate of whether the ~~profit~~ revenue target will be met
Year 1	500	No
Year 2	500	Yes
Year 3	500	Yes

Year	Calculation		Expense	Liability
			CU	CU
1	SARs are not expected to vest~~Vesting is not probable~~: no expense is recognised	–	–	–
2	SARs are expected to vest~~Vesting is probable~~: 500 employees × 100 SARs × CU15.50 × ⅔	–	516,667	516,667
3	SARs are expected to vest ~~Vesting is probable~~: (500—150) employees × 100 SARs × CU18.20—CU516,667	120,333	–	637,000
	+ 150 employees × 100 SARs × CU15.00	225,000	–	–
	Total	–	345,333	–
4	(350—150) employees × 100 SARs × CU21.40—CU637,000	(209,000)	–	428,000
	+ 150 employees × 100 SARs × CU20.00	300,000	–	–
	Total	–	91,000	–
5	CU0—CU428,000	(428,000)	–	–
	+ 200 employees × 100 SARs × CU25.00	500,000	–	–
	Total	–	72,000	–
	Total	–	1,025,000	–

Classification of share based payment transactions with net settlement features

IG19A Paragraph 33E specifies that if the entity settles the share-based payment arrangement net by withholding a specified portion of the equity instruments to meet the statutory tax withholding obligation, then the transaction should be classified as equity-settled in its entirety, if the entire share-based payment would otherwise have been classified as equity-settled if it had not included the net settlement feature. Example 12B illustrates these requirements.

IG Example 12B

Background

On 1 January -20X1~~0~~ Entity A grants an award of 100 shares to one of its employees subject to a four-year service condition. Entity A expects that the employee will complete the service period. The employee's tax associated with the award is calculated based on the fair value of the shares on the vesting date. The entity is obliged by the tax law to withhold an amount of the tax, and immediately remit to the tax authority, in cash, the amount of the tax withheld. On 31 December 20X1, Entity A expects that the tax rate applicable to the employees will be 40 per cent.

At grant date, the fair value of each share is CU2. The fair values of each ~~free~~ share subsequent to the grant date are:

~~31 December X1: CU4~~
31 December X2: CU5~~3~~
31 December X3: CU8~~2~~
31 December X4: CU10

Entity A settles the transaction net by issuing a reduced number of shares to the employee to meet the entity's tax withholding obligation. Accordingly, on the ~~exercise~~vesting date, Entity A issues 60 shares to the employee and remits CU400 (100 shares × CU10 × 40%) to the taxation authority on behalf of the employee. Consequently, it is assumed that all the vested shares were issued to the employee and at the same time 40 shares were repurchased by Entity A.

Entity A pays the amount of the employee's tax obligation from its own cash resources.

Application of requirements

Year	Calculation	Expense for ~~the~~ period CU	Equity CU	Liability CU
X1	100 shares × CU2 × $^{1}/_{4}$	50	(50)	0
X2	100 shares × CU2 × $^{2}/_{4}$ —CU50	50	(50)	0
X3	100 shares × CU2 × $^{3}/_{4}$ —(CU50 + CU50)	50	(50)	0
X4	100 shares × CU2 × $^{4}/_{4}$ —(CU50 + CU50 + CU50)	50	(50)	0
	Total	200	200	

The ~~accounting for the cash payment to the tax authority would be as follows~~journal entries recorded by the entity are as follows:

During the vesting period

Compensation cost recognised over the vesting period for 100 shares

Dr Expense 200
Cr Equity 200

After vesting period

Recognition of the tax liability

Dr Equity 400
Cr Liability 400

Cash paid to the tax authority at the date of settlement

Dr Liability 400
Cr Cash 400

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

IG19B An entity may modify the terms and conditions of a cash-settled share-based payment transaction. The effects of the modification on the fair value of the liability are recognised in profit or loss as part of the remeasurement of the liability at each reporting date as required by paragraph B44A of IFRS 2. The modifications of the terms and conditions of the cash-settled share-based payment transaction might involve a change in the settlement method of the share-based payment transaction. The following example illustrates the application of IFRS 2 to modifications of the terms and conditions of a share-based payment transaction that results in the share-based payment transaction being ~~settled~~cancelled and replaced by a ~~promise to issue~~grant of equity instruments.

IG Example 12C

Background

On 1 January 20X1 an entity grants 100 share appreciation rights (SARs) to 100 employees on the condition that the employee will remain in its employment for the next four years. ~~The entity estimates that the fair value of the SARs is CU10 and therefore, the value of the original grant is CU100,000..~~

On 31 December 20X1 the entity estimates that the fair value of each SARs is CU10 and consequently, the total value of the original cash-settled award is CU100,000. On 31 December 20X2 the fair value of each SAR is CU12, so the total fair value of the original cash-settled award is CU120,000.

On 31 December ~~At the end of~~ 20X2~~,~~ the entity cancels the grant of the SARs and in its place grants 100 share options ~~options~~ to each employee on the condition that each employee remains in its employment for the next two years. On this date the fair value of the share options is ~~each with a fair value of~~ CU13.20 each with the ~~for a~~ total fair value of the new grant being CU132,000 ~~(ie with an incremental fair value of CU12,000) on the condition that the employee remains in its employment for the next year~~. The fair value of the share option remains the same until the end of 20X4.

~~On 31 December 20X2 the fair value of each SAR is CU12, so the total fair value of the original cash-settled award is CU120,000.~~

Application of requirements

At the modification date (31 December 20X2), t~~T~~he entity ~~identifies the grant of the share options as the replacement share-based payment for the SARs~~accounts for this modification in accordance with~~.~~ paragraph B44A. ~~Hence, the original cash-settled share-based payment is considered to be settled by the grant of share options.~~

Accordingly:

(a) from the date of the ~~the~~ modification, the share-based payment transaction is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification;
(b) upon the modification, the liability recognised in respect of the original cash-settled share-based payment

is derecognised upon the modification, and the equity-settled share-based payment is recognised to the extent that the services have been rendered up to the modification date; and
(c) the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recognised in profit or loss immediately.

On 31 December 20X2, t ~~fair value of the equity-settled award (adjusted to reflect the) is compared to the fair value of the cash-settled award (adjusted to reflect the extent to which service has been received) and any difference between the amount of the liability derecognised and the amount of equity recorded is recognised immediately in profit or loss at the date of the modification.~~
he entity determines that the difference between the fair value of the equity-settled replacement award (CU132,000 × 2/4 = CU66,000) and the fair value of the cash-settled original award (CU120,000 × 2/4 = CU60,000) is CU6,000. This difference is recognised immediately in profit or loss (as an expense) at the date of the modification, with a corresponding credit to equity.

The remainder of the fair value of the equity-settled share-based payment is recognised in profit or loss over the remaining two-year vesting period from the date of the modification.

Year	Calculation	Expense for the period CU	Cumulative expense CU	Equity CU	Liability CU
1	100 employees ×100 SARs x CU10 × 1/4	25,000			25,000
2	*Remeasurement before the modification* 100 employees x 100 SARs × CU12.00 × 2/4—25,000	35,000	60,000		35,000
	Reclassification of the liability to equity and recognition of the effect of settlement for CU6,000 (100 employees x 100 SARs × CU13.20 × 2/4)—(100 employees × ~~x~~ 100 SARs × CU12.00 × 2/4)	6,000	66,000	66,000	(60,000)
3	100 employees × 100 ~~SARs~~share options × CU13.20 × 3/4 – CU66,000	33,000	99,000	33,000	
4	100 employees x 100 share options~~SARs~~ × CU13.20 × 4/4 – CU99,000	33,000	132,000	33,000	
	Total			132,000	0

Basis for Conclusions on the ~~proposed~~ amendments to IFRS 2 *Share-based Payment*

Effects of vesting conditions on the measurement of a cash-settled share-based payment

BC371 The International Accounting Standards Board (IASB) received a request regarding the accounting under IFRS 2 *Share-based Payment* for cash-settled share based payment transactions that include a performance condition.

BC372 The IASB noted that IFRS 2 requires the use of fair value as a principle in measuring share-based payment transactions. The IASB observed that paragraphs 19–21A of IFRS 2 provide guidance on the measurement of the fair value of equity-settled share-based payment transactions that include vesting and non-vesting conditions. The IASB also observed that in the case of cash-settled share-based payment transactions, paragraph 33 of IFRS 2 requires an entity to measure the liability, initially and at the end of each reporting period until settled, at ~~the~~ fair value. ~~of the cash-settled share-based payments.~~ The entity is required to apply an option pricing model, taking into account the terms and conditions on which the cash-settled share-based payments were granted and the extent to which the employees have rendered service to date.

BC373 However, IFRS 2 does not specifically address the impact of vesting and non-vesting conditions on the measurement of the fair value of the liability incurred in a cash-settled share-based payment transaction and it was unclear whether an entity should apply by analogy the guidance in paragraphs 19–21A of IFRS 2 for measuring equity-settled share-based payment transactions that include vesting and non-vesting conditions.

~~:~~

~~(a) by analogy to the guidance for the measurement of equity-settled share-based payment transactions that include vesting conditions, only market and non-vesting conditions should be taken into account in measuring the fair value of the cash-settled liability; or~~

~~(b) all conditions, including service and non-market performance conditions, should be taken into account in measuring that fair value.~~

BC374 The IASB observed that ~~the guidance~~ in accordance with paragraph 6A of IFRS 2, an entity is required ~~requires an entity~~ to measure fair value in accordance with IFRS 2 (and not in accordance with IFRS 13 *Fair Value Measurement*) for cash-settled and equity-settled awards.~~, which requires an entity to follow the notion of 'fair value' in IFRS 2, requires the same notion of fair value for cash-settled and equity-settled awards~~. Consistently with this requirement ~~nsequently,~~ the IASB ~~proposes to~~decided to included guidance on the impact of vesting and non-vesting conditions on the measurement of a cash-settled share-based payment transaction, based on the analogy of the accounting treatment for an equity-settled share-based payment transaction.

BC375 The IASB further observed that measuring the fair value of the liability incurred in a cash-settled share-based payment transaction by analogy to the guidance for equity-settled share-based payment transactions would be easier to apply in practice. The IASB also referred to some explanations in the Basis for Conclusions on IFRS 2, which explain why a distinction has been drawn in the accounting for different types of conditions affecting equity-settled awards. ~~I~~in this respect it referred to paragraph BC184 of IFRS 2 when it states that '~~"~~Furthermore, the practical difficulties that led the Board to conclude that non-market performance conditions should be dealt with via the modified grant date method rather than being included in the grant date valuation do not apply to market conditions, because market conditions can be incorporated into option pricing models. Moreover, it is difficult to distinguish between market conditions, such as a target share price, and the market condition that is inherent in the option itself, ie that the option will be exercised only if the share price on the date of exercise exceeds the exercise price. For these reasons, the Board concluded that the IFRS should apply the same approach as is applied in SFAS 123~~"~~'.~~and noted that the same considerations applied~~ .

~~BC375~~BC376 The IASB ~~proposes to~~ amended paragraphs 30 and 33 of IFRS 2 and added paragraphs 29A, 33A–33H~~C~~ to clarify the effect that vesting and/or non-vesting conditions have on the measurement of the liability. The IASB proposes that non-market vesting conditions shall not be taken into account when estimating the fair value of the cash-settled share-based payment and, instead, shall be taken into account by adjusting the number of awards expected to vest.

~~BC376~~BC377 The IASB further observed that a failure to satisfy any condition should trigger a remeasurement of the liability to zero through profit or loss. Consequently, the cumulative expense recognised for the cash-settled liability should be reversed for the failure to satisfy any condition.

~~BC377~~BC378 The IASB ~~also proposes to~~ amended paragraph IG19 and added IG Example 12A to the Guidance on implementing IFRS 2 to illustrate the impact of a performance condition on the measurement of a cash-settled share~~-~~-based payment transaction.

BC37~~8~~9 Respondents to the Exposure Draft *Classification and Measurement of Share-based Payment Transactions* (Proposed amendments to IFRS 2) ('the ~~'~~ED') questioned the meaning of the notion 'best available estimate' in paragraph 33A of the ED (which proposed guidance for estimating the fair value of the cash-settled share-based payment) and in paragraph 20 of IFRS 2 (which provides guidance for estimating the fair value of an equity-settled share-based payment). ~~In this respect the~~The IASB decided not to add guidance in this respect ~~noted that~~ because it observed that this is an issue that is too complex to be addressed as part of a narrow~~—~~-scope amendment to IFRS 2.~~an entity should use its judgement in determining this estimate, and could use a probability-weighted sum of the possible outcomes or a 'most likely amount' approach.~~

BC380 Respondents to the ED suggested to the IASB ~~to~~ that it should add a stand-alone requirement for the disclosure of a contingent liability when vesting is not probable and no liability is recognised (as illustrated in Example 12A in the ED). In this respect the IASB observed that the disclosure of a contingent liability when vesting is not probable is not needed because of the general requirement in paragraph 50 of IFRS 2 to 'disclose information that enables users of the financial statements to understand the effect of share-based payment transactions on the entity's profit or loss for the period and on its financial position'.

BC381 Some respondents to the ED suggested to the IASB ~~to~~that it should add examples to the implementation guidance of IFRS 2 to illustrate the effects of vesting and non-vesting conditions on the measurement of cash-settled awards. The IASB did not consider this to be necessary, because ~~as~~ it observed that the examples that illustrate the effects of vesting and non-vesting conditions on equity-settled awards (included in the implementation guidance in IFRS 2) could be applied by analogy in measuring cash-settled awards.

Classification of share-based payment transactions with net settlement features regarding tax withholding obligations

BC255A Some jurisdictions have tax laws or regulations that oblige an entity to withhold an amount for an employee's tax obligation associated with share-based payments and to transfer the amount, normally in cash, to the taxation authority. The tax withholding scheme in respect of share-based payments varies from arrangement to arrangement. However one of the common features of schemes is a net settlement feature, which permits or requires the entity to deduct from the total number of equity instruments that would otherwise be delivered to the employee the number of equity instruments needed to equal the monetary value of the statutory tax withholding obligation incurred as a result of the share-based payment transaction. The entity pays the amount withheld to taxation authorities from its own cash or other assets.

BC255B The IFRS Interpretations Committee ('the ~~'~~Interpretations Committee') received a request to address the classification of an equity-settled share-based payment transaction with such a net settlement provision. The request received by the Interpretations Committee asked whether the portion of the share-based payment that is withheld should be classified as cash-settled or equity-settled, if the entire share-based payment would otherwise have been classified as an equity-settled share-based payment transaction in the absence of the net settlement feature.

BC255C The IASB was informed that there were divergent views on this issue:

(a) View 1—each component of the share-based payment is accounted for in a manner that is consistent with the manner of settlement. The portion withheld by the entity for which the entity has incurred a liability to pay cash should be accounted for separately and be classified as a cash-settled share-based payment transaction in accordance with the manner of settlement. The portion of the share-based payment that the entity settles by the issue of equity instruments is accounted for as an equity-settled share-based payment.

(b) View 2—the entire share-based payment transaction should be classified as an equity-settled share-based payment transaction, because the net settlement should be viewed as a repurchase of a portion of the equity instruments issued to the employee (see paragraph 29 of IFRS 2).

BC255D View 1 is based on the view that the entity is fulfilling part of its obligation to settle the share-based payment for the services received from the employee in cash; this cash is transferred to the tax authority to settle the employee's tax obligation. Paragraph 34 of IFRS 2 requires that a share-based payment transaction, or components of that transaction, should be classified as cash-settled if, and to the extent that, the entity has incurred a liability to settle in cash or other assets. Accordingly, the portion withheld by the entity should be accounted for as a cash-settled share-based payment in accordance with the manner of settlement.

BC255E View 2 is based on the assumption that the entity is acting as an agent in paying cash to the taxation authorities, because the tax obligation is the employee's obligation. The share-based payment transaction is considered as being settled entirely in equity instruments with a separate, yet simultaneous, repurchase of a portion of those equity instruments. The entity then remits the cash for the repurchased equity instruments to the taxation authority on behalf of the employee to settle the employee's tax obligation.

BC255F The IASB observed that, prior to the amendments, paragraph 34 of IFRS 2 required that a transaction with net settlement features should be bifurcated into its two different components and accounted for in accordance with how each component is settled (which is consistent with View 1, as described in paragraph BC255C). Consequently, the portion for which the entity has incurred a liability to pay cash would be accounted for as a cash-settled share-based payment and the portion with which the entity settles the compensation obligation by the issue of equity instruments would be accounted for as an equity-settled share-based payment.

BC255G In supporting View 1, the IASB observed that the payment to the tax authority represents, in substance, a payment to the counterparty (ie the employee) for the services received from the counterparty, regardless of the fact that the tax authority is the one receiving the cash payment. This is because:

(a) when the entity assumes a liability to pay the amount withheld on behalf of the employee to the tax authority, the entity is acting as an agent for the employee; however,

(b) the entity is also acting simultaneously as a principal, because it is fulfilling the obligation that the entity has towards the employee (ie the counterparty) to transfer cash or other assets for the goods or services received.

BC255H Nevertheless, the IASB observed that despite View 1 reflecting the substance of the share-based payment transaction with net settlement features, the whole transaction should be classified as equity-settled in its entirety (if the entire share-based payment would otherwise have been classified as equity-settled if it had not included the net settlement feature). The IASB observed that this accounting treatment constitutes an exception to the requirements in IFRS 2 and determined that this exception should be limited to a share-based payment transaction in the situation in which a net settlement feature is used by an entity to meet statutory tax withholding obligations incurred as a result of the share-based payment transaction (as described in paragraph 33E).~~In respect of View 1, the Interpretations Committee was concerned that requiring a different classification of the portion that is withheld by the entity (that is, a classification that is different from the classification of the other portion) could cause an undue burden when applying IFRS 2.~~

BC255I The IASB decided to include the exception because it observed that ~~In reaching the view , the Interpretations Committee considered arguments that~~ applying View 1 (as described in paragraph BC255C) would impose an undue burden and constitute a significant operational challenge. This is~~,~~ because it would require an entity to estimate changes in tax laws, including changes in tax rates that affect the amount that is required to be withheld and remitted by the entity. As the estimate changes, the entity would need to reclassify a portion of the share-based payment between cash-settled and equity-settled~~.~~.

~~BC14 However, the IASB noted that other circumstances would lead to classification as a cash-settled share-based payment transaction to the extent to which the share-based payment is settled in cash in accordance with paragraph 34 of IFRS 2. For example, the classification as cash-settled would apply when there is a stated intention to purchase, or there is past practice of repurchasing, equity instruments granted in a share-based payment transaction.~~

~~BC15 To reduce the operational complexity identified, the IASB proposes adding guidance to IFRS 2 in the form of an exception to the requirements in IFRS 2. The IASB proposes that this guidance should be limited to a situation in which a net settlement feature is used by an entity to meet statutory tax withholding obligations incurred as a result of the share-based payment transaction.~~

~~BC16 The guidance proposed by the IASB specifies that a share-based payment transaction with employees in which the entity settles the share-based payment arrangement net (by withholding a specified portion of the equity instruments to meet the statutory tax withholding obligation incurred as a result of the share-based payment transaction) should be classified as equity-settled in its entirety, if the entire share-based payment would otherwise have been classified as equity-settled if it had not included the net settlement feature. The IASB noted that this approach is similar to that taken in US Generally Accepted Accounting Principles (US GAAP) and achieves further convergence with US GAAP.~~

BC255J Respondents to the Exposure Draft *Classification and Measurement of Share-based Payment Transactions* (Proposed amendments to IFRS 2) (the 'ED') observed that paragraph 33D did not specifically address the accounting for the difference between the compensation cost recognised during the vesting period and the amount of cash paid to the tax authority. In response to these concerns the IASB decided to provide specific guidance in this respect (in paragraph 33G). This paragraph states that this difference should be accounted for in accordance with paragraph 29 of IFRS 2 as a deduction from equity (except to the extent that the payment exceeds the fair value of the equity instruments repurchased, measured at the repurchase date, because in such a case any excess shall be recognised as an expense).

BC255K The IASB further observed that there could be a significant true-up adjustment (that would be recorded in equity in accordance with paragraph 29 of IFRS 2). This is because the cash payable would reflect settlement-date fair value, whereas the compensation cost recognised during the vesting period would reflect grant-date fair value. Moreover, it observed that because the adjustment in equity is not recorded until settlement date, this results in a potentially misleading representation of the cost over the vesting period. To address this concern the IASB required a disclosure of the expected withholding tax obligation (in paragraph 51(c) of IFRS 2 to indicate to users that there will be a future outflow of cash to the tax authority. It observed that such a disclosure would inform users of the amount and timing of the expected cash payment.

BC255L The IASB also received comments to the ED asking about the accounting for the circumstance in which the value of the number of shares withheld exceeds the payment to the tax authority. The IASB decided to provide specific guidance in this respect in paragraph 33H. In accordance with this guidance, when that excess amount is paid in cash or other assets, that payment should be bifurcated and accounted for as a cash-settled share-based payment.

BC255M Some respondents to the ED suggested that the IASB should clarify whether the classification exception that is applicable to the share-based payment transactions with net settlement features (in paragraphs 33E–33G) is available for other arrangements in which entities are obliged to withhold an employee's tax obligation. In this respect the IASB noted that the proposed classification exception would apply to a limited type of tax withholding arrangement in which an entity has a statutory obligation to withhold the tax associated with an employee's share-based payment (as described in paragraph 33E). It further noted that the amendment should not specify the circumstances in which the exception would not apply, because management should use its judgement in applying the guidance in paragraphs 33E–33G.

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

BC237C The IASB was asked to provide guidance for the 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 was informed that there are situations in which a cash-settled share-based payment is settled and replaced by a new equity-settled share-based payment and the replacement award has a higher fair value than the original award at the replacement date. The IASB was told that there is diversity in practice because IFRS 2 does not provide specific guidance for such situations.

BC237D The IASB decided that the principles for the modification of equity-settled share-based payments in paragraphs 27 and B42–B44 of IFRS 2 should not be applied by analogy to account for the fact pattern analysed. This is because it observed that the requirement in paragraph 27 of IFRS 2, for the recognition of a minimum amount for the share-based payment following modifications to the terms and conditions of an equity-settled share-based payment transaction, is inconsistent with the requirement in paragraph 30 of IFRS 2. Paragraph 30 of IFRS 2 requires, for a cash-settled share-based payment transaction, the remeasurement of the fair value of the liability at the end of each reporting date until the liability is settled.

~~BC237E The IASB observed that in the transaction described in paragraph BC17, the original cash-settled share-based payment is considered to be settled and replaced by the promise to issue equity instruments. In this respect, the IASB noted that at the original grant date there was a shared understanding that the entity would pay cash for services to be rendered by the counterparty. However, at the modification date, the entity and its counterparty have a new shared understanding that the entity would issue equity instruments to the counterparty.~~

BC237E Accordingly, the IASB determined that the portion of the equity-settled share-based payment transaction for which goods or services have been received is recognised as an increase in equity and is measured by reference to the modification-date fair value of the equity instruments granted. In this respect, the IASB noted that at the original grant date there was a shared understanding that the entity would pay cash for services to be rendered by the counterparty. However, at the modification date, the entity and its counterparty have a new shared understanding that the entity would issue equity instruments to the counterparty.

BC237F Furthermore, the IASB noted that the liability incurred for the original cash-settled share-based payment is considered to be settled by the granting of the equity-settled share-based payment. Hence, the liability should be derecognised as of the modification date, because the entity is no longer obliged to transfer cash or other assets to the counterparty, and the equity-settled share-based payment should be recognised to the extent that the services have been rendered up to the modification date. The IASB noted that the liability incurred for a cash-settled share-based payment is ultimately remeasured to the amount paid at the settlement date (in accordance with paragraph 30 of IFRS 2 and~~see~~ paragraph BC249 of IFRS 2). Accordingly, the liability recognised for the original cash-settled share-based payment should be remeasured at the settlement amount, which is the amount of the increase in equity.

BC237G The IASB observed that any difference between the fair value of the liability at the modification date and the fair value of the equity instruments promised in settlement should be recognised immediately in profit or loss at the date of the modification. The IASB observed that this is consistent with how cash-settled share-based payments are measured ~~Any change in the amount of the liability until the settlement should be~~

~~recognised in profit or loss~~ in accordance with paragraph 30 of IFRS 2. The IASB further observed that recognising the difference in value between the original and the new award in profit or loss is also consistent with the accounting for the extinguishment of a financial liability (that has been extinguished fully or partially by the issue of equity instruments) in paragraph 3.3.3 of IFRS 9 *Financial Instruments* and with paragraph 9 of IFRIC Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments*~~.~~ ~~Consequently, the IASB decided that any difference between the fair value of the liability at the modification date and the fair value of the equity instruments promised in settlement should be recognised immediately in profit or loss.~~

BC237H Respondents to the Exposure Draft *Classification and Measurement of Share-based Payment Transactions* (Proposed amendments to IFRS 2) ('the ~~'~~ED') questioned whether the guidance in paragraph B44~~1~~A would also apply to a situation in which the modification extends the vesting period of the share-based payment transaction. The IASB confirmed that the guidance in paragraph B44~~1~~A would be applied when the modification occurs outside or within the vesting period or when the vesting period is extended or shortened. It further noted ~~and~~ that any difference between the fair value of the liability at the modification date and the fair value of the equity instruments promised in settlement should be recognised immediately in profit or loss at the date of the modification by reference to the modified vesting period.

BC237I The IASB further noted that in identifying whether a cash-settled award (that has been cancelled or settled) has been replaced (or not) by an equity-settled award (in accordance with paragraph B44B), an entity should analyse the facts and circumstances surrounding this replacement. On the basis of this analysis, if an entity:

(a) identifies the new equity instruments as replacement for the cash-settled award, an entity should apply modification accounting in accordance with proposed paragraph B44A; and

~~(a)~~(b) does not identify the new equity instruments granted as replacement for the cash-settled award, an entity should remeasure the fair value of the cash-settled award at the date of cancellation to an amount of zero (in line with paragraph 30 of IFRS 2), reverse the cumulative expense that had been previously recognised and account for the new equity instruments as a new grant of equity instruments.

BC237J Some respondents to the ED suggested the IASB to add examples to the implementation guidance of IFRS 2 of the accounting for other types of modifications of share-based payments (for example, a modification from equity-settled to cash-settled). The IASB did not consider it necessary to include additional examples, because it observed that the implementation guidance in IFRS 2 could be applied by analogy. For instance, in this guidance, Example 9 includes an example that illustrates a grant of shares to which a cash alternative is subsequently added.

Effective date and transition

BC237K~~H~~ The IASB ~~proposes~~ decided to require the application of the ~~prospective application of the~~ three amendments ~~included in the Exposure Draft to~~ (ie that clarify the accounting for the effects of vesting conditions on the measurement of 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 classification of the transaction from cash-settled to equity-settled) ~~, for both~~to new and outstanding (ie non-vested) share-based payment transactions. The IASB also decided to permit an entity to apply all of the amendments retrospectively if the necessary information to do so is available without the use of hindsight

BC237L~~I~~ In response to the comments received on the ED, the IASB decided to provide specific guidance in paragraphs ~~63D~~ 63E~~F~~ of IFRS 2 regarding the application of the transition provisions for each of the amendments.

~~Dawards, because it will result only in changes to the timing and amount of the expense recognised at each reporting date, but will not result in changes to the cumulative expense. This is because this amount is ultimately remeasured to the amount of cash paid at the settlement date.~~

~~BC23 The IASB also proposes prospective application for the other two amendments included in the Exposure Draft ('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 classification of the transaction from cash-settled to equity-settled'). Although the IASB noted that retrospective application of these two amendments is achievable, it noted that it would be preferable for an entity to apply the same transition method for all the amendments in this Exposure Draft and that this would give better information for users. The IASB also proposes to permit an entity to apply all of the amendments retrospectively if the necessary information to do so is available without the use of hindsight~~