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#### INFORMATION FOR OBSERVERS

**Board Meeting:** 18 October 2006, London

**Project:** PROPOSED AMENDMENTS TO IFRS 2 SHARE-BASED PAYMENT

**Subject:** Vesting Conditions and Cancellations (Agenda Paper 19 APPENDIX A)  
*Vesting Conditions and Cancellations*

Summary of conditions that determine whether a counterparty may receive an equity instrument granted

|   | VESTING CONDITIONS   |  | NON-VESTING CONDITIONS   |   |  |
|---|--|--|--|---|--|
|   | Market Conditions  | Non-market Conditions  | Neither the entity or counterparty can choose whether the condition is met | Counterparty can choose whether or not to meet the condition  | Entity can choose whether or not to meet the condition |
| <b>Example Conditions</b>                             | Target based on the market price of the entity's equity instruments  | Service conditions<br><br>Success of an IPO<br><br>Specified increase in the entity's profit | Commodity index unrelated to entity's shares                               | Paying contributions to an SAYE plan<br><br>Holding an initial grant of shares for a specified period   | Continuation by the entity of the plan                 |
| <b>Include in grant-date fair value?</b>              | Yes  | No   | Yes  | Yes   | Yes*   |
| <b>Accounting treatment if fail to meet condition</b> | No change to accounting, continuation of expense over vesting period | Forfeiture   | No change to accounting, continuation of expense over vesting period       | No change to accounting, continuation of expense over vesting period, unless it cannot be demonstrated that the entity had no influence over the counterparty's decision. In this case it is treated as a cancellation by the entity. | Cancellation   |

\*In estimating the grant date fair value, the probability of the entity continuing the plan is assumed to be 100%.