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**International
Accounting Standards
Board**

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

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

INFORMATION FOR OBSERVERS

Board Meeting: 16 May 2007, London

Project: **IFRS 2 *Share-based Payment* – Vesting Conditions and Cancellations**

Subject: **Proposed amendments to IFRS 2 *Share-based Payment* – Vesting Conditions and Cancellations (Agenda paper 4B)**

BACKGROUND

1. The second pre-ballot draft of the final Amendment to IFRS 2 share-based payment *Vesting Conditions and Cancellations* was issued in March 2007.
2. The staff received some questions about whether any new divergences have been created by the Amendment between IFRS 2 and SFAS 123 (r). As discussed in Paper 4A, there are areas of divergence between IFRS 2 and SFAS 123 (r) and some of these divergences may be highlighted by the clarifications in the proposed Amendment. However, these divergences between the two standards existed previously and are not created by the Amendment. Therefore the staff recommends that the Board proceeds with finalising the Amendment.
3. The second pre-ballot draft includes some editorial changes and three small changes to the Basis for Conclusions and Implementation Guidance to clarify the Board's

intentions on the definition of vesting conditions, description of performance conditions and cancellations before the grant date. [Sentence omitted from observer note].

Changes to the second pre-ballot draft

4. Three changes have been made to clarify (1) that a share-based payment may vest under IFRS 2, even if some non-vesting conditions have not been met; (2) that performance conditions have implicit or explicit service requirements; and (3) cancellations may only occur after the share-based payment has been granted.

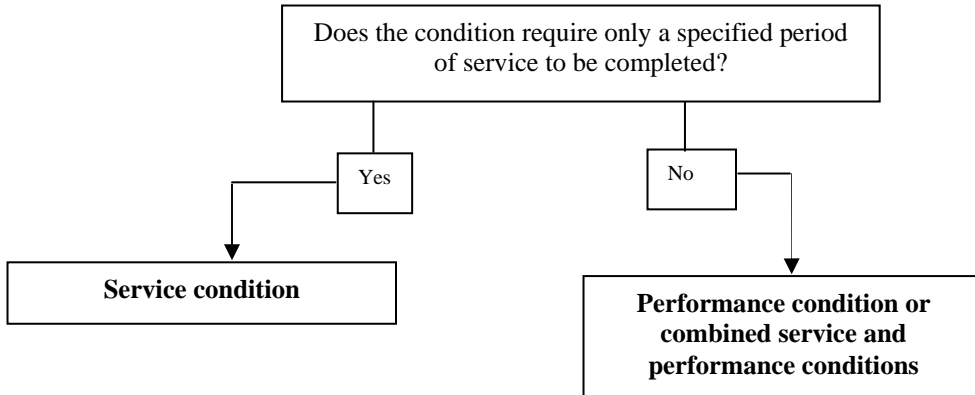
Vesting

5. Some constituents commented that the notion of vesting under IFRS 2 is different from the common interpretation of the term. In particular, a share-based payment may vest under IFRS 2 even if a non-vesting condition has not been met. For example, consider a share-based payment with a service condition and a non-vesting condition based on the price of gold. At the expected vesting date, the service conditions are met but the price of gold did not reach the target level. A wider interpretation of the term *vest* would imply that the share-based payment has not vested until the target price of gold has been reached and the share-based payment becomes exercisable.
6. This is inconsistent with the definitions under IFRS 2 (before the Amendment). In particular, since a share-based payment vests when it is no longer conditional on service or performance conditions being met, the share-based payment in the example above would vest even though the target price of gold has not been met.
7. The following sentence was added to the Basis for Conclusions to clarify this... *a share-based payment may vest even if some non-vesting conditions have not been met.*

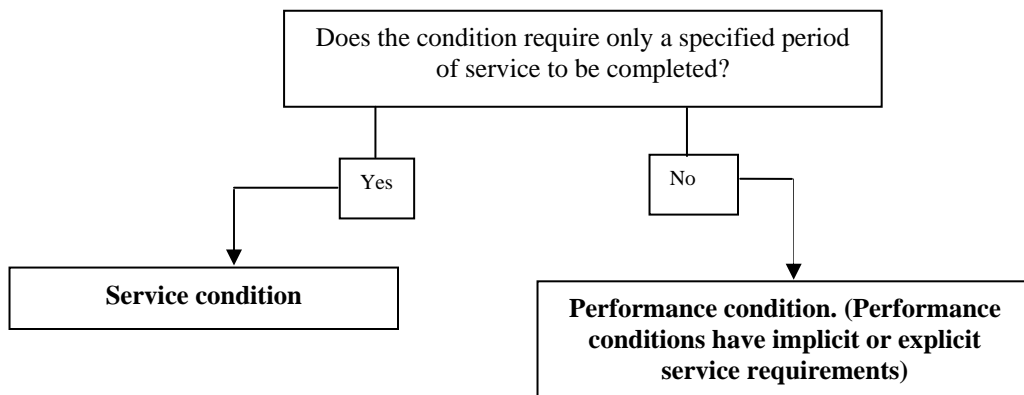
Performance conditions

8. After paragraph IG 4A, there is a flowchart that shows vesting conditions as either *service conditions* or *performance conditions or combined service and performance*

conditions. For example a condition that required 3 years of service and reaching an average EPS target level in any one of those 3 years would be a combined service and performance condition.



9. Some pointed out that the flowchart could be read as indicating that performance and service conditions are mutually exclusive. This would be inconsistent with the Board's conclusion that performance conditions have explicit or implicit service requirements.
10. The staff has changed the description in the flowchart so that conditions that are not service conditions are described as performance conditions only. The staff thinks that the more complex type of conditions need not be illustrated here, especially as to do so is misleading. To avoid implying that service and performance conditions are mutually exclusive, a short description of performance conditions is also included as follows:



Cancellations after the grant date

11. As discussed in Paper 4A, the staff recommends a small amendment to the table in IG24 of the Implementation Guidance to confirm that the required treatment of a cancellation by the counterparty or the entity applies only if the cancellation occurs after the grant date.

Editorial changes

12. Some editorial changes were made such as adding paragraph references to the table in IG 24 to link the standard to the Implementation guidance. Also, paragraph 28(ba) has been included as an addition to paragraph 28(b) rather than as a separate paragraph for better presentation.

Does the Board agree the proposed changes?
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