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Project	<b>IFRS 2 <i>Share-based Payment</i></b>
Topic	<b>Analysis of project options</b>

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### **Purpose of this paper**

1. The purpose of this Agenda Paper is to provide the Committee with an analysis of the project options to finalise this project.
2. This Agenda Paper includes:
  - (a) an analysis of the options to finalise this project;
  - (b) A staff recommendation; and
  - (c) questions for the Committee.

### **Analysis of the options to finalise**

#### ***Summary of options***

3. At the May 2010 and July 2010 Interpretations Committee meetings, the Committee began preliminary discussions on the potential paths forward to finalise this project. No decisions were taken in those prior meetings. In the staff's opinion, the Committee has the following options available to finalise this project:
  - (a) Decide to issue a draft interpretation for public comment with the intent of issuing a final Interpretation on this issue.

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This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IFRS Interpretations Committee.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IFRS Interpretations Committee or the IASB. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination.

Decisions made by the IFRS Interpretations Committee are reported in *IFRIC Update*.

Interpretations are published only after the IFRS Interpretations Committee and the Board have each completed their full due process, including appropriate public consultation and formal voting procedures. The approval of an Interpretation by the Board is reported in *IASB Update*.

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## IASB Staff paper

- (b) Decide to recommend the Board add this issue to its *Annual Improvements* project.
  - (c) Decide to recommend the Board add a new separate project to address this issue.
  - (d) Decide to remove this issue from the agenda due to not satisfying one of the *IFRIC Due Process Handbook* requirements for Committee agenda items (as specified in paragraph 24 of that Handbook), specifically:
    - (i) the Committee's inability to resolve this issue on a timely basis,
    - (ii) this issue is not sufficiently narrow to fit within the confines of existing IFRSs and the *Framework* and the demands of the interpretation process, and
    - (iii) the planned post-implementation review of IFRS 2 is expected to resolve this issue and there is no pressing need to provide guidance sooner than the anticipated completion of that post-implementation review project.
4. The staff have analysed each of these options in detail below.

### ***Issue exposure draft of Interpretation***

5. The staff acknowledges that the proposed drafting included in the September 2010 Committee Agenda Paper 2C includes a large number of words that are proposed for change when compared to many prior Interpretations. However, in the staff's opinion, the staff recommendations are primarily focused on providing guidance to interpret and apply current IFRS 2.
6. In the staff's opinion, the Committee agenda criteria are satisfied. These criteria are analysed in detail starting in paragraph XX of this paper. Additionally, in the staff's opinion, no underlying principles of IFRS 2 are recommended for change or exception. Finally, based on the discussions at its July 2010 meeting, the Committee agreed with most staff recommendations related to specific examples provided by the Committee members and analysed by the staff.

## IASB Staff paper

Taking into consideration the limited number of instances in which the Committee disagreed with the accounting outcome achieved in each of the specific examples, the result is that for all of the specific examples analysed in the July 2010 Committee Agenda Paper 3C, there was either:

- (a) no change in accounting outcome compared to the current accounting outcome based on current IFRS 2 guidance, or
- (b) the introduction of guidance and elimination of diversity in practice resulting in no change in accounting outcome for some (and a change from the accounting outcome determined to be not acceptable going forward due to the introduction of specific guidance).

7. In the staff's opinion, the staff recommendations to address the issues in this project could be accomplished through the Interpretation process. In the staff's opinion, if the Interpretation process is used, the most efficient way to incorporate this guidance into IFRSs would be an interpretation that directly amends portions of IFRS 2. This would avoid the potentially misleading situation of retaining the existing, unclear guidance in IFRS 2 while the new, clearer guidance is issued as a stand-alone Interpretation.

### ***Recommend the Board add to Annual Improvements***

8. The staff acknowledges that the proposed drafting included in the September 2010 Committee Agenda Paper 2C includes a larger number of words that are proposed for change when compared with many of the issues in *Annual Improvements*. However, in the staff's opinion, an approach that only considers the length of the proposed amendment is not appropriate.
9. The staff notes the proposed criteria for *Annual Improvements* was discussed at the June 2010 *IFRS Advisory Council*. The observer note for that meeting included an Appendix – *Proposed criteria for assessing individual issues for inclusion in Annual Improvements* that included the following four proposed criteria that must all be satisfied:
- (a) The proposed amendment has one or both of the following characteristics:

## IASB Staff paper

- (i) **Clarifying:** The proposed amendment improves IFRSs through one or both of the following:
  - (a) Clarifying unclear wording in existing IFRSs.
  - (b) Providing guidance where a current lack of guidance is causing concern.

A clarifying amendment maintains consistency with the existing principles within the applicable IFRSs. It does not propose a new principle, or a change to an existing principle.

- (ii) **Correcting:** The proposed amendment improves IFRSs through one or both of the following:
  - (a) Resolving a perceived or actual conflict between existing requirements of IFRSs.
  - (b) Addressing an oversight or unintended consequence of the existing requirements of IFRSs.

A correcting amendment does not propose a new principle or a change to an existing principle. It may create an exception to an existing principle, for example an omitted consequential amendment from a recent change to an IFRS.

- (b) The proposed amendment has a narrow and well-defined purpose, i.e., the consequences of the proposed change have been considered sufficiently and identified.
- (c) It is probable that the IASB will reach agreement on the issue on a timely basis. An inability to reach agreement on a timely basis may indicate that the cause of the issue is more fundamental than can be resolved within **Annual Improvements**.
- (d) If the proposed amendment is to IFRSs that are the subject of a current or planned IASB project, there is a pressing need to make the amendment sooner.

10. In the staff's opinion, the staff proposals on this project satisfy the above proposed *Annual Improvements* criteria:

- (a) The staff recommendations provide clarification on unclear wording or provide guidance where a lack of guidance is causing concern while not proposing a new principle or change to an existing principle.
- (b) The staff recommendations to address the issues are narrow and well-defined to only the consideration of how conditions in a share-based payment arrangement impact entitlement of the related award. The

consequences of the proposed change have been detailed through numerous staff examples of specific fact patterns submitted by Committee members.

- (c) As noted in paragraphs 14–15 of this paper, the staff believes the Committee is able to reach agreement on a timely basis.
  - (d) As noted in paragraphs 17–18 of this paper, the staff believe that there is a pressing need to amend IFRSs sooner than could be accomplished through the future post-implementation review project of IFRS 2.
11. In the staff's opinion, the staff recommendations to address the issues in this project could be included in *Annual Improvements*. The staff's opinion is based on meeting the above proposed *Annual Improvements* criteria and a consideration of the anticipated time frame of Annual Improvements compared to finalisation of this project through either an Interpretation or a stand-alone Board project. The next *Annual Improvements* cycle (2009-2011) is anticipated to publish an exposure draft *Improvements to IFRSs* in Q4 2010 with a final standard issued in Q2 2011.

***Recommend the Board add a new separate project***

12. The staff notes the significant number of projects on the Board's active work plan with several of these projects targeted for completion by 30 June 2011. The Committee should consider the likelihood that a recommendation to the Board to add a new project to its agenda will be accepted by the Board.
13. In the staff's opinion, the Committee has had a significant amount of discussion on the issues in this project. Additionally, these issues are a result of application or interpretation issues occurring in practice. In the staff's opinion, the Committee is in an appropriate position to progress this project and provide a finalised recommendation for approval by the Board. Therefore, the staff recommends this project be finalised through one of the paths discussed earlier in this paper (*Annual Improvements* or Interpretation).

***Remove from the Committee agenda***

*Inability to resolve timely*

14. The staff has prepared detailed analysis of this issue for discussion at the May 2010 and July 2010 Committee meetings. (This issue was also discussed at the March 2010 Committee meeting; however, the staff only presented the issues with no substantive analysis provided at that meeting.)
15. In the staff's opinion, at its July 2010 meeting, the Committee appeared to strongly support continued work on this project and appeared to strongly support most staff recommendations made at that meeting. Therefore, the staff believes that the Committee will be able to resolve this issue on a timely basis.

*Not sufficiently narrow for interpretations process*

16. In the staff's opinion, this issue is confined to an analysis of the conditions of share-based payment awards focusing on how those conditions impact the entitlement of the award (ie vesting). In the staff's opinion, at its July 2010 meeting, the Committee appeared to strongly support continued work on this project and appeared to acknowledge that this issue is sufficiently confined. Therefore, the staff believes that the Committee will be able to provide guidance that is sufficiently narrow to fit within the authority of the *IFRIC Due Process Handbook*.

*Post-implementation review will address*

17. There are currently two separate IFRIC Interpretation requests that have been combined within this project. The staff notes a third IFRIC Interpretation request has been received that, in the staff's opinion, relates to this project. This new request is analysed in detail in the September 2010 Committee Agenda Paper **XXX**. The staff recommendation included in that Agenda Paper is to incorporate that issue into this project because, in the staff's opinion, the recommendations already made by the staff in this project directly address and resolve the issue included in the new request. The additional issue can therefore be considered addressed without further specific new guidance or amendments.

18. In the staff’s opinion, there appears to be a need to resolve the issues in this project (and the new issue request) sooner than could be addressed through the post-implementation review project. The staff recommendation is therefore, not to postpone the potential resolution of these issues through the post-implementation review project.

### Staff recommendation

19. The staff recommends that this project continue and be recommended to the Board for inclusion in *Annual Improvements*. This path will have a similar time frame to issue of a final standard as a stand-alone Interpretation. Additionally, that path has the benefits of incorporating this project into a standing Board project to address issues that meet its *Annual Improvements* criteria and not requiring an additional exposure draft for publication and separate review and commentary by constituents.

### Questions for the Committee

20. The staff requests the Committee answer the following questions:

**Question 1 – Future of this project**

1. Does Committee agree with the staff recommendation that this project should be recommended to the Board for inclusion in *Annual Improvements*? If not, what does the Committee recommend and why?