Project **IFRS 2 *Share-based Payment***

Topic **Preliminary drafting of proposed amendments to IFRS 2**

Objective and introduction

1. The objective of this paper is to present the draft amendments to IFRS 2 in line with the staff approach, which is outlined in the next section. The drafting included in this agenda paper is preliminary drafting and should be used for preliminary review purposes only.

2. These draft amendments to IFRS 2 is to update the first version of draft amendments presented at the July 2010 Committee meeting, including the Committee's tentative decision that current accounting for the saving requirement in a SAYE plan should be kept intact, ie the condition should be considered a non-vesting condition and included in the measurement of grant date fair value and its failure should be accounted for as a cancellation.

Staff approach

3. The staff believes that all conditions included within a share-based payment arrangement should be classified into one of three groups:

   (a) Vesting condition

   (b) Non-vesting condition

   (c) **Contingent feature**

4. In addition, the staff suggests that different accounting mechanics should be applied to two different groups of vesting conditions:

   (a) **service conditions** and **performance conditions**; and

   (b) **market or other vesting conditions**.

5. Additionally, **non-vesting conditions** (that do not have an explicit or implicit service requirement) should apply the accounting mechanics that are applied to market or other vesting conditions.

6. The staff suggests that the two different types of accounting mechanics should be aligned with the existing two different accounting mechanics (treatments) set out in current IFRS 2:

   (a) Service conditions and performance conditions should be **excluded from the measurement of the grant date fair value** of equity-settled share-based payments. Instead these conditions are reflected in management's estimate of the number of awards expected to vest, with **'true-ups'** at each reporting period for revisions to these estimates.

   (b) Market or other vesting conditions (and non-vesting conditions) should be **included in the measurement of the grant date fair value** of equity-settled share-based payments, with **no 'true-ups'** at each reporting period for revisions to the estimate of the number of awards expected to vest.

Appendices

7. Two appendices are included with this paper:

   (a) Appendix A – Proposed drafting

   (b) Appendix B – Comments table on preliminary drafting

Appendix A – Proposed drafting

A1. The following is drafting prepared by the staff for discussion purposes to assist the Committee in progressing its *Vesting and Non-vesting Conditions* project.

Proposed Amendments to IFRS 2 *Share-based Payment*

Equity-settled share-based payment transactions

Paragraphs 15, 19-21A, the heading before paragraph 22, paragraphs 22, 24, 25, 27, 43B and 47 are amended (new text is underlined and deleted text is struck through). Paragraph 15A is added.

Transactions in which services are received

15 If the equity instruments granted do not vest until the counterparty completes a specified period of service, the entity shall presume that the services to be rendered by the counterparty as consideration for those equity instruments will be received in the future, during the *vesting period*. The entity shall account for those services as they are rendered by the counterparty during the vesting period, with a corresponding increase in equity. For example:

(a) if an employee is granted share options conditional upon completing three years' service, then the entity shall presume that the services to be rendered by the employee as consideration for the share options will be received in the future, over that three-year vesting period.

(b) if an employee is granted share options conditional upon the achievement of a performance condition and remaining in the entity's employ until that performance condition is satisfied, and the length of the vesting period varies depending on when that performance condition is satisfied, the entity shall presume that the services to be rendered by the employee as consideration for the share options will be received in the future, over the expected vesting period. The entity shall estimate the length of the expected vesting period at grant date, based on the most likely outcome of the performance condition~~. If the performance condition is a *market condition*, the estimate of the length of the expected vesting period shall be consistent with the assumptions used in estimating the fair value of the options granted, and shall not be subsequently revised. If the performance condition is not a market condition, t~~ <u>T</u>he entity shall revise its estimate of the length of the vesting period, if necessary, if subsequent information indicates that the length of the vesting period differs from previous estimates.

(c) <u>if an employee is granted share options conditional upon the achievement of a market or other vesting condition and remaining in the entity's employ until the market or other vesting condition is satisfied, and the length of the vesting period varies depending on when the market or other vesting condition is satisfied, the entity shall presume that the services to be rendered by the employee as consideration for the share options will be received in the future, over the expected vesting period. The estimate of the length of the expected vesting period based on a market or other vesting condition shall be consistent with the assumptions used in estimating the fair value of the options granted, and shall not be subsequently revised.</u>

[The above paragraph is amended to set out separate guidance on market or other vesting conditions.]

15A If the vesting of the equity instruments granted is subject to the interaction of multiple vesting conditions, the entity shall presume that the services to be rendered by the counterparty as consideration for those equity instruments will be received in the future, during the *attribution period*. Paragraphs B41D and B41E contain further guidance on the determination of the attribution period.

[The above paragraph is added to set out separate guidance on the attribution period.]

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,~~ Service conditions and performance 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~~ service conditions and performance 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~~.

[The above paragraph is amended to directly refer to service conditions and performance conditions.]

20 To apply the requirements of paragraph 19, the entity shall recognise an amount for the goods or services received during the vesting period based on the best available estimate of the number of equity instruments expected to vest and shall revise that estimate, if necessary, if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates. On vesting date, the entity shall revise the estimate to equal the number of equity instruments that ultimately vested~~, subject to the requirements of paragraph 21~~.

[The above paragraph is amended because a market condition is no longer an example of performance conditions.]

21 Market or other vesting conditions, such as a target share price or a target commodity index upon which vesting (or exercisability) is conditioned, shall be taken into account when estimating the fair value of the equity instruments granted. Therefore, for grants of equity instruments with market or other vesting conditions, the entity shall recognise the goods or services received from a counterparty who satisfies all ~~other vesting conditions (eg services received from an employee who remains in service for the specified period of service)~~ specified service conditions and/or performance conditions, irrespective of whether that market or other vesting condition is satisfied.

[The above paragraph is amended to combine market conditions and other vesting condition because they are accounted for in the same way.]

Treatment of non-vesting conditions

21A ~~Similarly, a~~ An entity shall take into account all non-vesting conditions, such as a restriction on post-vesting transfer or a performance target that does not include required service, when estimating the fair value of the equity instruments granted. Therefore, for grants of equity instruments with non-vesting conditions, the entity shall recognise the goods or services received from a counterparty that satisfies all ~~vesting conditions that are not market conditions (eg services received from an employee who remains in service for the specified period of service)~~ specified service conditions and/or performance conditions, irrespective of whether those non-vesting conditions are satisfied.

[The above paragraph is amended to give an example of non-vesting conditions.]

Treatment of a ~~reload feature~~ contingent feature

22 For options with a contingent feature such as a *reload feature* or a clawback provision, the ~~reload~~ contingent feature shall not be taken into account when estimating the fair value of options granted at the measurement date. Instead, the effect of a contingent feature shall be accounted for if and when the contingent event occurs. For example, a *reload option* shall be accounted for as a new option grant, if and when a reload option is subsequently granted.

[The above paragraph is amended to extend the guidance on a reload feature to all other contingent features.]

If the fair value of the equity instruments cannot be estimated reliably

24 The requirements in paragraphs 16–23 apply when the entity is required to measure a share-based payment transaction by reference to the fair value of the equity instruments granted. In rare cases, the entity may be unable to estimate reliably the fair value of the equity instruments granted at the

measurement date, in accordance with the requirements in paragraphs 16–22. In these rare cases only, the entity shall instead:

(a) measure the equity instruments at their intrinsic value, initially at the date the entity obtains the goods or the counterparty renders service and subsequently at the end of each reporting period and at the date of final settlement, with any change in intrinsic value recognised in profit or loss. For a grant of share options, the share-based payment arrangement is finally settled when the options are exercised, are forfeited (eg upon cessation of employment) or lapse (eg at the end of the option's life).

(b) recognise the goods or services received based on the number of equity instruments that ultimately vest or (where applicable) are ultimately exercised. To apply this requirement to share options, for example, the entity shall recognise the goods or services received during the vesting period <u>or (where applicable) attribution period</u>, if any, in accordance with paragraphs 14 and 15, except that the requirements in paragraph 15(c) concerning a market condition do not apply. The amount recognised for goods or services received during the vesting period <u>or (where applicable) attribution period</u> shall be based on the number of share options expected to vest. The entity shall revise that estimate, if necessary, if subsequent information indicates that the number of share options expected to vest differs from previous estimates. On vesting date, the entity shall revise the estimate to equal the number of equity instruments that ultimately vested. After vesting date, the entity shall reverse the amount recognised for goods or services received if the share options are later forfeited, or lapse at the end of the share option's life.

[The above paragraph is amended to cover the case in which an attribution period should be determined because there are multiple vesting conditions.]

25 If an entity applies paragraph 24, it is not necessary to apply paragraphs 26–29, because any modifications to the terms and conditions on which the equity instruments were granted will be taken into account when applying the intrinsic value method set out in paragraph 24. However, if an entity settles a grant of equity instruments to which paragraph 24 has been applied:

(a) if the settlement occurs during the vesting period <u>or (where applicable) attribution period</u>, the entity shall account for the settlement as an acceleration of vesting, and shall therefore recognise immediately the amount that would otherwise have been recognised for services received over the remainder of the vesting period <u>or (where applicable) attribution period</u>.

(b) any payment made on settlement shall be accounted for as the repurchase of equity instruments, ie as a deduction from equity, except to the extent that the payment exceeds the intrinsic value of the equity instruments, measured at the repurchase date. Any such excess shall be recognised as an expense.

[The above paragraph is amended to cover the case in which an attribution period should be determined because there are multiple vesting conditions.]

27 The entity shall recognise, as a minimum, the services received measured at the grant date fair value of the equity instruments granted, unless those equity instruments do not vest because of failure to satisfy ~~a vesting condition (other than a market condition)~~ <u>a service condition and/or a performance condition</u> that was specified at grant date. This applies irrespective of any modifications to the terms and conditions on which the equity instruments were granted, or a cancellation or settlement of that grant of equity instruments. In addition, the entity shall recognise the effects of modifications that increase the total fair value of the share-based payment arrangement or are otherwise beneficial to the employee. Guidance on applying this requirement is given in Appendix B.

[The above paragraph is amended to directly refer to service conditions and performance conditions.]

43B The entity receiving the goods or services shall measure the goods or services received as an equity-settled share-based payment transaction when:

(a) the awards granted are its own equity instruments, or

(b) the entity has no obligation to settle the share-based payment transaction.

The entity shall subsequently remeasure such an equity-settled share-based payment transaction only for changes in ~~non-market vesting conditions~~ <u>service conditions or performance conditions</u> in accordance with paragraphs 19–21. In all other circumstances, the entity receiving the goods or services shall measure the goods or services received as a cash-settled share-based payment transaction.

[The above paragraph is amended to directly refer to service conditions and performance conditions.]

47 If the entity has measured the fair value of goods or services received as consideration for equity instruments of the entity indirectly, by reference to the fair value of the equity instruments granted, to give effect to the principle in paragraph 46, the entity shall disclose at least the following:

(a) for share options granted during the period, the weighted average fair value of those options at the measurement date and information on how that fair value was measured, including:

(i) the option pricing model used and the inputs to that model, including the weighted average share price, exercise price, expected volatility, option life, expected dividends, the risk-free interest rate and any other inputs to the model, including the method used and the assumptions made to incorporate the effects of expected early exercise;

(ii) how expected volatility was determined, including an explanation of the extent to which expected volatility was based on historical volatility; and

(iii) whether and how any other features of the option grant were incorporated into the measurement of fair value, such as a market <u>or other vesting</u> condition <u>or non-vesting condition</u>.

(b) for other equity instruments granted during the period (ie other than share options), the number and weighted average fair value of those equity instruments at the measurement date, and information on how that fair value was measured, including:

(i) if fair value was not measured on the basis of an observable market price, how it was determined;

(ii) whether and how expected dividends were incorporated into the measurement of fair value; and

(iii) whether and how any other features of the equity instruments granted were incorporated into the measurement of fair value.

(c) for share-based payment arrangements that were modified during the period:

(i) an explanation of those modifications;

(ii) the incremental fair value granted (as a result of those modifications); and

(iii) information on how the incremental fair value granted was measured, consistently with the requirements set out in (a) and (b) above, where applicable.

[The above paragraph is amended to specify the types of condition that should be incorporated into the measurement of fair value.]

Appendix A Defined terms

In Appendix A, the following definitions are amended or added (new text is underlined and deleted text is struck through).

attribution period (and required service)	The period: (a) during which an employee is required to provide service in exchange for an award; and (b) over which the required combination of vesting conditions is to be met under a share-based payment arrangement. The service that a counterparty is required to render during that period is referred to as the *required service*.
contingent feature	A feature that is dependent on the occurrence of the counterparty's action after an award has vested.
market or other vesting condition	A condition affecting the vesting, exercise price, or other pertinent factors used in determining the fair value of an award under a **share-based payment arrangement** that requires: (a) the counterparty's rendering of service for a specified (either explicitly or implicitly) period of time; and (b) the achievement of a specified target while the counterparty is rendering the service required in (a) other than such a performance target as is described in the definition of performance condition.
non-vesting condition	A condition that does not determine whether the counterparty **vests** in a **share-based payment arrangement**.
performance condition	A condition affecting the vesting, exercise price, or other pertinent factors used in determining the fair value of an award that relates to both: (a) the counterparty's rendering service for a specified (either explicitly or implicitly) period of time, and (b) achieving a specified performance target while the counterparty is rendering the service required in (a) and where that specified performance target is defined by reference to (1) the employer's own operations (or activities), or (2) the same performance measure of another entity or group of entities in a consolidated group.
service condition	A condition that affects the vesting, exercise price, or other pertinent factor used in determining the fair value of an award that depends solely on a counterparty rendering service to the entity for the vesting period. If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the counterparty has failed to satisfy the condition.
vesting conditions	~~The~~ A conditions that determines whether ~~the entity receives~~ the counterparty provides the entity with the services that entitle the counterparty to receive cash, other assets or **equity instruments** of the entity, under a **share-based payment arrangement**. Vesting conditions are either service conditions ~~or~~, performance conditions or market or other vesting conditions. ~~Service conditions require the counterparty to complete a specified period of service. Performance conditions require the counterparty to complete a specified period of service and specified performance targets to be met (such as a specified increase in the entity's profit over a specified period of time). A performance condition might include a **market condition**.~~
vesting period	The implicit or explicit required service period during which ~~all the~~ a specified **vesting conditions** of a **share-based payment arrangement** ~~are~~ is to be satisfied.

Appendix B Application guidance

Paragraphs B3, B7, B8, B18, B33 and B34 are amended (new text is underlined and deleted text is struck through). A header and paragraphs B41A–B41C, a header and paragraphs B41D and B41E are added after paragraph 41.

B3 For example, if the employee is not entitled to receive dividends during the ~~vesting~~ attribution period, this factor shall be taken into account when estimating the fair value of the shares granted. Similarly, if the shares are subject to restrictions on transfer after vesting date, that factor shall be taken into account, but only to the extent that the post-vesting restrictions affect the price that a knowledgeable, willing market participant would pay for that share. For example, if the shares are actively traded in a deep and liquid market, post-vesting transfer restrictions may have little, if any, effect on the price that a knowledgeable, willing market participant would pay for those shares. Restrictions on transfer or other restrictions that exist during the vesting period or (where applicable) attribution period shall not be taken into account when estimating the grant date fair value of the shares granted, because those restrictions stem from the existence of vesting conditions, which are accounted for in accordance with paragraphs 19–21.

[The above paragraph is amended to cover the case in which an attribution period should be determined because there are multiple vesting conditions.]

B7 Other factors that knowledgeable, willing market participants would consider in setting the price shall also be taken into account (except for service conditions, performance conditions and ~~reload~~ contingent features that are excluded from the measurement of fair value in accordance with paragraphs 19–22).

[The above paragraph is amended to extend the guidance on a reload feature to all other contingent features.]

B8 For example, a share option granted to an employee typically cannot be exercised during specified periods (eg during the vesting period or (where applicable) attribution period or during periods specified by securities regulators). This factor shall be taken into account if the option pricing model applied would otherwise assume that the option could be exercised at any time during its life. However, if an entity uses an option pricing model that values options that can be exercised only at the end of the options' life, no adjustment is required for the inability to exercise them during the vesting period or (where applicable) attribution period (or other periods during the options' life), because the model assumes that the options cannot be exercised during those periods.

[The above paragraph is amended to cover the case in which an attribution period should be determined because there are multiple vesting conditions.]

B18 Factors to consider in estimating early exercise include:

(a) the length of the vesting period, because the share option typically cannot be exercised until the end of the vesting period or (where applicable) attribution period. Hence, determining the valuation implications of expected early exercise is based on the assumption that the options will vest. The implications of vesting conditions are discussed in paragraphs 19–21.

(b) the average length of time similar options have remained outstanding in the past.

(c) the price of the underlying shares. Experience may indicate that the employees tend to exercise options when the share price reaches a specified level above the exercise price.

(d) the employee's level within the organisation. For example, experience might indicate that higher-level employees tend to exercise options later than lower-level employees (discussed further in paragraph B21).

(e) expected volatility of the underlying shares. On average, employees might tend to exercise options on highly volatile shares earlier than on shares with low volatility.

[The above paragraph is amended to cover the case in which an attribution period should be determined because there are multiple vesting conditions.]

B33 Similarly, when the grant date fair value of shares granted to employees is estimated, no adjustment is required for expected dividends if the employee is entitled to receive dividends paid during the vesting period or (where applicable) attribution period.

[The above paragraph is amended to cover the case in which an attribution period should be determined because there are multiple vesting conditions.]

B34 Conversely, if the employees are not entitled to dividends or dividend equivalents during the vesting period or (where applicable) attribution period (or before exercise, in the case of an option), the grant date valuation of the rights to shares or options should take expected dividends into account. That is to say, when the fair value of an option grant is estimated, expected dividends should be included in the application of an option pricing model. When the fair value of a share grant is estimated, that valuation should be reduced by the present value of dividends expected to be paid during the vesting period or (where applicable) attribution period.

[The above paragraph is amended to cover the case in which an attribution period should be determined because there are multiple vesting conditions.]

Vesting conditions

B41A A condition that results in the acceleration or vesting in the event of an employee’s death, disability or termination without cause is a service condition.

[The above paragraph is added to provide additional guidance on the definition of service conditions.]

B41B Attaining a specified growth rate in return on assets, obtaining regulatory approval to market a specified product, selling shares in an initial public offering or other financing event and a change in control are examples of performance conditions for purposes of this Standard. A performance target also may be defined by reference to the same performance measure of another entity or group of entities. For example, attaining a growth rate in earnings per share that exceeds the average growth rate in earnings per share of other entities in the same industry is a performance condition for purposes of this Standard. A performance target might relate either to the performance of the reporting entity as a whole or to some part of the reporting entity, such as a division or an individual employee.

[The above paragraph is added to provide additional guidance on the definition of performance conditions.]

B41C Attaining a minimum share price by a specified date, achieving a total shareholder return target, outperforming a share price index and achieving a commodity index or market index target are examples of market or other vesting conditions for purposes of this Standard.

[The above paragraph is added to provide additional guidance on the definition of market or other vesting conditions.]

Interaction of multiple vesting conditions and the attribution period

B41D An award with a combination of service, performance or market or other vesting conditions may contain multiple explicit or implicit service periods. For such an award, the estimate of the attribution period shall be based on an analysis of all of the following:

(a) All vesting conditions

(b) All explicit and implicit service periods, ie vesting periods

(c) The probability that service or performance conditions will be satisfied.

[The above paragraph is added to provide additional guidance on determining the attribution period.]

B41E If vesting of the equity instruments granted is based on satisfying both a service or performance condition and a market or other vesting condition and it is probable that the service or performance condition will be satisfied, the initial estimate of the attribution period generally is the longest of the explicit or implicit service periods. If vesting of the equity instruments granted is based on satisfying either a service or performance condition or a market or other vesting condition and it is probable that the service or performance condition will be satisfied, the initial estimate of the attribution period generally is the shortest of the explicit or implicit service periods.

[The above paragraph is added to provide additional guidance on determining the attribution period.]

Basis for Conclusions on the Proposed Amendments to IFRS 2 *Share-based Payment*

Vesting conditions

BC1 There continue to be different interpretations on the definition of a vesting condition and whether it should be a condition that determines whether the entity receives the required services from the counterparty despite the January 2008 amendments to IFRS 2, with questions remaining about what constitutes a vesting condition or non-vesting condition. The Board notes that the change in the perspective for service from the employee's to the entity's and the restriction of vesting conditions to a service condition and a performance condition contributes to the diversity in practice because they are not consistent with common interpretation. The Board also observes that the description of a performance condition is not so clear as to ensure the consistent classification of conditions attached to a share-based payment. Therefore, the Board proposes a revision to the definition of vesting conditions by switching the perspective for service back to the employee's and identifying 'other' vesting condition with a market condition combined with it. The Board also proposes to set out the new definitions of a service condition, a performance condition and a market or other vesting condition and a non-vesting condition. The Board also proposes to extend the treatment of a reload feature to other contingent features such a clawback provision.

BC2 As a result of the proposed revision, vesting conditions are any conditions that determine whether the counterparty provides the entity with the services that entitle him or her to receive a share-based payment. The Board proposes that for example, a target based on a commodity index, which is currently treated as a non-vesting condition, should be considered to be a vesting condition falling into the category of market or other vesting condition as long as it is combined with an appropriate service requirement.

BC3 The Board observes that diversity surrounding a performance condition is due in part to the lack of guidance on how close the performance target needs to be to the individual employee's action. The Board proposes that the proximity may be represented by a performance target that is defined solely by reference to the employer's own operations (or activities), which is consistent with the US GAAP guidance on the performance condition.

BC4 Some argue that non-compete provisions should be considered service conditions for the reason that rendering of service by the employee in return for a share-based payment includes not only doing a positive act for the entity but also refraining from doing a negative act against the entity. However the Board believes that a non-compete provision may not be treated as a service condition. Refraining from doing a negative act against the entity does not result in direct service being provided to the entity and is not considered a significant activity. The Board also believes that a non-compete provision may not be treated as a non-vesting condition because it is more similar to a reload feature than to a non-vesting condition. The Board notes that the non-compete provision and reload feature are subsequently activated only if the counterparty conducts a specified act, such as beginning employment with the entity's competitor or paying the exercise price by the entity's shares. Those features contrasts with a non-vesting condition, eg the saving requirement in a SAYE plan, which is activated right from the grant date and requires the employee to continuously conduct a specified act, ie to keep on saving towards the plan. Therefore, the Board proposes that a non-compete provision should be accounted for similarly to a reload feature.

BC5 Apart from the classification of individual conditions, the Board notes that there is no clear guidance on how to consider the interaction between multiple vesting conditions. The current definition of vesting period presumes that if a share-based payment arrangement has multiple vesting conditions, the interaction must be an 'and' interaction. That is to say, it does not appropriately reflect share-based payment arrangements that vest at the earlier of different vesting conditions being satisfied (ie an 'or' interaction). The Board proposes that the definition of vesting period should be clarified to deal with a single vesting condition, and the period of time over which a share-based payment transaction ultimately vests, ie an employee is required to provide service, also should be captured by the addition of a new definition of the attribution period. The attribution period captures the period over which compensation cost should be recognised. The Board notes that the attribution period is the composite of the vesting periods of each individual vesting condition and therefore for a share-based payment transaction with only one vesting condition the attribution period will be the same as the vesting period for that one vesting condition.

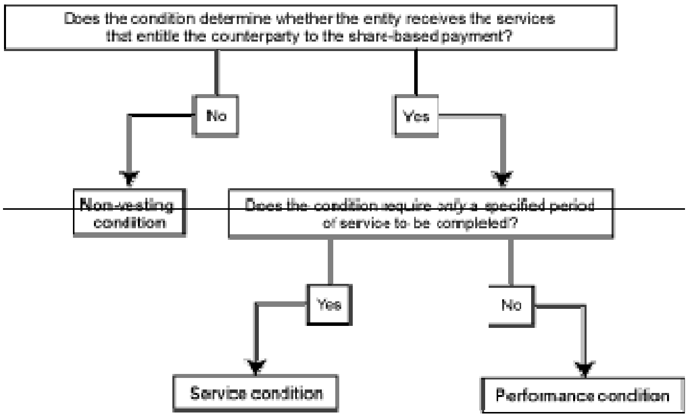
BC6 There occurs some confusion between forfeiture and cancellation where the entity terminates the employment of an employee during the required service period. On the one side, its effect might be viewed as forfeiture because the employee, if not voluntarily, fails to satisfy the service condition. On the other side, its effect might be viewed as cancellation because the entity rescinded the share-based payment arrangement it its own right. The Board notes that the employee's failure to complete a required service period is considered to be failure to satisfy a service condition. It does not matter why the employee has failed to complete a required service period. Therefore, the Board proposes to make clear in the new definition of service condition that the reason why the employee has failed to complete a required service period is not relevant and the award is considered to be forfeited by the employee.

Proposed Amendments to Guidance on Implementing IFRS 2 *Share-based Payment*

The heading before paragraph IG4A and paragraph IG4A are deleted (deleted text is struck through).

~~Definition of vesting conditions~~

~~IG4A IFRS 2 defines vesting conditions as the conditions that determine whether the entity receives the services that entitle the counterparty to receive cash, other assets or equity instruments of the entity under a share-based payment arrangement. The following flowchart illustrates the evaluation of whether a condition is a service or performance condition or a non-vesting condition.~~



Illustrative examples

Equity-settled share-based payment transactions

Paragraphs IG9 and IG10 are amended and the footnote of paragraph IG9 is deleted (new text is underlined and deleted text is struck through).

IG9 For equity-settled transactions measured by reference to the fair value of the equity instruments granted, paragraph 19 of IFRS 2 states that ~~vesting conditions, other than market conditions,~~ service conditions and performance conditions are not taken into account when estimating the fair value of the shares or share options at the measurement date (ie grant date, for transactions with employees and others providing similar services). Instead, ~~vesting conditions~~ service conditions and performance conditions are 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 is 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. This accounting method is known as the modified grant date method, because the number of equity instruments included in the determination of the transaction amount is adjusted to reflect the outcome of the ~~vesting conditions~~ service condition or performance condition, but no adjustment is made to the fair value of those equity instruments. That fair value is estimated at grant date (for transactions with employees and others providing similar services) and not subsequently revised. Hence, neither increases nor decreases in the fair value of the equity instruments after grant date are taken into account when determining the transaction amount (other than in the context of measuring the incremental fair value transferred if a grant of equity instruments is subsequently modified).

~~* In the remainder of this paragraph, the discussion of vesting conditions excludes market conditions, which are subject to the requirements of paragraph 21 of IFRS 2.~~

IG10 To apply these requirements, paragraph 20 of IFRS 2 requires the entity to recognise the goods or services received during the vesting period based on the best available estimate of the number of equity instruments expected to vest and to revise that estimate, if necessary, if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates. On vesting date, the entity revises the estimate to equal the number of equity instruments that ultimately vested (subject to the requirements of paragraph 21 concerning market <u>or other vesting</u> conditions).

Paragraphs IG12 - IG13 and IG Example 5 are amended and paragraph IG13A is added (new text is underlined and deleted text is struck through).

IG12 In Example 1, the share options were granted conditionally upon the employees' completing a specified service period. In some cases, a share option or share grant might also be conditional upon the achievement of a specified performance target. Examples 2, 3 and 4 illustrate the application of the IFRS to share option or share grants with performance conditions ~~(other than market conditions, which are discussed in paragraph IG13 and illustrated in Examples 5 and 6)~~. In Example 2, the length of the vesting period varies, depending on when the performance condition is satisfied. Paragraph 15 of the IFRS requires the entity to estimate the length of the expected vesting period, based on the most likely outcome of the performance condition, and to revise that estimate, if necessary, if subsequent information indicates that the length of the vesting period is likely to differ from previous estimates.

IG13 Paragraph 21 of the IFRS requires market conditions, such as a target share price upon which vesting (or exercisability) is conditional, to be taken into account when estimating the fair value of the equity instruments granted. Therefore, for grants of equity instruments with market conditions, the entity recognises the goods or services received from a counterparty who satisfies all ~~other vesting conditions (eg services received from an employee who remains in service for the specified period of service)~~ <u>specified service conditions and/or performance conditions</u>, irrespective of whether that market condition is satisfied. Example 5 illustrates these requirements.

IG13A The same guidance for market conditions IG13 is applicable to other vesting conditions such as a target commodity index upon which vesting (or exercisability) is conditional.

IG Example 5

Grant with a market condition

Background

At the beginning of year 1, an entity grants to a senior executive 10,000 share options, conditional upon the executive remaining in the entity's employ until the end of year 3. However, the share options cannot be exercised unless the share price has increased from CU50 at the beginning of year 1 to above CU65 at the end of year 3. If the share price is above CU65 at the end of year 3, the share options can be exercised at any time during the next seven years, ie by the end of year 10.

The entity applies a binomial option pricing model, which takes into account the possibility that the share price will exceed CU65 at the end of year 3 (and hence the share options become exercisable) and the possibility that the share price will not exceed CU65 at the end of year 3 (and hence the options will be forfeited). It estimates the fair value of the share options with this market condition to be CU24 per option.

Application of requirements

Because paragraph 21 of the IFRS requires the entity to recognise the services received from a counterparty who satisfies all ~~other vesting conditions (eg services received from an employee who remains in service for~~

IG Example 5

~~the specified service period)~~ specified service conditions and/or performance conditions, irrespective of whether that market condition is satisfied, it makes no difference whether the share price target is achieved. The possibility that the share price target might not be achieved has already been taken into account when estimating the fair value of the share options at grant date. Therefore, if the entity expects the executive to complete the three-year service period, and the executive does so, the entity recognises the following amounts in years 1, 2 and 3:

Year	Calculation	Remuneration expense for period	Cumulative remuneration expense
		CU	CU
1	10,000 options × CU24 × $^1/_3$	80,000	80,000
2	(10,000 options × CU24 × $^2/_3$) – CU80,000	80,000	160,000
3	(10,000 options × CU24) – CU160,000	80,000	240,000

As noted above, these amounts are recognised irrespective of the outcome of the market condition. However, if the executive left during year 2 (or year 3), the amount recognised during year 1 (and year 2) would be reversed in year 2 (or year 3). This is because the service condition, in contrast to the market condition, was not taken into account when estimating the fair value of the share options at grant date. Instead, the service condition is taken into account by adjusting the transaction amount to be based on the number of equity instruments that ultimately vest, in accordance with paragraphs 19 and 20 of the IFRS.

Paragraph IG14 is amended and paragraphs IG14A-14B and IG Examples 6A-6B are added (new text is underlined and deleted text is struck through).

IG14 In Example 5, the outcome of the market condition did not change the length of the vesting period. However, if the length of the vesting period varies depending on when a ~~performance~~ market condition is satisfied, paragraph 15 of the IFRS requires the entity to presume that the services to be rendered by the employees as consideration for the equity instruments granted will be received in the future, over the expected vesting period. The entity is required to estimate the length of the expected vesting period at grant date, based on the most likely outcome of the ~~performance~~ market condition~~.~~ ~~If the performance condition is a market condition, t~~The estimate of the length of the expected vesting period must be consistent with the assumptions used in estimating the fair value of the share options granted, and is not subsequently revised. Example 6 illustrates these requirements.

IG14A The same guidance as IG14 is applicable to the case on which the length of the vesting period varies depending on when an other vesting condition is satisfied.

IG14B Paragraphs B41D-B41E provide guidance on the interaction of multiple vesting conditions and the attribution period. If vesting of the equity instruments granted is based on satisfying both a service (or performance) condition and a market (or other vesting) condition and it is probable that the service (or performance) condition will be satisfied, the initial estimate of the attribution period generally is the longest of the explicit or implicit service periods. If vesting of the equity instruments granted is based on satisfying either a service (or performance) condition or a market (or other vesting) condition and it is probable that the service (or performance) condition will be satisfied, the initial estimate of the attribution period generally is the shortest of the explicit or implicit service periods. Examples 6Aand 6B illustrate these requirements.

IG Example 6A

Grant with a performance condition, which interacts with a market condition (I)

Background

At the beginning of year 1, an entity grants 100 share options each to 500 employees. The share options vest upon the achievement of either (a) a share price increase of 10 percent or (b) cumulative profit of 10 million.

The employee must be employed by the entity when either condition is satisfied and the award must vest within five years of the grant date.

The share options have a fair value of CU30 per option at the start of year 1 without taking into account the condition that the share price should increase by 10%. However, if the entity applies a binomial option pricing model, which takes into account the condition that the share price should increase, the fair value of the share options at grant date is estimated to be CU25 per option.

On the grant date, it is expected that the entity will meet the cumulative profit target at the end of year 3 but the share price target is most likely to be met at the end of year 4.

At the end of year 1, there is no subsequent information that indicates that the entity should revise its estimate on the timing when the cumulative profit target is met.

At the end of year 2, subsequent information indicates that the entity will meet the cumulative profit target at the end of year 5.

At the end of year 3, it turned out that the entity met the cumulative profit target.

Over the three-year period, none of the employees have left the entity.

Application of requirements

There is an 'or' interaction between the performance condition (cumulative profit target) and the market condition (share price target). Consequently, the attribution period is the shortest of the individual vesting periods, subject to subsequent change in estimate.

- At the end of year 1, the attribution period is 3 years, which is the expected vesting period of the performance condition.
- At the end of year 2, the attribution period is 4 years, which is the expected vesting period of the market condition.
- At the end of year 3, the attribution period is back to 3 years, which is the revised vesting period of the performance condition.

In determining the fair value of a share option at the grant date:

- the cumulative profit target is not included (consistent with the treatment for all performance conditions); and
- the share price target is not included (because it is not a necessary condition).

In re-determining the grant date fair value of a share option at the end of year 2:

- the cumulative profit target is not included; and
- the share price target is included (because it is now considered necessary).

In re-determining the grant date fair value of a share option at the end of year 3:

- the cumulative profit target is not included; and
- the share price target is not included (because it is not a necessary condition).

Year	Calculation	Remuneration expense for period	Cumulative remuneration expense
		CU	CU

IG Example 6A			
1	500 employees × 100 options × CU30 × $^1/_3$	500,000	500,000
2	(500 employees × 100 options × CU25 × $^2/_4$) – CU500,000	125,000	625,000
3	(500 employees × 100 options × CU30) – CU625,000	875,000	1,500,000

IG Example 6B

Grant with a performance condition, which interacts with a market condition (II)

Background

At the beginning of year 1, an entity grants 100 share options each to 500 employees, conditional upon the employees' remaining in the entity's employ during the vesting period. The shares will vest at any time within next 3 years when the entity completes an initial public offering with the share selling price higher than CU100 per share and the employee remains in employment.

The share options have a fair value of CU30 per option at the start of year 1 without taking into account the condition that the share selling price should be higher than CU100. However, if the entity takes into account the condition that the share selling price should be higher than CU100 when the initial public offering is completed, the fair value of the share options at grant date is estimated to be CU25 per option.

On the grant date, it is expected that the entity will complete an initial public offering at the end of year 2 but the selling price is unlikely to be higher than CU100 per share.

At the end of year 1, there is no subsequent information that indicates that the entity should revise its estimate.

At the end of year 2, subsequent information indicates that the entity will complete an initial public offering at the end of year 3 with the selling price higher than CU100 per share.

At the end of year 3, it turned out that the entity did not complete an initial public offering.

Over the three-year period, none of the employees have left the entity.

Application of requirements

The initial public offering is identified as a performance condition and the share price target is classified as a market condition. The entity shall recognise the services received from the employees who satisfy all specified service conditions and performance conditions, irrespective of whether a market or other vesting condition is satisfied.

Year	Calculation	Remuneration expense for period	Cumulative remuneration expense
		CU	CU
1	500 employees × 100 options × CU25 × $^1/_2$	625,000	625,000
2	(500 employees × 100 options × CU25 × $^2/_3$) – CU625,000	208,333	833,333
3	0 – CU833,333	Δ 833,333	0

Paragraph IG 14C and IG Example 6C are added.

IG14C The definition of performance conditions requires that a performance condition should include an explicit or implicit service requirement that at a minimum covers the period over which the performance target is to be measured. Otherwise, the performance target should be considered to be a non-vesting condition. Example 6C illustrates this requirement.

IG Example 6C

Grant of share options with a performance target that is to be measured over the longer period than the required service period

Background

An entity grants an employee share options. The employee is entitled to the share options (ie vests) only if the employee works for the entity over the next two years and the entity achieves a target cumulative profit determined at the end of year three.

Application of requirements

The employee may choose to leave the entity and retain the share options at the end of year 2 (prior to completion of year 3) and just wait until the cumulative profit target is met at the end of year 3. To put it another way, service is not required and may not be received by the entity in year 3. Consequently, the cumulative profit target partly combined with a service requirement does not meet the definition of vesting condition and therefore is not a performance condition but a non-vesting condition.

- Classification - the two-year service requirement is a service condition and the cumulative profit target is a non-vesting condition.
- Initial measurement - the cumulative profit target is included in determining the fair value of a share option at the grant date.
- Subsequent measurement - the variability on the cumulative profit target is not subsequently revised each reporting period.
- Recognition - the event of the cumulative profit target not being met brings about no change to previously recognised compensation cost.

Paragraph IG Example 8 is amended (new text is underlined and deleted text is struck through).

IG Example 8

Grant of share options with a vesting condition that is subsequently modified

Background

At the beginning of year 1, the entity grants 1,000 share options to each member of its sales team, conditional upon the employee’s remaining in the entity’s employ for three years, and the team selling more than 50,000 units of a particular product over the three-year period. The fair value of the share options is CU15 per option at the date of grant.

During year 2, the entity increases the sales target to 100,000 units. By the end of year 3, the entity has sold

IG Example 8
55,000 units, and the share options are forfeited. Twelve members of the sales team have remained in service for the three-year period. **Application of requirements** Paragraph 20 of the IFRS requires, for a performance condition ~~that is not a market condition~~, the entity to recognise the services received during the vesting period based on the best available estimate of the number of equity instruments expected to vest and to revise that estimate, if necessary, if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates. On vesting date, the entity revises the estimate to equal the number of equity instruments that ultimately vested. However, paragraph 27 of the IFRS requires, irrespective of any modifications to the terms and conditions on which the equity instruments were granted, or a cancellation or settlement of that grant of equity instruments, the entity to recognise, as a minimum, the services received, measured at the grant date fair value of the equity instruments granted, unless those equity instruments do not vest because of failure to satisfy a service condition or performance condition ~~vesting condition (other than a market condition)~~ that was specified at grant date. Furthermore, paragraph B44(c) of Appendix B specifies that, if the entity modifies the vesting conditions in a manner that is not beneficial to the employee, the entity does not take the modified vesting conditions into account when applying the requirements of paragraphs 19–21 of the IFRS. Therefore, because the modification to the performance condition made it less likely that the share options will vest, which was not beneficial to the employee, the entity takes no account of the modified performance condition when recognising the services received. Instead, it continues to recognise the services received over the three-year period based on the original vesting conditions. Hence, the entity ultimately recognises cumulative remuneration expense of CU180,000 over the three-year period (12 employees × 1,000 options × CU15). The same result would have occurred if, instead of modifying the performance target, the entity had increased the number of years of service required for the share options to vest from three years to ten years. Because such a modification would make it less likely that the options will vest, which would not be beneficial to the employees, the entity would take no account of the modified service condition when recognising the services received. Instead, it would recognise the services received from the twelve employees who remained in service over the original three-year vesting period.

Summary of conditions for a counterparty to receive an equity instrument granted and of accounting treatments

IG24 The table below categorises, with examples, the various conditions that determine whether a counterparty receives an equity instrument granted and the accounting treatment of share-based payments with those conditions.

The table in paragraph IG24 is deleted (deleted text is struck through).

	~~**Summary of conditions that determine whether a counterparty receives an equity instrument granted**~~					
	~~**VESTING CONDITIONS**~~			~~**NON-VESTING CONDITIONS**~~		
	~~**Service conditions**~~	~~**Performance conditions**~~				
		~~**Performance conditions**~~	~~**Other performance**~~	~~**Neither the entity nor the**~~	~~**Counterparty can choose**~~	~~**Entity can choose**~~

		~~that are market conditions~~	~~conditions~~	~~counterparty can choose whether the condition is met~~	~~whether to meet the condition~~	~~whether to meet the condition~~
~~***Example conditions***~~	~~Requirement to remain in service for three years~~	~~Target based on the market price of the entity's equity instruments~~	~~Target based on a successful initial public offering with a specified service requirement~~	~~Target based on a commodity index~~	~~Paying contributions towards the exercise price of a share-based payment~~	~~Continuation of the plan by the entity~~
~~***Include in grant-date fair value?***~~	~~No~~	~~Yes~~	~~No~~	~~Yes~~	~~Yes~~	~~Yes~~[a]
~~***Accounting treatment if the condition is not met after the grant date and during the vesting period***~~	~~Forfeiture. The entity revises the expense to reflect the best available estimate of the number of equity instruments expected to vest. (paragraph19)~~	~~No change to accounting. The entity continues to recognise the expense over the remainder of the vesting period. (paragraph 21)~~	~~Forfeiture. The entity revises the expense to reflect the best available estimate of the number of equity instruments expected to vest. (paragraph 19)~~	~~No change to accounting. The entity continues to recognise the expense over the remainder of the vesting period. (paragraph 21A)~~	~~Cancellation. The entity recognises immediately the amount of the expense that would otherwise have been recognised over the remainder of the vesting period. (paragraph 28A)~~	~~Cancellation. The entity recognises immediately the amount of the expense that would otherwise have been recognised over the remainder of the vesting period. (paragraph 28A)~~

~~a In the calculation of the fair value of the share-based payment, the probability of continuation of the plan by the entity is assumed to be 100 per cent.~~

The table below is added to IG24.

Characteristics	Vesting condition			Non-vesting condition	Contingent feature
	Service	Performance	Market or Other		

Determines whether the counterparty becomes entitled to the share-based payment award?	Yes		No	No
Includes an explicit or implicit service requirement?	Yes		No	
Probability of the conditions being satisfied included in grant date fair value?	No	Yes		
Failure to satisfy condition results in cancellation of the award and acceleration of expense?	No	No		
Periodic re-estimation of number of awards expected to vest?	Yes	No		

Appendix B – Comments table on preliminary drafting

B1. Following is a summary of comments received from individual technical experts from several international accounting firms and national standard setters based on non-comprehensive informal reviews of preliminary staff drafting. These comments are made by individuals only to assist in the staff's drafting process and do not necessarily represent the views of the organisations.

Par. #	Comment	Staff response
15(c)	We believe that the guidance in draft paragraph 15(c) that the expected vesting period for a market condition should be based on the most likely outcome of the market condition is not optimal. It might be useful to base it on the duration of the median of the distribution of the share price paths on which the market condition is satisfied (please see the definition of the derived service period in U.S. GAAP). Next, we propose to replace 'share options' by 'equity instruments' to have a consistent use of terms.	Agree. That sentence has been removed and guidance remains stating 'The estimate of the length of the expected vesting period based on a market or other vesting condition shall be consistent with the assumptions used in estimating the fair value of the options granted, and shall not be subsequently revised.'
	Re: the proposed requirement to use the most likely outcome for awards with multiple conditions, we questioned whether this should be an absolute requirement. If an entity uses a Monte Carlo simulation to determine fair value then they are likely to have a large number of nodes that represent achieving the vesting condition but none would be the "most likely outcome." Apparently US GAAP has some explicit guidance re: use of a median path; I'm not sure that we want to go to that kind of specificity but it seems to call into question the ability to address the question of "what assumption" with a simple statement like the one proposed.	
15A	We prefer a specific reference to draft paragraphs B41D and B41E in draft paragraph 15A, rather than just Appendix B generally.	Agree. Paragraph 15A updated to reference directly to B41D and B41E. The staff agrees that the term 'attribution period' should be used consistently. The staff will perform a comprehensive review of the proposed drafting
	We are not sure whether 'vesting period' and 'attribution period' are used consistently in the draft amendment: • On the one hand draft paragraphs 24 and 25 are amended to 'the vesting <u>or</u>	

Par. #	Comment	Staff response
	(where applicable) attribution period' to cover the case in which an attribution period should be determined because there are multiple vesting conditions [see explanation in square brackets]. We understand from this that an entity recognises goods or services over the vesting period, if there is only one vesting condition, and over the attribution period, if there are multiple vesting conditions. Correspondingly, the attribution period is defined in draft appendix A as 'the period over which the required combination of vesting conditions is to be met'. • On the other hand in draft paragraphs B3, B8, B18, B33 and B34 'vesting period' is replaced by 'attribution period' to cover the case in which an attribution period should be determined because there are multiple vesting conditions [see explanations in square brackets]. We understand from this that 'attribution period' covers both cases, i.e. when there is only one vesting condition and when there are multiple vesting conditions. For clarification, we would support the second view. An entity always attributes the amount to be recognised for services received to the periods of service, even if there is only a service condition, e.g. the requirement to remain in the entity's employ for the next three years after grant date. The specific feature of this case is that attribution period and vesting period are identical. Maybe the amended standard could give explicit guidance on the interaction of 'vesting period' and 'attribution period' for greater clarity. We do however struggle to see the need for the concept of a 'vesting period' next to the 'attribution period'.	after the recommendations from the September 2010 Committee meeting have been incorporated.
19	The guidance in draft paragraphs 19 - 21 about service and performance conditions only addresses those that affect vesting. We ask the staff to consider whether it should also address service and performance conditions that affect factors other than vesting. For example, if an earnings target is met, then the exercise price of the option will be reduced. ASC 718 addresses these and requires their incorporation into the grant date fair value.	Disagree. The purpose of this project is not to address measurement models and their assumptions. However, the staff will provide this comment for consideration in the post-implementation review.

Par. #	Comment	Staff response
21	I acknowledge the efforts made to create categories of conditions that will have consistent accounting treatment (service conditions, performance conditions, market or other vesting conditions, non-vesting conditions). I have a concern about "market or other vesting conditions". I understand that these two categories are to be combined in one single category since they are accounted for in the same way. Nevertheless I still wonder what an "other vesting condition" could be. Examples in paragraph 21 seem to be related to market conditions, et no example of "other vesting condition" is provided.	Disagree. The proposed amendment to paragraph 21 inserts 'or target commodity index' which is not a market condition (as currently defined in IFRS 2) This example also ensures that the previous wording in IG24 is not carried forward if that condition determines entitlement and requires a related service period.
21	We don't believe introducing examples in the text is helpful (i.e.; paragraphs 21, 21A and 22) because it mixes general principles with specific cases; instead we believe there should be more examples in the definitions	Agree that providing examples in the standard may confuse. The examples have been removed from paragraph 21 and incorporated into B41C. The staff have left the examples in paragraphs 21A and 22 as those concepts have limited examples that can be easily captured in one location (without requiring a reference to a separate section of the standard, ie the AG). Disagree that examples should be included in the definitions. If examples are provided it should be directly in the standard (if there is a concise list) or in the AG (if a more expansive list or a non-exhaustive list)
21A	we encourage you to consider using a different example for non-vesting conditions. There has been a lot of diversity in practice in the use and measurement of restrictions of post-vesting transfer.	Disagree. The use of this example will ensure that diversity is avoided on this issue going forward (and is a direct issue being addressed in this project).
21A	We believe for somebody who is reading draft paragraph 21A cold, it might not be clear to what the paragraph makes reference to ('Similarly, ...'). It could be clarified as follows: 'Similarly to market and other vesting	Agree. Although 'Similarly' exists in the current paragraph 21A, the staff has removed 'Similarly' as the paragraph 21A is able to stand on its own

Par. #	Comment	Staff response
	conditions, ...' Another example of a non-vesting condition that should be added to draft paragraph 21A is a performance target without a service condition (e.g. retirement eligible employees). We believe that adding an example which addresses retirement eligible individuals to the Guidance on Implementing would be very helpful for the illustration of the proposed requirements. The example should consider individuals eligible to retire at the grant date as well as those that become eligible to retire part-way through the attribution period.	without reference or linking to other paragraphs in IFRS 2. The staff disagrees that an example showing the accounting treatment for retirement eligible employees is necessary because the proposed definitions now require that 'required service' be provided for a target to be a vesting condition and if the target is not a vesting condition it is not considered when determining the attribution period. Additionally, paragraph 21A specifies that a target without required service is a non-vesting condition that is incorporated into determining the grant date fair value of the award.
22	We are concerned that draft paragraph 22 may be understood in the way that all clawback provisions are contingent features, even if the clawback is due to not meeting a performance target. Therefore we recommend to be much more specific in draft paragraph 22. To be precise, draft paragraph 22 could be amended as indicated: '... shall not be taken into account when estimating the fair value of options granted at the measurement date or *when estimating the number of equity instruments expected to vest'*. Draft paragraph 22 gives accounting guidance for reload options. As the 'contingent feature' is a new feature for IFRS 2 we recommend to add accounting guidance for other common types of contingent features too.	Disagree. The staff believes that a feature is only a 'clawback' feature (and therefore a contingent feature) if it may impact the award after the award has vested. If the award is not yet vested, then the counterparty is not entitled to the award, so there can be no award to be 'clawed-back'. Additionally, the recommended additional wording is not currently in either IFRS 2 or US GAAP ASC Topic 718.
App A	We wonder whether the definitions might flow better in the following sequence: Market - anything that needs the share price to determine whether it has been met. Performance - a condition that is not a market condition and is based in some way on a performance measure for the employer or some subset, down to a single employee, irrespective of whether or not it is something which the individual	The staff believes the recommended change may be a more significant change than clarifying the current definitions and guidance that exists in IFRS 2. However, the staff will provide this comment for consideration in the post-

Par. #	Comment	Staff response
	getting the award may be able to influence. Anything else - we are not sure why it is necessary to distinguish between "other vesting conditions" and "non-vesting conditions" if the accounting is the same? We note that US GAAP simply has conditions which are not service, performance or market.	implementation review.
App A, Attribution Period	Attribution period - I don't understand the need for introducing the notion of "attribution period". "Vesting period" is already understood by all as the period over which the share-based payment shall be expensed. Introducing a new concept may be confusing. Instead I suggest to change the current definition of "vesting period" into the definition of "attribution period" proposed in your paper. I may be wrong, but I think that the new "vesting period" is not really used in the rest of the paper. If you decide to maintain the "attribution period", I have to point out a drafting inconsistency: paragraphs 24 and 25 state that the goods or services are received during the "vesting period or (where applicable) attribution period", whereas in Appendix B (B3, B8, B18, B33, B34) "vesting period" has been simply changed into "attribution period".	Attribution period is the single unit of time over which the employee is required to provide service and compensation cost is recognised. It is the answer after the interaction of multiple vesting conditions is considered. It is consistent with the US GAAP ‘requisite service period’. Vesting period is the unit of time relating to a single vesting condition and is consistent with the US GAAP ‘explicit service period’, ‘implicit service period’ and ‘derived service period’.
	We noted the distinction introduced between an attribution and a vesting period but struggled in many places to understand whether it mattered and if not then why the change was being made.	
	We wonder whether it is helpful to introduce a new concept of the attribution period in addition to vesting period. We are not aware of significant diversity in practice in this area. We are aware that some believe that when there are multiple vesting conditions and the award vests before they are all met, the existing literature requires that the end of vesting period is when/if all of the conditions are met rather than when the award vests. We wonder whether this could be addressed more simply with a minor amendment rather than a new concept.	
	Attribution period – Based on the definition included it is not clear how an	

Par. #	Comment	Staff response
	attribution period differs from a vesting period and what the purpose of the term is. If the concept remains, consider beginning the definition with "The attribution period is the period over which a required combination of vesting conditions is to be met..."	
App A, Contingent Feature	Contingent feature - I think that this is much too wide, and 'feature' is an unfortunate differential. I suggest something more on the lines of ' A condition that affects the amount or value of an award consequent on an action taken by the counterparty' You would have to think of what the proper scope of 'amount or value' was.	The staff have added '…after an award has vested' to distinguish that a contingent feature does not determine entitlement (ie not a vesting condition) and is not an active feature that has an impact on the valuation of the award. The staff disagrees that a contingent feature is inconsistent with BC221 since that paragraph relates to an award that is forfeited and does not relate to an additional event/ impact that occurs (which requires separate accounting treatment if, and only if, it occurs). Paragraph BC4 has been revised to specify the Board's rationale that a non-compete provision 'does not result in direct service being provided to the entity and is not considered a significant activity.'
	We wonder whether it is helpful to introduce a new concept of a contingent feature that is inconsistent with other areas of the literature. A contingent feature is usually something that is not under the control of any of the parties to the contract. The examples of contingent features in the draft can be controlled by the counter party. We wondered why this new concept is necessary. We also note that reversal of expense when the contingency occurs appears inconsistent with BC 221. The transactions illustrated in the draft appear to be either the purchase of treasury shares for nothing or a other income.	
	In particular, we are concerned about the proposed definitions for 'contingent features' and 'non-vesting conditions' in draft Appendix A and struggle to understand the guidance they give in categorising conditions. What distinguishes a 'non-vesting condition' from a 'contingent feature'? For example, a non-compete provision that is presumed to be a 'contingent feature', is at the same time a condition that does not determine whether the counterparty vests in a share-based payment arrangement. Or on the other hand, the saving requirement in a SAYE plan that is considered to be a non-vesting condition, is dependent on the occurrence of the counterparty's actions, i.e. to save. We are not sure that these definitions will help in categorising conditions and especially new types of conditions that come up after the standard is amended	

Par. #	Comment	Staff response
	and propose to clarify these definitions. At least the rationale in draft paragraph BC4 should be reflected in the definitions.	
	Contingent feature – Consider clarifying the definition by adding wording at the end of the definition as follows: "A feature that is dependent on the occurrence of the counterparty's action other than service or performance; for instance a clawback feature"	
	The paper uses terms employed in earlier IFRIC discussions that I fear could be endless sources of confusion: "contingent feature" and "market or other vesting conditions." *contingent feature*: in the "plain [technical] English" I think that most people would consider an award with a vesting condition to be contingent and indeed the drafting of IG Example 5 describes an award with a service condition as being "conditional." Do you think that it is possible to distinguish successfully between things that are conditional on vesting conditions (you get the award IF you provide three years of service) and things that are contingent on other actions (you forfeit an otherwise vested award IF you go to work for the competition)? If you are relying upon people understanding the difference between conditional and contingent then this needs to be brought out much more clearly. Further, consider the use of the phrase "is dependent on the occurrence of the counterparty's action" -- the table at the back says "N/A" for contingent feature in the column "able to be influenced by the employee". - ….	
App A, Market or Other Vesting Conditions	The paper uses terms employed in earlier IFRIC discussions that I fear could be endless sources of confusion: "contingent feature" and "market or other vesting conditions." … - *market or other vesting conditions*: Since service, performance and "market	The staff has added 'vesting' to the first sentence of the definition. The staff notes that 'specified' exists in the current IFRS 2 and US GAAP ASC Topic 718 definition of 'market condition' and means a target that is known by all involved

Par. #	Comment	Staff response
	or other vesting conditions" all are defined as vesting conditions, I think that the name "market or other vesting conditions" won't work as a label for a sub-category of vesting conditions. Consider, for example, a plain English reading of proposed 15(c) -- if an employee is granted share options conditional upon the achievement of a market or other vesting condition [what if I read "or other vesting condition" as a sales target performance condition] and remaining in the entity's employ until the market or other vesting condition is satisfied, ... the expected vesting period ... shall not be subsequently revised." Further, rather than it being a "good thing" to use the US phrase of "other condition" I think that it brings faux convergence as I understand that it's not clear under SFAS 123R whether an Other Condition is a vesting condition or not. Secondly, under US GAAP the impact of an Other Condition is on classification and therefore a requirement to remeasure rather than impacting the grant-date fair value determination.	parties to the SBP arrangement. The staff agrees that the term could be shortened to 'other vesting condition' as the accounting treatment for both 'market conditions' and all 'other vesting conditions' is the same. As analysed in the March 2010 Committee Paper 3B, the classification as equity-settled or cash-settled in IFRSs and US GAAP uses different rationale. Therefore, the staff does not believe constituents would or should compare the two literatures in this area. IFRS 2 specifies if any cash or other assets will be paid by the entity, the award is cash-settled. US GAAP requires the counterparty to be subjected to the risks and rewards of equity ownership for a reasonable period of time (without consideration of the ultimate method of payment by the entity). **QUESTION A: Does the Committee agree that the term 'market or other vesting condition' can be shortened to 'other vesting condition'?** The staff notes that paragraphs B41B and B41C incorporate guidance on the application of the definitions of performance condition and market or other vesting condition. Therefore, the staff do not anticipate difficulty in applying the proposed definitions to the examples in question (TSR and share price growth)
App A, Market or Other Vesting Condition	- Market or Other vesting condition – o We suggest changing the definition 'Market or other vesting condition' simply to 'Other vesting condition'. We believe that would better cover the definition proposed by the staff (negative definition). This proposal is also in line with the table proposed by the staff in IG24. o Is there a reason why "vesting" is not included in the first sentence of the definition? o Consider clarifying in the definition what is meant by "specified" – it is clear later in the amendments that service must be required throughout in order to meet the definition. We believe that if someone reads the draft definitions in draft Appendix A cold, the term 'market or other vesting conditions' might be confusing, given that 'market conditions' are not explicitly reflected in the definition. If it is intended to	

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	indicate that this category of conditions comprises market conditions, we recommend that this should be explicitly stated in the definition.	
	We wonder whether the implicit definition of "other vesting conditions" provides sufficient clarity. We also wonder whether the similarity to the US GAAP conditions "other than service, performance or market", will lead to diversity in practice and challenges for SEC registrants.	
	We note that the definition of market or other condition excludes performance conditions: achieving a specified performance target .... that is defined by reference to (1) the employer's own operations (or activities), or (2) the same performance measure of another entity or group of entities". We wondered whether this means that TSR and share price growth, which are market conditions under the current guidance, are targets defined by reference to the operations (or activities) of an entity or group of entities, which means they become performance conditions.	
App A, Non-vesting Condition	Non-vesting condition - This assumes that 'vests' is an understood term - at the moment it is simply implicit in the definition of vesting condition. I think that that would probably be OK, though.	The staff does not propose an additional modification at this time, but will consider this comment in the context of the discussion at the Committee's September 2010 meeting.
App A, Performance Condition	The criteria for classification between 'market condition' and 'performance condition' is not clear. For example, 'the employer's own operation (activities)' could be related to the market price of the stock which is regarded as a market condition, because it could affect the market price of the stock.	Disagree. Paragraphs B41B and B41C provide additional guidance to apply the definitions of a performance condition and market or other vesting condition. The staff notes that 'specified' exists in the current IFRS 2 and US GAAP ASC Topic 718 definition of 'market condition' and means a target that is known by all involved parties to the SBP arrangement. The staff notes the last sentence of paragraph B41B that states 'A performance target might relate either to the
	It is necessary to ensure consistency in describing 'market or other vesting condition' and 'performance condition' in the definition.	
	Performance condition - Consider clarifying in the definition what is meant by "specified" – it is clear later in the amendments that service must be required throughout in order to meet the definition.	
	performance condition -- this would seem to exclude a condition that applies to	

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	an individual employee's performance eg a requirement to make a specified number of sales calls. Is it intended that a condition can not be specific only to the employee?	performance of the reporting entity as a whole or to some part of the reporting entity, such as a division or an individual employee.' The staff notes that the wording 'the same performance measure of another entity or group of entities' is existing wording in US GAAP ASC Topic 718. This concept is further clarified by paragraph B41B and is intended to capture an affiliate entity of a reporting group (and not the performance of a completely unrelated entity). Therefore, the staff have added 'in a consolidated group' to the end of the definition of a performance condition.
	Performance condition - I am not very happy with the last part of this section - I don't think that "defined by reference to the employer's own operations (or activities)" is sufficiently precise to deal with the concept of personal performance - ie is it corporate metrics only or does it include the employee's personal targets? Presumably if it is intended to cover things like achieving a trade sale it must do.	
	Given that performance conditions according to the definition in draft Appendix A can be based on performance targets '... that is defined by reference to ... (2) the same performance measure of another entity or group of entities', we understand that the definition encompasses the following scenario too: Entity A grants its employees shares under the condition that entity B attains a growth rate in earnings per share that exceeds the average growth rate in earnings per share of other entities in the industry. Entity A and B are neither related parties nor group entities as defined in the footnote to IFRS 2. As we presume that performance conditions should not encompass such scenarios, we would support a definition clarifying this. Also for the objective of clarification we recommend that 'explicit' and 'implicit' service periods be defined.	
BC4	SAYE features -- I don't see where there is clarity that this is a non-vesting condition. Given that the staff had analysed in earlier versions using similar proposed definitions that an SAYE feature would be a vesting condition for which there is forfeiture (true-up) accounting, wouldn't we end up repeating that argument? While BC4 notes how an SAYE is treated, I didn't see an explanation for why that is the case. Further, given that BC2 explains how a commodity index has become a vesting condition, arguments about it not being related to service are hard to make. Apologies if I've missed something.	The staff agrees that it is hard to argue that a SAYE feature is not related to service; however, at its July 2010 meeting, the Committee tentatively decided that there should be no change to the accounting treatment of a SAYE feature. Therefore, the staff have retained the accounting treatment consistent with a non-vesting condition. **QUESTION B: Does the Committee agree**

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	We note that the definition of a contingent feature appears to include the savings requirement in an SAYE plan. BC 4 states that the savings requirement in an SAYE plan is a non-vesting condition but we cannot see the distinction, since continuing to save seems similar to not starting to compete, and ceasing to save appears similar to beginning in competition. We wonder whether it might be helpful to explain why rule the rule for SAYE plans appears to be inconsistent with the new concept.	**with its tentative decision that a SAYE feature is a non-vesting condition?** Based on the discussion at the September 2010 Committee meeting, the staff will incorporate a rationale into the proposed BC drafting. The definition of a contingent feature has been updated to include 'after the award has vested' which will assist in excluding a SAYE feature from its definition. The staff have removed the (originally proposed) Ex 6C (non-compete provision) since the staff does not expect a non-compete provision to be deemed a vesting condition and to avoid confusion.
	The wording as currently included will result in diversity in practice. If there is a situation where the Board believes a clawback should be considered a service condition we suggest that be clarified. It is not clear in BC 4 or in Example 6c.	
	Finally, we note that the cover note says that SAYE arrangements will continue to be non-vesting conditions, but the text explains this only in the basis for conclusions.	
BC6	We were confused with the wording here. To clarify – if an employee is terminated either voluntarily or involuntarily does the staff believe that would be viewed as a cancellation rather than a forfeiture?	Agree. The staff have updated BC6 and consistent with the updated proposed definition of service condition, 'If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the counterparty has failed to satisfy the condition.' Therefore, termination of an employee for any reason shall be accounted for as forfeiture.
	I disagree with BC6 which leads to account for involuntary termination of employment as cancellation: - involuntary termination of employment may result from the employee rendering insufficient services to deserve both wages and share-based payment. In that case it wouldn't be relevant to account for a share-based payment expense since termination of employment is due to insufficient services. - when termination of employment is without cause (not the employee's fault, but only the employer's decision), the employee (at least in France) is entitled to mandatory compensation plus any other compensation he could obtain in court. When he is granted some share-based payment that forfeit due to the termination of employment, he may obtain in court a cash compensation for the loss of the awards. Accounting for involuntary termination of employment as cancellation	

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	could lead to double compensation accounting: the cancellation of the share-based payment and the compensation in court. - I believe it may be really difficult to distinguish among the former employees those who were fired from those who left voluntarily. Moreover, in some jurisdictions (eg. in France) termination of employment may result from a shared agreement between employer and employee, where it is impossible to assess who initiated it.	
	the treatment of involuntary termination as cancellation: the comment in passing in BC6 came as a surprise to me and seems to be a substantive and specific conclusion on the application of the standard rather than material that should be in a Basis for Conclusion because it does not explain why the Board reached conclusions but rather analyses and answers a practice issue.	
IG, Ex 6A	Although it is implied in the example, we suggest clarifying in draft IG Example 6A that the service period for the market condition is not supposed to be reassessed.	Disagree. The staff notes that paragraph 15(c) already specifies that the attribution period for an award with a market or other vesting condition 'shall not be subsequently revised'. **QUESTION C: Does the Committee believe the recommended clarification should be added to the drafting of IG, Ex 6A?** If yes, the staff proposes that immediately before the calculations for years 1-3 to add 'Consistent with paragraph 15(c), the attribution period determined consistent with the assumptions using at grant date in estimating the fair value of the options granted, shall not be subsequently revised.'
IG, Ex 6B	This example is implying that a Company may be able to assess the probability of an IPO occurring a number of years before it occurs – does that staff believe that is acceptable?	Agree. The staff will revise IG, Ex 6B to explain why CU30 is not utilised. Additionally, based on the discussions at the September 2010 Committee

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	We recommend clarifying in draft IG Example 6B why the CU 30 (i.e. grant date fair value excluding the market condition) is never relevant to the compensation cost recognised each period.	meeting, the staff will additionally update IG, Ex 6B to address the notion of probability of an IPO occurring. **QUESTION D: Does the Committee recommend that specific application guidance be incorporated into the proposed amendment to specify that an IPO is not probable of occurrence until it occurs?** This treatment would be consistent with the current large international accounting firm guidance on IFRS 2 and US GAAP ASC Topic 718.
IG, (initially draft Ex 6C)	To enhance a consistent application and for clarification, we would support adding guidance for non-vesting conditions and contigent features that is similar to the one in draft paragraphs B41A - B41C for vesting conditions. This could lift SAYE schemes (see draft paragraph BC4) and non-compete provisions (IG Example 6C) from the the Basis for Conclusions and the Guidance on Implementing to the standard level. Correspondingly we propose to explicitly state in paragraphs 13 and 13A of IFRS 2 that non-competing is presumed not to be **a** rendering of service. Given our experience from U.S. practice with illustration 16 to FAS 123R we strongly recommend to remove an example with such a narrow fact pattern as Case 2 of draft IG Example 6C. However, we recommend to add guidance to Appendix B for indicators of facts and circumstances that could result in the non-compete provision effectively requiring continued service to the current employer. With respect to draft IG Example 6C Case 1 we suggest clarifying that the reversal of expense is limited to the compensation cost previously recognised and believe that journal entries would be helpful too. I fail to understand why in case 2 the non-compete provision requires continued service to the current employer. If the employee leaves voluntarily and stops	The staff has proposed removing IG, initially draft Ex 6C (non-compete provision), so this comment becomes not applicable. However, if the Committee desires to retain this example, the staff note that Case 1 specifies the non-compete provision as a 'contingent feature' where no accounting consequences result at inception of the award. Therefore, the staff does not believe it is necessary to specify that no compensation cost would be reversed or to provide the journal entries.

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	working, or works for another entity that is not a competitor, he is still entitled to the transfer of unrestricted shares after 4 years. Where is the service requirement ? What makes case 2 different from case 1?	
	I have some concern about giving examples like this as this effort to rebut form-based arguments gives credence to them and you end out stomping out only the specific cases that you illustrate. I'd hope that we'd be able to argue, when faced with such an example, that although the condition is structured as a non-compete it is in substance a vesting condition (assuming that at this point we understand what a vesting condition is). I question the wisdom of having an approach of "sometimes it is, sometimes it isn't" for non-competes and then illustrating the "sometimes it isn't" with a non-substantive example.	
IG, Ex 6C	In several of the new examples the explanation given as to why something is not a vesting condition is because it does not determine whether the entity receives the requisite service (eg IG Examples 6C and 6D). Given the staff's proposal to flip the focus of the definition of vesting condition to employee entitlement from employer receipt of service this seems to need rethinking.	The staff have removed Ex 6C (non-compete provisions) and renamed Ex 6D (performance target in excess of required service period) to 6C.
IG, now Ex 6C (initially draft 6D)	While we don't disagree with the conclusion in draft IG Example 6D, we want to highlight that this will create a change in practice for many U.S. entities upon adoption of IFRS. Many of them with similar fact patterns (usually it is an IPO target instead of a profit target) account for these similar to performance conditions, i.e. the compensation cost is reversed if the IPO never happens. For illustration purposes we propose to add journal entries to this example too.	The staff agree that US GAAP permits diversity of three different accounting policy elections to account for the same fact pattern. This drafting proposes to provide consistency in the accounting treatment in IFRSs for this transaction. Additionally, the proposed treatment is consistent with the large international accounting firm guidance that currently exists, so the staff does not expect a significant change in practice for current IFRS preparers.
IG24	We propose to align the name of the third category of vesting conditions in the draft table in paragraph IG24 with the name of this category in draft Appendix A,	Agree. The name of the third category will be consistent with the term decided to be included in

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	i.e. instead of 'other' it would be named 'market or other'. Considering that market conditions may be influenced by employees in many cases, we believe that the last row of the draft table will be confusing.	Appendix A. The third column of IG24 has been updated and the bottom row (discussing influence by the employee) has been removed). The staff disagree that a non-vesting performance target (that is determined after the required service period) determines entitlement. Instead that performance target determines the ultimate value of the award, but it does not determine whether a counterparty may keep the award and terminate employment. It is simply the value of the award (that the counterparty 'owns') that is being determined by the performance target (similar to other derivative instruments purchased in the market that can only be exercised at a future date).
	'Contigent feature' is defined as 'A feature that is dependent on the occurrence of the counterparty's action.'. However, newly-added table below IG 24 explains that 'contingent feature' is not relevant to 'influence by the employee'. I think that they are not consistent.	
	We are confused with one of the answers in the "Non-vesting" column. When considering an award that contains a service condition and a performance condition that does not extend to entire length of the performance condition we believe the performance condition will determine whether the holder is entitled to the award.	
	We are not convinced that it is possible to conclude that all other vesting conditions and non-vesting conditions are unable to be influenced by the employee. We advise to simply delete this row.	
	We suggest you consider bringing some of the thoughts expressed in the table forward in the standard.	
General	As share-based payment arrangements that are not share-based payment transactions are not in the scope of IFRS 2, we propose to replace all references to share-based payments by references to share-based payment transactions.	Disagree. The staff notes several instances of 'share-based payment arrangements' throughout IFRS 2 including paragraph 5 that specifies 'the cancellation, replacement or other modification of share-based payment arrangements because of a business combination or other equity restructuring shall be accounted for in accordance with this IFRS.'. However, the staff will review this amendment to ensure proper use of terminology and also provide this comment for consideration in the post-implementation review.

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General	Many defined terms are not shown in italics in the working draft.	Agree. The staff will perform a comprehensive review of the proposed drafting after the recommendations from the September 2010 Committee meeting have been incorporated.
General	Feasibility assessment is needed to examine whether it is practicable to reflect 'other vesting condition' in measuring FV at the grant date.	The staff recommends this as a specific question to be included in an exposure draft of the proposed amendment to IFRS 2.
General	Our overall sense is that the proposed changes are far wider than the amendments that would be required to address the diversity identified in the original submission. The proposed changes address aspects of IFRS 2 that are well understood and where there is little or no diversity and we wonder whether these might be better left for the post implementation review. They are certainly broad changes that go beyond the scope of an interpretation or an annual improvement.	Disagree. The staff have analysed the AIP criteria in the September 2010 Committee Paper 2B and believe that all criteria are satisfied.
General	The issue identified in the original submission could be addressed simply by adding a definition of service, performance and non-vesting conditions. We are therefore not sure why any amendments to IFRS 2 beyond these definitions are required. We are not sure, in particular, why it is necessary to introduce new concepts such as contingent features and the attribution period. Our sense is that this will cause confusion and add to diversity in practice and for this reason, we wonder whether some simpler and narrower amendments would address the issues that exist in practice.	Disagree. The staff refers to the prior, current and new issues that continue to be presented to the Committee for addition to its agenda. As an example, the September 2010 Committee Paper 3 (forfeiture vs cancellation event when an entity terminates an employee). The proposed amendments to IFRS 2 are limited to the determination of a feature's classification and impact on the accounting for a share-based payment award, but do so in a comprehensive manner.