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Project	**Annual Improvements—2010-2012 cycle**
Topic	**IFRS 2 *Share-based Payment*—vesting and non-vesting conditions**

Introduction

1. In May 2009, the IFRS Interpretations Committee took onto its agenda the project *Vesting and non-vesting Conditions* relating to share-based payments acknowledging that issues are occurring due to:

   (a) a lack of clarity in the current definition of vesting conditions in IFRS 2 *Share-based payment*, which incorporates the concepts of service conditions, performance conditions and market conditions (and vesting period);

   (b) an absence of the definition of non-vesting conditions; and

   (c) insufficient guidance on the interaction of multiple vesting conditions.

2. The Committee analysed each of the issues and sought solutions consistent with the underlying principles in IFRS 2. Based on the deliberations of several meetings[1], the Committee reached conclusions on those issues.

[1] The Committee discussed these issues at its May 2010 meeting (Agenda papers 3A-3C); at its July meeting (Agenda papers 3A–3D); at its September 2010 meeting (Agenda papers 2–2C and Agenda Paper 3); and at its November 2010 meeting (Agenda paper 2). The Board discussed these issues at its September 2010 meeting (Agenda paper 20)).

3. The Board discussed the Committee's recommendations at the 13–17 September 2010 Board meeting and asked the Interpretations Committee to prioritise the issues being addressed by this project and consider the best path forward on an issue by issue basis to determine whether any of the issues being addressed could be dealt with as annual improvements.

4. At the November 2010 meeting, in response to the Board's request, the Committee decided to propose clarification to the definitions of service conditions and performance conditions through the next annual improvements cycle by:

   (a) separating the description of performance condition and service condition from the definition of vesting conditions; and

   (b) setting out new definitions for a performance condition and service condition.

5. The Committee identified the following as **higher priority issues** to be addressed in the way described in paragraph 4:

   (a) the correlation between an employee's responsibility and the performance target **(Issue 1)**;

   (b) whether a share market index target may constitute a performance condition **(Issue 2)**;

   (c) whether a performance target that refers to a longer period than the required service period may constitute a performance condition **(Issue 3)**; and

   (d) whether termination of employment is a forfeiture or cancellation event **(Issue 4)**.

6. The Committee concluded that the following issues, however, should be considered **lower priority issues** and referred to the Board for consideration in a future agenda proposal for IFRS 2:

   (a) classification of a non-compete provision **(Issue 5)**; and

(b) accounting for the interaction of multiple vesting conditions **(Issue 6)**.

Purpose of this paper

7. The purpose of this paper is to ask the Board whether it approves a clarification to the definitions of service conditions and performance conditions in IFRS 2, through the next annual improvements cycle.

8. This paper:

    (a) provides a summary of **higher-priority issues** that the Committee recommends should be dealt with in this way through annual improvements (refer to **Issues 1–4** in paragraph 5 above);

    (b) makes:

        (i) a recommendation for a proposed amendment to IFRS 2 (the draft wording of the amendments recommended by the Committee is presented in **Appendix A** for illustrative purposes) and asks the Board whether they agree with the recommendation.

        (ii) an assessment of the proposed amendment against the criteria for inclusion in annual improvements;

    (c) provides a summary of **lower-priority issues** that the Committee recommends that the Board consider in a future agenda proposal for IFRS 2 (refer to **Issues 5–6** in paragraph 6 above).

9. The following section gives a summary of the issues that have been discussed by the Committee at the November 2010 meeting following the presentation to the Board at the September 2010 meeting.

Summary of higher-priority issues

Issue 1—correlation between an employee's responsibility and the performance target

Issue 1—description

10. What, if any, level of linkage (correlation) is required between a performance target and an individual employee's actions in order for that condition to be a performance condition?

11. For example, there is a clear correlation between the actions of a salesperson and a revenue target, so a revenue target for such an employee is generally accepted as a performance condition when accompanied by an implicit or explicit service requirement. However, would it be acceptable for a revenue target to be classified as a performance condition for a share-based payment award granted to a purchasing manager?

Current IFRS 2 guidance

12. Appendix A *Defined terms* of IFRS 2 describes 'performance conditions' within the definition of 'vesting conditions'. However, IFRS 2 does not specify what attributes a performance condition should have. The definition of vesting conditions is as follows (emphasis added):

> **Vesting conditions**
>
> 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. Vesting conditions are either service conditions or performance 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.

13. Paragraph BC171 of IFRS 2 provides some explanation of the reason for which performance condition is imposed, as follows (emphasis added):

> BC171 Vesting conditions ensure that the employees provide the services required to 'pay' for their share options. For example, the usual reason for imposing service conditions is to retain staff; **the usual reason for imposing other performance conditions is to provide an incentive for the employees to work towards specified performance targets.**

Potential diversity or confusion and its cause

14. Some have argued that if share-based payment awards are granted to employees conditional on the entity-wide profit, it is not clear that the profit target constitutes a performance condition. Those supporting this view believe that the employee has so little influence on the entity-wide profit that it is not clear that the target is able to sufficiently incentivise an individual employee's actions.

15. Others believe, however, that because the entity is in business in order to make a profit, it is reasonable to assume that all employees contribute directly or indirectly to the entity-wide profit, ie that generally employees contribute towards entity-wide profit.

Staff analysis

16. We think (refer to the Committee's agenda paper 3B of July 2010) that general performance targets that relate to the entity, such as an entity-wide profit target, can provide a sufficient incentive for an individual employee.

Proposed remedy for Issue 1

17. The Committee agreed with the staff analysis and agreed that a remedy for **Issue 1** would be to:

    (a) separate the description of a performance condition from the definition of vesting conditions; and

    (b) make clear within the definition of a performance condition that a performance target may relate either to the performance of the entity as a whole or to some part of the entity, such as a division or an individual employee.

18. The proposed definition of 'performance conditions' is shown in Appendix A of this paper.

Issue 2—share market index target

Issue 2—description

19. When a share market index target determines how long the employees must provide service for the entity, should the target be considered as:

    (a) a vesting condition, because the target determines how long the entity receives the service from the employees; or

    (b) a non-vesting condition, because the target does not relate to the performance of the entity?

20. An example is a grant conditional on the FTSE (Financial Times Stock Exchange) 100 index reaching a specified target (for example, 6500) at any time in the next three years and the employee remaining in service up to the date that the FTSE 100 target is met.

Current guidance in IFRS 2

21. The definition of performance condition included within the definition of 'vesting conditions' in Appendix A defined terms of IFRS 2 specifies that 'a performance condition may include a market condition as shown below (emphasis added):

> **Vesting conditions**
>
> 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. Vesting conditions are either service conditions or performance 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**.

22. Additionally, paragraph IG4A of IFRS 2 illustrates through a flowchart that a performance condition is a condition that requires some condition to be met in addition to a service condition (ie a performance target). Examples of performance targets given by IFRS 2 include the entity's profit and a sales department's sales volume (non-market performance targets) and the entity's share price (market performance target)[2].

23. IFRS 2 defines a **market condition** separately as (emphasis added):

> **Market condition**
>
> A condition upon which the exercise price, vesting or exercisability of an equity instrument depends that is **related to the market price of the entity's equity instruments**, such as attaining a specified share price or a specified amount of intrinsic value of a share option, **or achieving a specified target that is based on the market price of the entity's equity instruments relative to an index of market prices of equity instruments of other entities**.

Potential diversity or confusion and its cause

24. **View A.** Some argue that the share market index target with the implicit service requirement constitutes a performance condition because an employee is required to provide service to the entity and the time estimated to reach the share market index target implicitly determines how long the entity receives the required service.

25. **View B.** Others argue that the share market index target is a non-vesting condition because it is not related to the performance of the entity and the service requirement is a separate vesting condition. The definition of a market condition requires that the target is related to or based on the entity's share price. A share market index target that does not refer to the entity's share price fails this requirement. Using this rationale, the share market index target would be considered a non-vesting condition.

[2] These examples are referred to in the description of performance conditions, IG Example 3 and the definition of market conditions, respectively.

Staff analysis

26. We agree with the analyses and assessment described in View B in paragraph 25. We have also analysed the question of share market index targets from the broader perspective of performance targets as a whole. We think that performance targets generally may be categorised into two types (refer to the Committee's agenda paper 3B of July 2010):

    (a) **Internal target** – Performance targets whose achievement is determined predominantly by internal activities within the entity. Among the examples are the entity's sales volume, profit and earnings per share.

    (b) **External target** – Performance targets whose achievement is not determined predominantly by internal activities within the entity. External targets may be influenced by internal activities, but are also significantly affected by external factors and events. Among the examples of external targets is the entity's share price, etc.

27. We think that for a target to constitute a performance condition, the target needs not only to be 'within the influence of' (that is, able to be influenced by) the employee but also to be in the interest of the entity. The notion that the performance target should be in the interest of the entity reflects the underlying principle in IFRS 2 and the analyses presented in paragraph 12 of IFRS 2 concerning rewarding employee efforts in improving the entity's performance. An extract of this paragraph is presented below (emphasis added):

    > 12 (...) Furthermore, shares or shares options are sometimes granted as part of a bonus arrangement, rather than as part of basic remuneration, eg as an incentive to the employees to remain in the entity's employ or **to reward them for their efforts in improving the entity's performance.** By granting shares or share options, in addition to other remuneration, **the entity is applying additional remuneration to obtain additional benefits.**

28. In our view,

    (a) a share market index target may be affected by many other variables including macroeconomic factors such as the risk-free interest rate or foreign exchange rates. Based on this, we believe that the entity's share market index is remote from the influence of the employee because of the additional external factors involved in its determination. Accordingly, we think a target based on a share price index that does not also refer to the entity's share price does not provide a sufficient link between the target and an individual employee's actions or provides benefits to the entity to be classified as a performance condition; and

(b) there is no link (or at best a weak link) between the entity's own share price and the share price index.

Proposed remedy for Issue 2

29. The Committee agreed with the staff analysis and agreed that a remedy for **Issue 2** would be to:

(a) separate the description of a performance condition from the definition of vesting conditions (as suggested for Issue 1 above); and

(b) make clear the nature of a performance target within the definition of 'performance conditions' ie that a performance target is defined by reference to the entity's own operations (or activities). We think that a target defined by reference to the operation or activities of the entity reflects our analysis that the target needs not only be 'within the influence of' the employee but also to be in the interest of the entity.

30. The proposed definition of 'performance conditions' is shown in Appendix A of this paper.

Issue 3—performance period longer than the required service period

Issue 3—description

31. This issue occurs when the achievement of a performance target continues to be assessed over a period of time longer than that for which the employee is required, explicitly or implicitly, to provide direct service for the benefit of the

entity. Should such a performance target be considered (i) a performance condition or (ii) a non-vesting condition?

32. An example is a share-based payment award that is conditional upon the employee providing service for the entity over the next two years and for which the ultimate 'value' is determined at the end of the third year, based on whether the entity achieves a cumulative profit target.

Current guidance in IFRS 2

33. Appendix A *Defined terms* in 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'. It also describes (within the definition of 'vesting conditions') 'performance conditions' as the conditions that require the counterparty to complete a specified period of service and to meet specified performance targets, as follows (emphasis added):

> 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**).

34. Paragraph BC171A elaborates on the definition by highlighting a feature that distinguishes a performance condition from a non-vesting condition, which is that a performance condition has an explicit or implicit service requirement and a non-vesting condition does not.

Potential diversity or confusion and its cause

35. The specific description of performance conditions (included within the definition of vesting conditions) does not provide explicit guidance on the required periods of time associated with a performance target as compared to the explicit or implicit service requirement.

36. This lack of explicit guidance has led to different interpretations. For example, some believe that a performance target should be taken to constitute a performance condition even if the achievement of the performance target is

assessed over a period that exceeds the period for which the employee is required to provide service. The rationale for this view is supported by the fact that the current IFRS 2 does not explicitly require a performance target to be fully combined with a service requirement for it to constitute a performance condition.

Staff analysis

37. We acknowledge (refer to the Committee's Agenda paper 2A of September 2010) that the specific description of performance conditions (included within the definition of vesting conditions) does not provide explicit guidance on the required periods of time associated with a performance target as compared to the explicit or implicit service requirement. However, we note that the definition of vesting conditions makes clear that a vesting condition (including a performance condition) must 'determine whether the entity receives the services that entitle the counterparty to receive' the share-based payment

38. In addition, the employee is free to leave the entity after the required service period has passed; and hence the performance target may not, by itself, determine whether the entity receives the 'services' that entitle the counterparty to receive the share-based payment after that period.

39. We also think (refer to Appendix G of the Committee's agenda Paper 3C of July 2010) that for any performance target to be classified as a 'performance condition', that target needs to have an explicit or implicit service requirement for the duration of the period the performance target is being measured in order to constitute a performance condition. Otherwise, the generic definition of vesting conditions may be compromised where service is not received during a portion of the performance target period.

Proposed remedy for Issue 3

40. The Committee agreed with the staff analysis and agreed that a remedy for **Issue 3** would be to:

(a) separate the description of a performance condition from the definition of vesting conditions (as suggested for Issue 1 above); and

(b) make clear the length of the performance period within the definition of 'performance conditions', ie that in order to constitute a performance condition, any performance target needs to have an explicit or implicit service requirement for the duration of the period under which the performance target is being measured.

41. The proposed definition of 'performance conditions' is shown in Appendix A of this paper.

Issue 4—termination of employment

42. With respect to the share-based payment transaction, when the employment of an employee is terminated by the entity, should the termination be considered as (i) a forfeiture (ie the employee failing to meet a service condition and a reversal of past expense) or (ii) a cancellation (ie the entity directly cancelling the grant, and an acceleration of any expense not yet recognised)?

Current guidance in IFRS 2

43. In IFRS 2, there is no specific guidance on the effect upon the share-based payment award resulting from the entity's termination of the employee.

44. Appendix A *Defined terms* in IFRS 2 describes a 'service condition' within the definition of vesting conditions in IFRS 2, as follows:

> Service conditions require the counterparty to complete a specified period of service.

45. In addition IFRS 2:

(a) in paragraph 19 regards the employee's failure to complete a specified service period as failure to satisfy a service condition.

(b) does not make any distinction as to why the employee has failed to complete a specified service period; and

(c) in paragraph 28, isolates cancellation events from the instances where vesting conditions are not satisfied (ie a grant cancelled by forfeiture).

Staff analysis

46. We think (refer to the Committee's agenda paper 3 of September 2010), that the entity's termination of employment should be treated a forfeiture event, because the employee is unable to satisfy the service condition. In addition, we think that there should be no need to determine the reasons for which the entity terminated the employment; if the reasons for the termination need to be identified in order to determine the accounting for the termination, it might be extremely subjective and difficult to ascertain the ultimate underlying purpose of the termination.

Proposed remedy for Issue 4

47. The Committee agreed that a remedy for **Issue 4** would be to:

(a) separate the description of 'service conditions' from the definition of vesting conditions (refer to **Issue 1**); and

(b) make clear within the definition of 'service conditions' that if the employee fails to complete a specified service period, the employee fails to satisfy a service condition regardless of what the reason for failure is.

48. The proposed new definition of 'service conditions' is laid out in Appendix A of this paper.

Lower priority issues—to be considered in a future agenda proposal for IFRS 2

Issue 5—non-compete provision

49. Should a non-compete provision be considered (i) a service condition, (ii) a non-vesting condition or (iii) another type of condition not defined in IFRS 2

(for which we have recommended the term ‘contingent feature’, for discussion purposes)?

50. An example is a share (or share option) that has been awarded as compensation in a share-based payment arrangement. The share is vested and the counterparty is therefore entitled to the share; however, the share includes a ‘clawback’ provision that requires the counterparty to refrain from competing against the entity (typically by refraining from employment with a competitor of the entity) for a specified period of time. If, during the specified future period, the counterparty breaches the non-compete provision, the counterparty is required to return the share (or the gain from the sale of the share).

Current guidance in IFRS 2

51. There is no clear guidance in the authoritative section of IFRS 2 on non-compete provisions, but paragraph BC171B of IFRS 2 indicates that non-compete provisions that apply after the holder is entitled to the awards are not vesting conditions (emphasis added):

> In general, respondents to the exposure draft agreed with the Board’s proposals but asked for clarification of whether particular restrictive conditions, such as ‘non-compete provisions’, are vesting conditions. The Board noted that a share-based payment vests when the counterparty’s entitlement to it is no longer conditional on future service or performance conditions. Therefore, conditions such as **non-compete provisions** and transfer restrictions, **which apply after the counterparty has become entitled to the share-based payment, are not vesting conditions**. The Board revised the definition of ‘vest’ accordingly.

Potential diversity or confusion and its cause

52. Some share-based payment arrangements that do not contain an explicit service condition may contain a non-compete provision that requires an employee, under some conditions, to return to the entity the equity instruments granted by the share-based payment arrangement (or to return an equivalent amount of cash or other assets) under certain conditions.

53. Generally, a non-compete provision is relevant when the employee has already terminated employment with the entity and therefore, no future service will be

provided by the employee. However, such a non-compete provision is often found within a share-based payment arrangement entered into when the employee is providing services to the entity (and there is no current intent by the employee to stop providing those services).

Staff analysis

54. We think (refer to the Committee's agenda Paper 3D of May 2010 and Appendices B and C to the Committee's Agenda Paper 3C of July 2010), that the non-compete provision should be presumed to be a contingent feature (ie the employee taking the specific action of working for a competitor). The rationale is that the former employee is not providing (and the entity is not receiving) any direct service. Rather, at most, the former employee is considered to be providing indirect service to the entity as a result of not providing service directly to a competitor.

Remedy for Issue 5

55. As a remedy for **Issue 5**, the Committee suggested:

    (a) adding the definition of contingent features including a non-compete provision as well as a reload feature; and

    (b) setting out additional guidance to require the entity to account for a non-compete provision when it is triggered.

56. These proposed remedies have not been incorporated in the proposed amendments in Appendix A of this paper because they would entail creating a 'new' concept and definition of contingent features, which the Committee agreed would not meet the criteria for Annual Improvements.

Issue 6—interaction of multiple vesting conditions

Issue 6—description

57. Over what period should compensation cost be recognised for a share-based payment transaction when it includes more than one vesting condition?

58. An example is a grant of share options that vest upon achievement of either a share price increase of 10 percent (ie market condition), or a cumulative profit of 10 million (ie non-market performance condition). The employee must be employed by the entity when the relevant condition is satisfied and the award must vest within five years of the grant date. The entity determines that the expected period over which the share price target will be met is 4 years. The entity estimates that the most likely period over which the cumulative profit target will be met is 3 years.

59. This issue touches on a quite different aspect than the other issues, in that it concerns clarifying how the interaction of multiple conditions determines the period over which compensation costs should be recognised for share-based payment transactions, rather than capturing the characteristics of the conditions themselves.

Current guidance in IFRS 2

60. The guidance on how to determine the vesting period of a share-based payment transaction with a single vesting condition is set out in paragraph 15 of IFRS 2, as shown below (emphasis added):

> **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, the 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.

61. However, IFRS 2 does not provide guidance on how to assess the interaction of multiple vesting conditions in order to determine the attribution period for a share-based payment transaction with multiple vesting conditions.

Potential diversity or confusion and its cause

62. We have been informed that the lack of guidance on how to determine the attribution period for a share-based payment transaction with multiple vesting conditions has caused diversity in practice.

Staff analysis

63. We have recommended that: (refer to the Committee's agenda paper 3D of May 2010)

    (a) the definition of the vesting period be amended to be the explicit or implicit period over which an individual vesting condition will be satisfied; and

    (b) a definition of the attribution period be incorporated into IFRS 2 with the attribution period being the end result of the interaction between multiple vesting conditions. More specifically, it would be the composite of the vesting periods of each relevant vesting condition. This new definition would capture the concept of the period for which an employee is required to provide services, the period after which a share-based payment award is expected to vest and the period over which compensation cost should be recognised.

64. In addition, we think that the attribution period should be determined through the following three-step process (refer to Appendix H in the Committee's agenda Paper 3C of July 2010):

(a) Step 1—identify all specified vesting conditions within the share-based payment arrangement.

(b) Step 2—determine the explicit or implicit vesting period for each vesting condition.

(c) Step 3—compare the interaction of the individual vesting periods depending on the interaction of each vesting condition. That is, are they ‘and’ conditions or ‘or’ conditions? The end result is the attribution period for the share-based payment arrangement.

Proposed remedy for Issue 6

65. The Committee agreed that a possible remedy for **Issue 6**, would be to make clear that:

(a) if vesting of the equity instruments that have been granted is based on satisfying **both** a service or performance condition and a market condition and it is probable that the service or performance condition will be satisfied, the initial estimate of the attribution period is generally the longest of the explicit or implicit service periods; and

(b) if vesting of the equity instruments granted is based on satisfying **either** a service or performance condition or a market condition and it is probable that the service or performance condition will be satisfied, the initial estimate of the attribution period is generally the shortest of the explicit or implicit service periods.

66. The issue on the interaction of multiple vesting conditions is a derived issue from the primary issues that were directly raised by the submission to the Committee. For the sake of efficiency, the Committee decided to focus its analysis on the primary issues rather than the derived issues. Therefore, the proposed remedy for Issue 6 has not been incorporated in the proposed amendments in Appendix A of this paper.

Proposed amendments to IFRS 2

67. **Appendix A** shows a way in which the remedies for **Issues 1-4** may be taken into IFRS 2 in the form of annual improvements. As mentioned above, the Committee has proposed separating the description of performance condition and service condition from the definition of vesting conditions and reframing those descriptions as definitions of performance conditions and service conditions, respectively, based on that description.

68. As for the lower priority issues, the Committee thinks that the identified remedies do not meet the criteria for Annual Improvements and so recommend that the remedies for Issues 5 and 6 should be considered in a future agenda proposal for IFRS 2.

Assessment against the new annual improvements criteria

69. We have assessed the higher priority issues against the enhanced criteria, which are reproduced in full below:

> In planning whether an issue should be addressed by amending IFRSs within the annual improvements project, the IASB assesses the issue against the following criteria. All criteria (a)–(d) must be met to qualify for inclusion in annual improvements.
>
> (a) The proposed amendment has one or both of the following characteristics:
>
> (i) clarifying–the proposed amendment would improve IFRSs by:
>
> - clarifying unclear wording in existing IFRSs, or
> - providing guidance where an absence of guidance is causing concern.
>
> A clarifying amendment maintains consistency with the existing principles within the applicable IFRSs. It does not propose a new principle, or a change to an existing principle.
>
> (ii) correcting–the proposed amendment would improve IFRSs by:
>
> - resolving a conflict between existing requirements of IFRSs and providing a straightforward rationale for which existing requirement should be applied, or.

- addressing an oversight or relatively minor unintended consequence of the existing requirements of IFRSs.

A correcting amendment does not propose a new principle or a change to an existing principle.

[Staff analysis—this criterion is satisfied. There is a need for clarification of the definitions relating to vesting conditions.]

(b) The proposed amendment is well-defined and sufficiently narrow in scope such that the consequences of the proposed change have been considered.

[Staff analysis—this criterion is satisfied. The issue is sufficiently narrow, has a well-defined purpose, and significant outreach has been performed to ensure that the proposed changes have been considered sufficiently and identified.]

(c) It is probable that the IASB will reach conclusion on the issue on a timely basis. Inability to reach a conclusion on a timely basis may indicate that the cause of the issue is more fundamental than can be resolved within annual improvements.

[Staff analysis—this criterion is satisfied. We note that the Committee has been able to address these issues on a timely basis and thinks that the Board should be in a position to also reach a conclusion on a timely basis. The issues can be sufficiently tackled by clarification of current wording in IFRS 2 that will provide increased clarity for the issues where diversity currently exists.]

(d) If the proposed amendment would amend IFRSs that are the subject of a current or planned IASB project, there must be a need to make the amendment sooner than the project would.

[Staff analysis—this criterion is satisfied. There is no current IASB project on IFRS 2.]

Staff conclusion

70. Based on the assessment under the existing annual improvements criteria, the Committee recommends that the change proposed in Appendix A should be included in the 2010-2012 annual improvements cycle.

71. In addition, we think that this recommendation is consistent with an assessment under the proposed enhancements to the annual improvements criteria.

Consequential amendment

72. The Committee does not believe that any consequential amendment is needed to any other IFRSs.

Proposed draft wording

73. The proposed wording for the amendment to IFRS 2 is in Appendix A.

Questions 1 and 2 for the Board
1. Does the Board agree with the Committee's recommendation that the Board should make an amendment to IFRS 2 to address these issues as part of the 2010-2012 annual improvement project? 2. Does the Board have any comments on the proposed wording for the amendment to IFRS 2 in Appendix A?

Appendix A – Proposed changes

A1. The proposed amendments to IFRS 2 consist of a clarification to the definitions of service conditions and performance conditions by separating the description of performance condition and service condition from the definition of vesting conditions and setting out new definitions of performance condition and service condition. The new text is underlined and deleted text is struck through.

A2. The definition of market condition is also provided below for completeness but no amendments are proposed.

Amendment to IFRS 2 *Share-based Payment*

Defined terms in Appendix A of IFRS 2 are amended (new text is underlined and deleted text is struck through).

Appendix A

Defined terms

vesting conditions

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. Vesting conditions are either service conditions or performance 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.~~

performance conditions

~~Performance~~ The conditions that require:

(a) the counterparty to complete a specified period of service; and

(b) specified performance targets to be met ~~(such as a specified increase in the entity's profit over a specified period of time)~~ while the counterparty is rendering the service required in (a).

A performance target is defined by reference to the entity’s own operations (or activities) or its share price. A performance target might relate either to the performance of the entity as a whole or to some part of the entity, such as a division or an individual employee. A performance condition might include a market condition.

service conditions

~~Service~~ The conditions that require the counterparty to complete a specified period of service. If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the counterparty has failed to satisfy the condition.

market condition

A condition upon which the exercise price, vesting or exercisability of an equity instrument depends that is related to the market price of the entity’s equity instruments, such as attaining a specified share price or a specified amount of intrinsic value of a share option, or achieving a specified target that is based on the market price of the entity’s equity instruments relative to an index of market prices of equity instruments of other entities.