# STAFF PAPER

**22–25 April 2014**

## IASB Meeting

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| **Project** | **Narrow-scope amendments to IFRS 2 *Share-based Payment*** |
| Paper topic | Modification of a share-based payment transaction from cash-settled to equity-settled |

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## Introduction

1. In February 2014, the IASB discussed a recommendation of the IFRS Interpretations Committee (the Interpretations Committee) relating to the accounting for replacement of a cash-settled share-based payment with an equity-settled share-based payment. The Interpretations Committee recommended that the IASB should specify the accounting for the change in classification from cash-settled to equity-settled that arises from the replacement because at present IFRS 2 does not provide specific guidance. The Interpretations Committee recommended that this change be made in a narrow-scope amendment project.

2. In particular, the Interpretations Committee and the IASB discussed the situation in which:

   (a) a cash-settled share-based payment is cancelled and is replaced by a new equity-settled share-based payment; and

   (b) the replacement share-based payment has a higher fair value than the original share-based payment as at the replacement date.

3. The Interpretations Committee recommended to the IASB that it should amend IFRS 2 to clarify that:

(a) the cancellation of a share-based payment followed by a replacement equity-settled share-based payment should be accounted for consistently with a change in the classification that arises from a modification to the terms and conditions of the share-based payment. This is consistent with the requirements in paragraph 28(c) of IFRS 2, which require replacement of an equity-settled share-based payment to be accounted for in the same manner as a modification to the original grant of equity instruments;

(b) the share-based payment should be accounted for as an equity-settled share-based payment after the modification date;

(c) the replacement equity-settled share-based payment should be measured by reference to the modification-date fair value of the equity-settled share-based payment, because the modification-date should be viewed as the grant date of the replacement equity-settled share-based payment in accordance with the definition of 'grant date' in IFRS 2;

(d) the liability recorded in respect of the original cash-settled share-based payment should be derecognised upon the modification and the equity-settled share-based payment should be recognised to the extent that service has been rendered up to the modification date; and

(e) the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity as at the same date should be recorded in profit or loss immediately. This reflects the remeasurement of the liability to the settlement amount in accordance with paragraph 30 of IFRS 2.

4. On the basis of the recommendation of the Interpretations Committee, in the February 2014 IASB meeting, we presented the proposed amendment to IFRS 2. No IASB members disagreed with the proposed requirements listed in the preceding paragraph.

5. However, two IASB members were concerned that the proposed wording included in Agenda Paper 12G for the February 2014 meeting would have had unintended consequences for existing accounting for cash-settled share-based payments. The wording that we proposed stated that "the effects of modifications to terms and conditions of cash-settled share-based payment transactions should be included in the remeasurement at the end of each reporting period" and that "any changes in fair value being recognised in profit or loss for the period". The reference to 'modifications of cash-settled share-based payment transactions' was broader than was needed because the proposed amendment relates only to cash-settled share-based payments that are changed to equity-settled share-based payments.

6. The unintended consequence would have been a potential conflict with the requirements in paragraphs 26-29 and B42-B44 of IFRS 2 for modifications of equity-settled share-based payments. Those IASB members expressed the view that those requirements are applicable to modifications of cash-settled share-based payments. Those paragraphs in IFRS 2 require that if the modification increases the fair value of the equity instruments granted, the entity should include the incremental fair value in the measurement of services received. They agree that when the original cash-settled share-based payment is settled by the granting of an equity-settled share-based payment in a modification of a cash-settled share-based payment, the effects of the settlement should be recognised in profit or loss in accordance with paragraph 30 of IFRS 2. However, they think that not all of the incremental fair value of the cash-settled share-based payment might be recognised in profit or loss when the modification does not involve the settlement of the original cash-settled share-based payment. This is because some part of the expense recognised for the incremental fair value might qualify to be included as part of the cost of an asset, for example inventory.

7. Thus, we recognise that the proposed amendment would have had unintended consequences. Accordingly, we will propose wording that is narrower in scope to reflect our objective more accurately.

## Staff proposal for the amendment to IFRS 2

### *How the guidance should be provided*

8. We agree that the wording proposed in the last IASB meeting could have had the unintended consequences as described above, which was not our intention. Accordingly, we propose to add the revised guidance to Appendix B Application guidance in IFRS 2 that specifies the accounting for the share-based payment transaction as stated in paragraph 3. The guidance will be clear that it applies only to cash-settled share-based payments that are reclassified to equity-settled share-based payments.

9. We think that an additional illustrative example in *Guidance on implementing IFRS 2* is unnecessary for this particular amendment to IFRS 2.

### *Transition requirements*

10. The proposed amendment may cause a change in the accounting policy of an entity for a change in classification from cash-settled to equity-settled. However, regardless of the entity's previous accounting policy, we think that most entities would have estimated the fair value of the replacement equity-settled share-based payment as at the date of the reclassification. This is because the entity would have probably used that modification date fair value to account for the replacement equity-settled share-based payment. Accordingly, we expect that those entities have the information necessary to apply the proposed amendment retrospectively.

11. Accordingly, if the amendment in this Agenda Paper is considered on its own, we think that transition relief is unnecessary. In other words, we think that the amendment could be applied retrospectively. Notwithstanding the above, we collectively analyse the transition requirements in Agenda Paper 12F for all the amendments proposed in this narrow-scope amendment project.

### *First-time adopters*

12. No specific guidance should be proposed for first-time adopters in the application of the proposed amendments, because appropriate relief is already given through the exemptions for share-based payments in paragraphs D2-D3 in Appendix D of IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

### *Consequential amendments*

13. We have reviewed other IFRSs for potential consequential amendments triggered by this proposed amendment. As a result of this review, we do not propose any consequential amendments.

## Staff recommendation

14. We recommend to the IASB that it should amend IFRS 2 in a narrow-scope amendment project by adding guidance that is described in paragraph 3 and focused only on modifications in which cash-settled share-based payments are reclassified to equity-settled share-based payments. We think that the proposed guidance will resolve the issue analysed by the Interpretations Committee, and at the same time, address the concern raised in the February 2014 IASB meeting.

## Question for the IASB

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| Does the IASB agree with the staff recommendation that the IASB should amend IFRS 2 in a narrow-scope to provide guidance on the accounting for replacement of a cash-settled share-based payment with an equity-settled share-based payment as described above? |