# STAFF PAPER

**22–25 April 2014**

## IASB Meeting

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| **Project** | **Narrow-scope amendments to IFRS 2 *Share-based Payment*** |
| Paper topic | Transition requirements |


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## Purpose of this paper

1. In the February 2014 meeting of the IASB, we proposed amendments to IFRS 2 for the following issues:

   (a) accounting for cash-settled share-based payment transactions that include a performance condition **(Issue 1)**[1];

   (b) share-based payments in which the manner of settlement is contingent on future events **(Issue 2)**[2];

   (c) share-based payments settled net of tax withholdings **(Issue 3)**[3]; and

   (d) modification of a share-based payment transaction from cash settled to equity-settled **(Issue 4)**[4].

2. In this meeting, we have presented to the IASB additional staff analysis for the following two issues to address comments provided by the IASB in the February 2014 meeting:

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[1] http://www.ifrs.org/Meetings/MeetingDocs/IASB/2014/February/12C%20IFRS%202%20Cash-settled%20SBP%20performance%20condition.pdf

[2] http://www.ifrs.org/Meetings/MeetingDocs/IASB/2014/February/12D%20IFRS%202%20Contingent%20settlement%20features.pdf

[3] http://www.ifrs.org/Meetings/MeetingDocs/IASB/2014/February/12E%20IFRS%202%20Settled%20net%20of%20tax%20withholding.pdf

[4] http://www.ifrs.org/Meetings/MeetingDocs/IASB/2014/February/12F%20IFRS%202%20classification%20change.pdf

(a) Agenda Papers 12D(i)-12D(ii): share-based payments in which the manner of settlement is contingent on future events **(Issue 2)**;

(b) Agenda Paper 12E: modification of a share-based payment transaction from cash settled to equity-settled **(Issue 4)**.

3. The objective of this Agenda Paper is to present to the IASB our analysis on the transition requirements for the amendments IFRS 2 as a whole

## Transition provisions

### *Consideration of the draft amendments individually*

*Issue 1*

4. In February 2014, the IASB decided to amend IFRS 2 to clarify that accounting for the effects of vesting conditions on a cash-settled share-based payment should follow the approach used for equity-settled share-based payments (**Issue 1**). The proposed amendment may result only in changes to the timing and amount of the expense recognised at each reporting date, but will not result in changes to the cumulative expense because this amount is ultimately remeasured to the amount of cash paid at settlement date. Accordingly, the Interpretations Committee recommended that the proposed amendments should be applied on a prospective basis for new awards and outstanding awards, because it thought that the cost of retrospective application would outweigh the benefits from doing so.

*Issue 2*

5. The proposed amendment in Agenda Papers 12D(i)-12D(ii) **(Issue 2)** may require the entity affected to change the classification of a share-based payment with a contingent settlement feature in previous periods. However, applying the proposed approach for the accounting for reclassification, the amendment would affect only the timing and amount of the expense recognised at each reporting date, but would not affect the cumulative expense. This is because reclassification of the share- based payment would be accounted for as if the new classification had been expected from the inception of the arrangement with any effects of the reclassification being recognised in the period of the reclassification. Accordingly,

we think that the IASB should propose prospective application of the amendment in Agenda Papers 12D(i)-12D(ii).

*Issue 3*

6. The IASB decided to add guidance to IFRS 2 that specifies that limited types of share-based payment transactions with a net settlement feature should be classified as equity-settled in its entirety, if the entire share-based payment would otherwise be classified as equity-settled without the net settlement feature (**Issue 3**). The proposed amendment would affect the classification of the share-based payment. An entity that is affected by the amendment may need to estimate the grant date fair value that it had not estimated in the past. However, we expect that most entities have maintained or have access to the historical information on the grant date fair value of equity instruments granted. This is because the results of our outreach indicate that prevalent practice is to classify the share-based payment with a net settlement feature as equity-settled in its entirety or bifurcate the share-based payment into an equity-settled component and cash-settled component. Accordingly, we think that most entities affected would have information necessary to apply the amendments retrospectively.

*Issue 4*

7. We propose to clarify the accounting for replacement of a cash-settled share-based payment with an equity-settled share-based payment in Agenda Paper 12E (**Issue 4**). 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 reclassification 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.

*Consideration of the draft amendments as a group*

8. When all the amendments are considered collectively, we think that requiring retrospective application only for the amendments for **Issue 3** and **Issue 4** could be confusing. We think that, in order to make the transition requirements straightforward, the IASB should propose a single transition method for all of the proposed amendments, which is prospective application for both new awards and outstanding awards.

9. Notwithstanding the above, we think that an entity should be permitted to apply the amendments applicable to it retrospectively if the entity has the information necessary to do so. This would allow better comparability of the entity's results from period to period.

10. On the basis of the analysis above, we recommend that the IASB should propose that the entity applies the amendments prospectively, but should allow retrospective application if the entity has the necessary information available. However, if an entity chooses retrospective application, it should apply this to all of the amendments in this narrow-scope amendments, and disclose that fact.

## Question for the IASB

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| Does the IASB agree with the transition requirements recommended by the staff? |