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IFRS in Focus

IASB introduced amendments to IFRS 2 related to the classification and measurement of share-based payment transactions

Contents

This edition of IFRS in Focus outlines the recent amendments to IFRS 2 *Share-based Payment*.

The Bottom Line

- The amendments relate to the following areas:
  - The accounting for the effects of vesting conditions on cash-settled share-based payment transactions;
  - The classification of share-based payment transactions with net settlement features for withholding tax obligations; and
  - The accounting for a modification to the terms and conditions of a share-based payment that changes the transaction from cash-settled to equity-settled.
- The amendments are effective for annual reporting periods beginning on or after 1 January 2018 with earlier application permitted. Specific transitional provisions apply.

Why has this amendment been issued?

The International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC) have received requests related to:

- How to address the impact of vesting and non-vesting conditions on the measurement of the fair value of the liability incurred in a cash-settled shared-based payment;
- How to classify share-based payments that include net settlement features for tax purposes; and
- How to account for a modification of a shared-based payment transaction from cash-settled to equity-settled when the fair value of the replacement award is different from the recognised value of the original award.

The IASB acknowledged that there was lack of guidance on those issues and decided to amend IFRS 2.

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

What are the changes introduced by the amendments?

Accounting for the effects of vesting conditions on cash-settled share-based payments

IFRS 2 specifies that for cash-settled transactions an entity is required to: (i) measure the goods or services acquired and the liability incurred at the fair value of the liability; (ii) remeasure the fair value of the liability at the end of each reporting period until the liability is settled; and (iii) apply an option pricing model, taking into account the terms and conditions on which the cash-settled share-based payments were granted and the extent to which employees have rendered service to date. However, IFRS 2 did not previously provide guidance on how to incorporate vesting and non-vesting conditions into the measurement of the liability.

The amendments to IFRS 2 clarify that the accounting for the effects of vesting and non-vesting conditions on cash-settled share-based payments should follow the same approach as for equity-settled share-based payments. This means that:

- market and non-vesting conditions are taken into account in estimating the fair value of the cash-settled share-based payment; whilst

- service and non-market conditions are not taken into account when estimating the fair value, but are instead taken into account by adjusting the number of awards included in the measurement of the liability.

The effects of all conditions will be revised at the end of each reporting period (unlike equity-settled share-based payments, for which the fair value is fixed at grant date), meaning that the cumulative liability recognised equals the cash eventually paid.

Classification of share-based payments transactions with net settlement features

The amendments specifically apply to circumstances in which tax law or regulation requires an entity to withhold on behalf of their employees a specified number of equity instruments to meet the employee's tax liability which is then remitted to the tax authority (typically in cash). The amendments state that such an arrangement should be classified as equity-settled in its entirety, provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

The amendments also add a requirement to disclose an estimate of the amount of cash expected to be transferred to the tax authority as a result of such arrangement.

Observation

The amendments are presented as an exception to the requirement of IFRS 2 that, for a share-based payment providing the counterparty with a choice of settlement in cash or in equity instruments, a liability be recognised to the extent that the entity has incurred a liability to settle in cash and it is specified that this exception does not apply to:

- net settlement features not required by tax law or regulation; or
- withholdings in excess of the employee's tax obligation arising from the share-based payment.

Accounting for a modification to the terms and conditions of a share-based payment transaction that changes the transaction from cash-settled to equity-settled

The amendments clarify that a modification of a share-based payment that changes the transaction from cash-settled to equity-settled be accounted for as follows:

i. the original liability is derecognised;

ii. the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and

iii. any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

Observation

The approach adopted by the Board implies that the liability for the original cash-settled share-based payment should be derecognised on the modification date because it is considered that by granting the replacement equity-settled share-based payment, the entity has settled its cash-settled share-based payment. This is because, at the modification date, the entity is no longer obliged to transfer cash to the counterparty.

When do the new requirements apply?

The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted.

The amendments are to be applied prospectively with the following transitional requirements:

i. The amendments on the accounting treatment for the effects of vesting and non-vesting conditions on cash-settled share-based payments apply to share-based payment transactions that: (i) are unvested at the date that an entity first applies the amendments; or (ii) were granted on or after the date that an entity first applies the amendments. For unvested share-based payments transactions that were granted prior to the date of initial application of the amendments, an entity is required to (i) remeasure the liability at initial application; and (ii) recognise the effect in opening equity.

ii. The amendments on the classification of share-based payments transactions with net settlement features apply to share-based payment transactions that (i) are unvested (or vested but unexercised); or (ii) were granted on or after the date that an entity first applies the amendments. For unvested (or vested but unexercised) share-based payments transactions that were previously classified as cash-settled and now must be reclassified to equity-settled, an entity is required to reclassify the carrying amount of the liability to equity at the date that an entity first applies the amendments.

iii. The accounting for a modification of a share-based payment transaction that changes its classification from cash-settled to equity-settled only applies to modifications that occur on or after the date an entity first applies the amendments.

Entities are permitted to apply the amendments retrospectively only if it is possible to do so without using hindsight.

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