

Accounting Alert

Financial Reporting Standards

June 22, 2016

Amendments to IFRS 2 'Share-based Payment'

Executive Summary

The IASB has published 'Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)'. The Amendments contain three changes covering the following matters:

- the accounting for the effects of vesting conditions on the measurement of a cash-settled share-based payment
- the classification of share-based payment transactions with a net settlement feature for withholding tax obligations
- the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

Introduction

The IASB has published 'Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)'. We describe the three changes made by the Amendments in more detail below.

Effects of vesting conditions on the measurement of a cash-settled share-based payment

Prior to the publication of the Amendments, IFRS did not specifically address the impact of vesting and non-vesting conditions on the measurement of the fair value of the liability incurred in a cash-settled share-based payment transaction. The Amendments address this lack of guidance by clarifying that these conditions should be accounted for consistently with equity-settled share-based payments in IFRS 2. This means that the fair value of cash-settled awards is measured ignoring service and non-market performance conditions, but taking into account market and non-vesting conditions. This applies when estimating the fair value of the cash-settled share-based payment granted and when remeasuring the fair value at the end of each reporting period and at the date of settlement. The cumulative expense recognized is adjusted based on the number of awards that is ultimately expected to vest (the so-called 'true-up' mechanism).

Classification of share-based payment transactions with a net settlement feature for withholding tax obligations

The second amendment addresses the accounting for a particular type of share-based payment scheme. Many jurisdictions require entities to withhold an amount for an employee's tax obligation associated with share-based payments and transfer the amount (normally in cash) to the taxation authorities. As a result the terms of some schemes require the entity to deduct the number of equity instruments needed to equal the monetary value of the employee's tax obligation from the number of equity instruments that would otherwise be issued to the employee (referred to as a 'net settlement' feature). The amendment stems from a request for guidance on whether the portion of the share-based payment that is withheld should be classified as cash-settled or equity-settled, where the entire share-based payment would otherwise have been classified as an equity settled share-based payment transaction. The Amendment adds guidance to IFRS 2 to the effect that a scheme with this type of compulsory net-settlement feature would be classified as equity-settled in its entirety (assuming it would be so classified without the net settlement feature). Where necessary, an entity shall disclose an estimate of the amount that it expects to transfer to the tax authority to settle the employee's tax obligation.

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

The third amendment addresses the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Such situations were not previously addressed by IFRS 2, so the IASB has amended the Standard so that:

- the share-based payment transaction is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification
- the liability recognized in respect of the original cash-settled share-based payment is derecognized upon the modification, and the equity-settled share-based payment is recognized (in equity) to the extent that the services have been rendered up to the modification date
- the difference between the carrying amount of the liability as at the modification date and the amount recognized in equity at the same date is recorded in profit or loss immediately.

This guidance also applies to a situation in which the modification changes the vesting period of the share-based payment transaction. The Amendments also provide guidance for a grant of equity instruments that has been identified as a replacement for a cancelled cash-settled share-based payment.

Effective Date

Entities are required to apply the Amendments for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

Questions about this communication should be referred to Mabel Comedia at extension 260 or Jerald Sanchez at extension 332.