

Amendments to IFRS 2 - Classification and Measurement of Share-based Payment Transactions

This newsletter is to give an insight to the new published guidance on the treatment of cash settled share-based payments per IFRS 2.

New Guidance to the treatment of vesting conditions

On the 20th June 2016, the IASB issued amendments to IFRS 2 *Share-based Payments*, clarifying how to account for certain types of share-based payment transactions. The amendments provide the requirements on the accounting for:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- 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.

Effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments

Where a cash-settled share-based payment contains performance (vesting) conditions. Vesting conditions, other than market conditions, must be taken into account by adjusting the number of awards included in the measurement of the liability arising from the transaction and not when estimating the measurement date (initial) fair value.

To achieve this, the entity must recognise an amount for the goods or services to be received during the vesting period. That amount will be based on the best available estimate of the number of awards that are expected to vest. The entity must revise that estimate, if subsequent information indicates that the number of awards that are expected to vest differs from previous estimates. On the vesting date, the entity revises the estimate to equal the number of awards that ultimately vested.

However, market conditions, such as a target share price upon which vesting (or exercisability) is conditioned, as well as non-vesting conditions, must be taken into account 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. This will result that the cumulative share-based payment is equal to the cash that is paid.

For cash-settled share-based payment transactions, the entity must initially measure the goods or services acquired and the liability incurred at the fair value of the liability.

Share-based payment transactions with a net settlement feature for withholding tax obligations

Tax laws or regulations may oblige an entity to withhold an amount for an employee's tax obligation associated with a share-based payment and transfer that amount, normally in cash, to the tax authority on the employee's behalf.

For share-based payment transactions where the terms of the arrangement provide either the entity or the counterparty with the choice of whether the entity settles the transaction in cash or by issuing equity instruments, the entity must account for that transaction, or the components of that transaction, as a cash-settled share-based payment transaction if, and to the extent that, the entity has incurred a liability to settle in cash or other assets, or as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred.

Where the terms of the share-based payment arrangement may permit or require the entity to withhold the number of equity instruments equal to the monetary value of the employee's tax obligation from the total number of equity instruments that otherwise would have been issued to the employee upon exercise (or vesting) of the share-based payment (i.e. the share-based payment arrangement has a 'net settlement feature').

The above transaction must be classified in its entirety as an equity-settled share-based payment transaction if it would have been so classified in the absence of the net settlement feature.

It should still be noted that entities must account for the withholding of shares to fund the payment to the tax authority in respect of the employee's tax obligation associated with the share-based payment. Therefore, the payment made must be accounted for as a deduction from equity for the shares withheld, except to the extent that the payment exceeds the fair value at the net settlement date of the equity instruments withheld.

Note that this exception is not applicable for arrangements with a net settlement feature for which there is no obligation on the entity under tax laws/ regulations to withhold an amount for an employee's tax obligation associated with that share-based payment or any equity instruments that the entity withholds in excess of the employee's tax obligation associated with the share-based payment. Such excess shares withheld must be accounted for as a cash-settled share-based payment when this amount is paid in cash (or other assets) to the employee.

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

If the terms and conditions of a cash-settled share-based payment transaction are modified with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as such from the date of the modification.

Effective date

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