Project	**IFRS 2 *Share-based Payment***
Topic	**Vesting and non-vesting conditions**

Purpose of this paper

1. The purpose of this paper is to:

   (a) inform the IFRS Interpretation Committee (Committee) of the IASB (Board)'s opinion on paths forward for the Committee's active agenda project *Vesting and Non-vesting Conditions*, and

   (b) provide the Committee with the staff recommendation.

2. This Agenda Paper includes:

   (a) Background

   (b) Summary of issues;

   (c) Board's opinion;

   (d) Staff analysis;

   (e) Staff recommendations; and

   (f) Questions for the Committee.

Background

3. The Committee took on the agenda project *Vesting and Non-vesting Condition*, acknowledging that issues are occurring due to:

   (a) a lack of clarity in the current definition of vesting conditions which incorporates the concepts of service conditions, performance conditions and market conditions (and vesting period);

   (b) an absence of the definition of non-vesting conditions; and

   (c) insufficient guidance on the interaction of multiple vesting conditions.

4. The Committee analysed each of the issues and sought solutions consistent with the underlying principles in IFRS 2. Based on the deliberations of several meetings, the Committee has reached conclusions on those issues.

5. The Committee also considered several paths forward to incorporate its conclusions into IFRS 2. The Committee considered finalisation of this project as:

   (a) an Interpretation;

   (b) an Annual Improvement;

   (c) a separate amendment project to IFRS 2; or

   (d) as part of the potential post-implementation review of IFRS 2.

6. However, the Committee had a diversity of views with respect to the appropriate path to take given the magnitude, effectiveness and timeliness of the issues and the proposed changes required to address the issues. Therefore, the Committee requested the views of the Board on how to proceed with this project.

7. At the September 2010 Board meeting, the staff:

   (a) provided the Board with summary of the issues;

   (b) made a staff recommendation that the issues should be dealt with through *Annual Improvements* and, for illustrative purpose, presented the draft wording of the amendments the staff had already provided for the Committee at the September 2010 Committee meeting; and

(c) asked the Board whether it agrees with the staff recommendation or which other path the Board recommended the Committee to take.

Summary of issues

8. The following summary of issues that had been discussed by the Committee was presented to the Board.

Issue 1 – Correlation between an employee's responsibility and the performance target

9. What, if any, level of linkage (correlation) is required between a performance target and an individual employee's actions in order for that condition to be a performance condition?

10. For example, there is a clear correlation between the actions of a salesperson and a revenue target, so a revenue target for such an employee is generally accepted as a performance condition when accompanied by an implicit or explicit service requirement. However, would it be acceptable for a revenue target to be classified as a performance condition for a share-based payment award granted to a purchasing manager?

Issue 2 – Share market index target

11. When a share market index target determines how long the employees must provide service for the entity, should the target be considered (i) a performance condition or (ii) a non-vesting condition?

12. An example is the grant conditional on the FTSE 100 reaching a specified target (say 6,500) at any point in time in the next three years and the employee remaining in service up to the date that the FTSE 100 target is met.

Issue 2A

13. If a share market index target does not constitute a performance condition, it should be considered a non-vesting condition under current IFRS 2, which restricts vesting conditions to service conditions and performance conditions. Nonetheless, some argue that all conditions that affect 'entitlement' to the equity

instruments received in a share-based payment transaction and have an explicit or implicit service condition deserve to be regarded as vesting conditions. They argue that this should also be the case for a share market index target determining the entitlement to the grant and the length of the employee's service. Therefore, issue 2 entails a further issue:

(a) another category is conceivable within vesting conditions to accommodate those targets that are not defined by reference to the operation or activities of the entity; and

(b) if the accounting treatment should remain unchanged, the accounting mechanics of such a condition should be consistent with that of a non-vesting condition, as identified in current IFRS 2. This is because it should be classified as a non-vesting condition, if it does not constitute a performance condition, under current IFRS 2.

Issue 3 – Performance period longer than the required service period

14. When the achievement of a performance target continues to be assessed over a period of time longer than that for which the employee is required, explicitly or implicitly, to provide direct service for the benefit of the entity. Should such a performance target be considered (i) a performance condition or (ii) a non-vesting condition?

15. An example is a share-based payment award that is conditional on the employee providing service for the entity over the next two years and for which the ultimate 'value' is determined at the end of the third year based on whether the entity achieves a cumulative profit target.

Issue 4 – Non-compete provision

16. Should a non-compete provision be considered (i) a service condition, (ii) a non-vesting condition or (iii) an other type of condition not defined in IFRS 2 (which the staff have recommended the term 'contingent feature', for discussion purposes)?

17. An example is a share (or share option) that has been awarded as compensation in a share-based payment arrangement. The share is vested and the counterparty is therefore entitled to the share; however, the share includes a clawback provision that requires the counterparty to refrain from competing against the entity (typically by refraining from employment with a competitor of the entity) for a specified period of time. If in the future specified period of time, the counterparty breaches the non-compete provision, the counterparty is required to return the share (or the gain from the sale of the share).

Issue 5 – Interaction of multiple vesting conditions

18. Over what period should compensation cost be recognised for a share-based payment transaction when it includes more than one vesting condition?

19. An example is the grant that is conditional on the counterparty providing service for the entity for the next 5 years or the cumulative profit of the entity has increased CU 10 million at any point in time in the next 8 years (provided the counterparty remains an employee until the performance condition is satisfied).

Issue 6 – Termination of employment

20. When the employment of an employee is terminated by the entity, with respect to the share-based payment transaction, should the termination be considered as a (i) forfeiture (ie the employee failing to meet a service condition and a reversal of past expense) or (ii) cancellation (ie the entity directly cancelling the grant, and an acceleration of any expense not yet recognised)?

Board's opinion

21. The Board considered the following views on the project path:

    (a) Interpretation – some may claim what needs to be done is not interpreting current IFRS 2 because the nature of the required changes is to modify the basic definitions.

(b) Annual Improvement – some may see the required changes as being too broad and may claim due process has not been followed.

(c) Separate amendment project – the Board's schedule is already extremely heavy and all issues being considered for the agenda need to be weighed against all the other projects.

(d) Post-implementation review – there is no stated post-implementation review on IFRS 2 but it is something many have called for.

22. Some Board members suggested that the proposed changes to IFRS 2 are significant and therefore should be accommodated only by a separate amendment project or the post implementation review, which they acknowledged both paths are unlikely to be actively addressed before June 2011. Others expressed a concern that this will leave some urgent issues unanswered and vulnerable to divergent interpretations for a significant period of time.

23. The Board agreed that it is not necessarily required to address all of the issues at one time but each issue may be selectively or differently addressed. Therefore, the Board decided to request the Committee to prioritise the issues being addressed by this project and consider the best path forward on an issue by issue basis.

Staff analysis

Inputs from respondents

24. The staff asked large global accounting firms for inputs in prioritising the issues in terms of:

(a) how common and widespread each issue is in practice;

(b) to what extent each issue results in diversity of practice; and

(c) which issue(s) is(are) considered to be of higher urgency to be addressed.

25. The summary of the inputs is provided in Agenda paper 2A, which is an addendum to this agenda paper.

26. On the whole, the staff notes that there are mixed views among respondents on which issues should be handled with higher priorities.

27. However, they indicate that Issues 1 and 2A should have lower priorities.

Staff view

28. The staff notes that:

    (a) Issue 1-4 and 6 were the prime issues directly raised by the submission to the Committee and also they all concern capturing the characteristics of conditions; and

    (b) Issue 2A and 5 were derived from the prime issues during the agenda deliberation.

29. For the sake of efficiency, the staff thinks that this agenda project should be focused on the prime issues rather than the derived issues. Consequently, the staff believes that higher priorities should be put on Issues 1-4 and 6 by the Committee.

30. Although the inputs from respondents put a lower priority on Issue 1, the staff thinks that there is no reason for leaving Issue 1 out of higher priority because it can be addressed in combination with Issues 2 and 3, which require the clarification of the current description of performance conditions. Issue 1 also concerns the clarification on performance conditions.

31. Also, the staff notes that Issue 5 touches on quite a different aspect than the other issues, in that it concerns clarifying how the interaction of multiple conditions determines the period over which compensation costs should be recognised for share-based payment transactions, rather than capturing the characteristics of conditions themselves. The staff thinks that it would be appropriate to bring together the issues in the same aspect at a time, for the sake of efficiency.

Remedy for higher priority issues

32. For the higher priority issues, the staff thinks that the remedies may be:

(a) As a remedy for Issue 1, 2 and 3, make clear

   (i) the nature of a performance condition, ie that a performance target is defined by reference to the employer's own operations (or activities) (**remedy for Issue 2)**;

   (ii) a performance target might pertain either to the performance of the entity as a whole or to some part of the entity, such as a division or an individual employee (**remedy for Issue 1)**; and

   (iii) the length of performance period, ie that any performance target needs to have an explicit or implicit service requirement for the duration of the period the performance target is being determined in order to constitute a performance condition (**remedy for Issue 3)**.

(b) As a remedy for Issue 4,

   (i) add the definition of contingent features including a non-compete provision as well as a reload feature; and

   (ii) set out additional guidance to require the entity to account for a non-compete provision when it is triggered.

(c) As a remedy for Issue 6, make clear that if the employee fails to complete a specified service period the employee fails to satisfy a service condition no matter what the reason for failure is.

33. The staff notes that:

(a) the remedies for Issues 1- 3 and 6 may be developed on the 'existing' descriptions of performance conditions and service conditions included in the definition of vesting conditions; but

(b) the remedy for Issue 4 entails creating the 'new' definition of contingent features.

Remedy for lower priority issues

34. For the lower priority issues, the staff thinks that the remedies may be:

(a) As a remedy for Issue 2A,

(i) exclude from performance conditions a market condition (that is combined with an explicit or implicit service requirement);

(ii) create another category of vesting condition for other target that is combined with an explicit or implicit service requirement but does not constitute a performance condition in its nature (eg targets based on FTSE 100 index target or a commodity index); and

(iii) group both market conditions and other targets into a single class (‘market or other vesting condition’), which is distinguished from service conditions and performance conditions.

(b) As a remedy for Issue 5, make clear that:

(i) if vesting of the equity instruments granted is based on satisfying **both** a service or performance condition and a market condition and it is probable that the service or performance condition will be satisfied, the initial estimate of the attribution period generally is the longest of the explicit or implicit service periods; and

(ii) If vesting of the equity instruments granted is based on satisfying **either** a service or performance condition or a market condition and it is probable that the service or performance condition will be satisfied, the initial estimate of the attribution period generally is the shortest of the explicit or implicit service periods.

Staff recommendation

35. The staff recommends that higher priority should be put on Issues 1- 4 and 6 as explained in paragraphs 28-31.

36. As for the higher priority issues, the staff recommends:

(a) The remedies for Issues 1-3 and 6 should be brought into the next cycle of *Annual Improvements* because they can be developed on the existing descriptions of performance and service conditions within the definition of vesting conditions.

(b) The remedy for Issue 4 should be referred to the Board for the deliberation in a separate amendment project because it entails creating the 'new' definition of contingent features.

37. Appendix A shows two optional ways in which the remedies for Issues 1-3 and 6 may be taken into IFRS 2 in the form of *Annual Improvements*:

(a) Option 1 – Separate the description of performance condition and service condition from the definition of vesting conditions and set out new definitions performance condition and service condition based on that description respectively.

(b) Option 2 – Keep the definition of vesting conditions intact and insert additional guidance into the main part of IFRS 2.

38. For the purpose of comparison, Appendix A is accompanied by Appendix B, which reproduces the previous drafting that was provided for the Committee at its September 2010 meeting and also for the Board at its September 2010 meeting.

39. As for the lower priority issues, the staff recommends that the remedies for Issues 2A and 5 should be explored in a post-implementation review of IFRS 2.

Questions for the Committee

40. The staff requests the Committee answer the following questions:

Questions
1. Does the Committee agree with the staff recommendation that higher priority should be put on Issues 1- 4 and 6? 2. Does the Committee agree with the staff recommendation that: (a) the remedies for Issues 1-3 and 6 should be brought into the next cycle of *Annual Improvements*; but (b) the remedy for Issue 4 should be referred to the Board for the deliberation in a separate amendment project?

3. If the Committee agrees that Issues 1-3 and 6 should be brought into the next cycle of *Annual Improvements*, which option does the Committee believe that will serve the purpose better?

4. Does the Committee agree with the staff recommendation that the lower priority issues (Issues 2A and 5) should be explored in a post-implementation review of IFRS 2?

Appendix A – Proposed drafting of *Annual Improvements*

A1. **Option 1 –** Separate the description of performance condition and service condition from the definition of vesting conditions and set out new definitions performance condition and service condition based on that description respectively as follows (new text is underlined and deleted text is struck through):

vesting conditions

The conditions that determine whether the entity receives the services that entitle the counterparty to receive cash, other assets or equity instruments of the entity, under a share-based payment arrangement. Vesting conditions are either service conditions or performance conditions. ~~Service conditions require the counterparty to complete a specified period of service. Performance conditions require the counterparty to complete a specified period of service and specified performance targets to be met (such as a specified increase in the entity's profit over a specified period of time). A performance condition might include a market condition.~~

performance conditions

~~Performance~~ The conditions that require
(a) the counterparty to complete a specified period of service, and
(b) specified performance targets to be met ~~(such as a specified increase in the entity's profit over a specified period of time)~~ while the counterparty is rendering the service required in (a).
A performance target is defined by reference to the entity's own operations (or activities) or its share price. A performance target might relate either to the performance of the entity as a whole or to some part of the entity, such as a division or an individual employee. A performance condition might include a market condition.

service conditions

~~Service~~ The conditions that require the counterparty to complete a specified period of service. If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the counterparty has failed to satisfy the condition.

A2. **Option 2 –** Keep the definition of vesting conditions intact and insert additional guidance into the main part of IFRS 2 as follows (new text is underlined and deleted text is struck through).

(a) To clarify Issue 6, insert a wording into paragraph 19:

19 A grant of equity instruments might be conditional upon satisfying specified vesting conditions. For example, a grant of shares or share options to an employee is typically conditional on the employee remaining in the entity's employ for a specified period of time. There might be performance conditions that must be satisfied, such as the entity achieving a specified growth in profit or a specified increase in the entity's share price. Vesting conditions, other than market conditions, shall not be taken into account when estimating the fair value of the shares or share options at the measurement date. Instead, vesting conditions shall be taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognised for goods or services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Hence, on a cumulative basis, no amount is recognised for goods or services received if the equity instruments granted do not vest because of failure to satisfy a vesting condition, eg the counterparty fails to complete a specified service period <u>regardless of the reason</u>, or a performance condition is not satisfied, subject to the requirements of paragraph 21.

(b) To clarify Issues 1-3, add a paragraph to Appendix B Application guidance of IFRS 2 with its heading:

<u>Performance condition</u>

<u>B62</u> <u>A performance target is defined by reference to the entity's own operations (or activities) or its share price. A performance target might relate either to the performance of the entity as a whole or to some part of the entity, such as a division or an individual employee. In order to constitute a performance condition, the performance target is required to be met while the counterparty is providing service for the entity.</u>

Appendix B – Previous proposed drafting

A1. The following is the previous drafting that was provided by the staff for discussion purposes at the September 2010 Committee meeting and the September 2010 Board meeting.

Proposed Amendments to IFRS 2 *Share-based Payment*

Equity-settled share-based payment transactions

Paragraphs 15, 19-21A, the heading before paragraph 22, paragraphs 22, 24, 25, 27, 43B and 47 are amended (new text is underlined and deleted text is struck through). Paragraph 15A is added.

Transactions in which services are received

15 If the equity instruments granted do not vest until the counterparty completes a specified period of service, the entity shall presume that the services to be rendered by the counterparty as consideration for those equity instruments will be received in the future, during the *vesting period*. The entity shall account for those services as they are rendered by the counterparty during the vesting period, with a corresponding increase in equity. For example:

(a) if an employee is granted share options conditional upon completing three years' service, then the entity shall presume that the services to be rendered by the employee as consideration for the share options will be received in the future, over that three-year vesting period.

(b) if an employee is granted share options conditional upon the achievement of a performance condition and remaining in the entity's employ until that performance condition is satisfied, and the length of the vesting period varies depending on when that performance condition is satisfied, the entity shall presume that the services to be rendered by the employee as consideration for the share options will be received in the future, over the expected vesting period. The entity shall estimate the length of the expected vesting period at grant date, based on the most likely outcome of the performance condition~~. If the performance condition is a *market condition*, the estimate of the length of the expected vesting period shall be consistent with the assumptions used in estimating the fair value of the options granted, and shall not be subsequently revised. If the performance condition is not a market condition, t~~ <u>T</u>he entity shall revise its estimate of the length of the vesting period, if necessary, if subsequent information indicates that the length of the vesting period differs from previous estimates.

(c) <u>if an employee is granted share options conditional upon the achievement of a market or other vesting condition and remaining in the entity's employ until the market or other vesting condition is satisfied, and the length of the vesting period varies depending on when the market or other vesting condition is satisfied, the entity shall presume that the services to be rendered by the employee as consideration for the share options will be received in the future, over the expected vesting period. The estimate of the length of the expected vesting period based on a market or other vesting condition shall be consistent with the assumptions used in estimating the fair value of the options granted, and shall not be subsequently revised.</u>

[The above paragraph is amended to set out separate guidance on market or other vesting conditions.]

15A If the vesting of the equity instruments granted is subject to the interaction of multiple vesting conditions, the entity shall presume that the services to be rendered by the counterparty as consideration for those equity instruments will be received in the future, during the *attribution period*. Paragraphs B41D and B41E contain further guidance on the determination of the attribution period.

[The above paragraph is added to set out separate guidance on the attribution period.]

Treatment of vesting conditions

19 A grant of equity instruments might be conditional upon satisfying specified *vesting conditions*. For example, a grant of shares or share options to an employee is typically conditional on the employee remaining in the entity's employ for a specified period of time. There might be performance conditions that must be satisfied, such as the entity achieving a specified growth in profit or a specified increase in the entity's share price. ~~Vesting conditions, other than market conditions,~~ Service conditions and performance conditions shall not be taken into account when estimating the fair value of the shares or share options at the measurement date. Instead, ~~vesting conditions~~ service conditions and performance conditions shall be taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognised for goods or services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Hence, on a cumulative basis, no amount is recognised for goods or services received if the equity instruments granted do not vest because ~~of failure to satisfy a vesting condition, eg~~ the counterparty fails to complete a specified service period, or a performance condition is not satisfied~~, subject to the requirements of paragraph 21~~.

[The above paragraph is amended to directly refer to service conditions and performance conditions.]

20 To apply the requirements of paragraph 19, the entity shall recognise an amount for the goods or services received during the vesting period based on the best available estimate of the number of equity instruments expected to vest and shall revise that estimate, if necessary, if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates. On vesting date, the entity shall revise the estimate to equal the number of equity instruments that ultimately vested~~, subject to the requirements of paragraph 21~~.

[The above paragraph is amended because a market condition is no longer an example of performance conditions.]

21 Market or other vesting conditions, such as a target share price or a target commodity index upon which vesting (or exercisability) is conditioned, shall be taken into account when estimating the fair value of the equity instruments granted. Therefore, for grants of equity instruments with market or other vesting conditions, the entity shall recognise the goods or services received from a counterparty who satisfies all ~~other vesting conditions (eg services received from an employee who remains in service for the specified period of service)~~ specified service conditions and/or performance conditions, irrespective of whether that market or other vesting condition is satisfied.

[The above paragraph is amended to combine market conditions and other vesting condition because they are accounted for in the same way.]

Treatment of non-vesting conditions

21A ~~Similarly, a~~ An entity shall take into account all non-vesting conditions, such as a restriction on post-vesting transfer or a performance target that does not include required service, when estimating the fair value of the equity instruments granted. Therefore, for grants of equity instruments with non-vesting conditions, the entity shall recognise the goods or services received from a counterparty that satisfies all ~~vesting conditions that are not market conditions (eg services received from an employee who remains in service for the specified period of service)~~ specified service conditions and/or performance conditions, irrespective of whether those non-vesting conditions are satisfied.

[The above paragraph is amended to give an example of non-vesting conditions.]

Treatment of a ~~reload feature~~ contingent feature

22 For options with a contingent feature such as a *reload feature* or a clawback provision, the ~~reload~~ contingent feature shall not be taken into account when estimating the fair value of options granted at the measurement date. Instead, the effect of a contingent feature shall be accounted for if and when the contingent event occurs. For example, a *reload option* shall be accounted for as a new option grant, if and when a reload option is subsequently granted.

[The above paragraph is amended to extend the guidance on a reload feature to all other contingent features.]

If the fair value of the equity instruments cannot be estimated reliably

24 The requirements in paragraphs 16–23 apply when the entity is required to measure a share-based payment transaction by reference to the fair value of the equity instruments granted. In rare cases, the entity may be unable to estimate reliably the fair value of the equity instruments granted at the measurement date, in accordance with the requirements in paragraphs 16–22. In these rare cases only, the entity shall instead:

(a) measure the equity instruments at their intrinsic value, initially at the date the entity obtains the goods or the counterparty renders service and subsequently at the end of each reporting period and at the date of final settlement, with any change in intrinsic value recognised in profit or loss. For a grant of share options, the share-based payment arrangement is finally settled when the options are exercised, are forfeited (eg upon cessation of employment) or lapse (eg at the end of the option's life).

(b) recognise the goods or services received based on the number of equity instruments that ultimately vest or (where applicable) are ultimately exercised. To apply this requirement to share options, for example, the entity shall recognise the goods or services received during the vesting period <u>or (where applicable) attribution period</u>, if any, in accordance with paragraphs 14 and 15, except that the requirements in paragraph 15(c) concerning a market condition do not apply. The amount recognised for goods or services received during the vesting period <u>or (where applicable) attribution period</u> shall be based on the number of share options expected to vest. The entity shall revise that estimate, if necessary, if subsequent information indicates that the number of share options expected to vest differs from previous estimates. On vesting date, the entity shall revise the estimate to equal the number of equity instruments that ultimately vested. After vesting date, the entity shall reverse the amount recognised for goods or services received if the share options are later forfeited, or lapse at the end of the share option's life.

[The above paragraph is amended to cover the case in which an attribution period should be determined because there are multiple vesting conditions.]

25 If an entity applies paragraph 24, it is not necessary to apply paragraphs 26–29, because any modifications to the terms and conditions on which the equity instruments were granted will be taken into account when applying the intrinsic value method set out in paragraph 24. However, if an entity settles a grant of equity instruments to which paragraph 24 has been applied:

(a) if the settlement occurs during the vesting period <u>or (where applicable) attribution period</u>, the entity shall account for the settlement as an acceleration of vesting, and shall therefore recognise immediately the amount that would otherwise have been recognised for services received over the remainder of the vesting period <u>or (where applicable) attribution period</u>.

(b) any payment made on settlement shall be accounted for as the repurchase of equity instruments, ie as a deduction from equity, except to the extent that the payment exceeds the intrinsic value of the equity instruments, measured at the repurchase date. Any such excess shall be recognised as an expense.

[The above paragraph is amended to cover the case in which an attribution period should be determined because there are multiple vesting conditions.]

27 The entity shall recognise, as a minimum, the services received measured at the grant date fair value of the equity instruments granted, unless those equity instruments do not vest because of failure to satisfy ~~a vesting condition (other than a market condition)~~ <u>a service condition and/or a performance condition</u> that was specified at grant date. This applies irrespective of any modifications to the terms and conditions on which the equity instruments were granted, or a cancellation or settlement of that grant of equity instruments. In addition, the entity shall recognise the effects of modifications that increase the total fair value of the share-based payment arrangement or are otherwise beneficial to the employee. Guidance on applying this requirement is given in Appendix B.

[The above paragraph is amended to directly refer to service conditions and performance conditions.]

43B The entity receiving the goods or services shall measure the goods or services received as an equity-settled share-based payment transaction when:

(a) the awards granted are its own equity instruments, or

(b) the entity has no obligation to settle the share-based payment transaction.

The entity shall subsequently remeasure such an equity-settled share-based payment transaction only for changes in ~~non-market vesting conditions~~ <u>service conditions or performance conditions</u> in accordance with paragraphs 19–21. In all other circumstances, the entity receiving the goods or services shall measure the goods or services received as a cash-settled share-based payment transaction.

[The above paragraph is amended to directly refer to service conditions and performance conditions.]

47 If the entity has measured the fair value of goods or services received as consideration for equity instruments of the entity indirectly, by reference to the fair value of the equity instruments granted, to give effect to the principle in paragraph 46, the entity shall disclose at least the following:

(a) for share options granted during the period, the weighted average fair value of those options at the measurement date and information on how that fair value was measured, including:

  (i) the option pricing model used and the inputs to that model, including the weighted average share price, exercise price, expected volatility, option life, expected dividends, the risk-free interest rate and any other inputs to the model, including the method used and the assumptions made to incorporate the effects of expected early exercise;

  (ii) how expected volatility was determined, including an explanation of the extent to which expected volatility was based on historical volatility; and

  (iii) whether and how any other features of the option grant were incorporated into the measurement of fair value, such as a market <u>or other vesting</u> condition <u>or non-vesting condition</u>.

(b) for other equity instruments granted during the period (ie other than share options), the number and weighted average fair value of those equity instruments at the measurement date, and information on how that fair value was measured, including:

  (i) if fair value was not measured on the basis of an observable market price, how it was determined;

  (ii) whether and how expected dividends were incorporated into the measurement of fair value; and

  (iii) whether and how any other features of the equity instruments granted were incorporated into the measurement of fair value.

(c) for share-based payment arrangements that were modified during the period:

  (i) an explanation of those modifications;

  (ii) the incremental fair value granted (as a result of those modifications); and

  (iii) information on how the incremental fair value granted was measured, consistently with the requirements set out in (a) and (b) above, where applicable.

[The above paragraph is amended to specify the types of condition that should be incorporated into the measurement of fair value.]

Appendix A Defined terms

In Appendix A, the following definitions are amended or added (new text is underlined and deleted text is struck through).

attribution period (and required service) The period:

(a) during which an employee is required to provide service in exchange for an award; and

(b) over which the required combination of vesting conditions is to be met

under a share-based payment arrangement. The service that a counterparty is required to render during that period is referred to as the *required service*.

contingent feature A feature that is dependent on the occurrence of the counterparty's action after an award has vested.

market or other vesting condition A condition affecting the vesting, exercise price, or other pertinent factors used in determining the fair value of an award under a **share-based payment arrangement** that requires:

(a) the counterparty's rendering of service for a specified (either explicitly or implicitly) period of time; and

(b) the achievement of a specified target while the counterparty is rendering the service required in (a) other than such a performance target as is described in the definition of performance condition.

non-vesting condition A condition that does not determine whether the counterparty **vests** in a **share-based payment arrangement**.

performance condition A condition affecting the vesting, exercise price, or other pertinent factors used in determining the fair value of an award that relates to both:

(a) the counterparty's rendering service for a specified (either explicitly or implicitly) period of time, and

(b) achieving a specified performance target while the counterparty is rendering the service required in (a) and where that specified performance target is defined by reference to (1) the employer's own operations (or activities), or (2) the same performance measure of another entity or group of entities in a consolidated group.

service condition A condition that affects the vesting, exercise price, or other pertinent factor used in determining the fair value of an award that depends solely on a counterparty rendering service to the entity for the vesting period. If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the counterparty has failed to satisfy the condition.

vesting conditions ~~The~~ A condition~~s~~ that determines whether ~~the entity receives~~ the counterparty provides the entity with the services that entitle the counterparty to receive cash, other assets or **equity instruments** of the entity, under a **share-based payment arrangement**. Vesting conditions are either service conditions ~~or~~, performance conditions or market or other vesting conditions. ~~Service conditions require the counterparty to complete a specified period of service. Performance conditions require the counterparty to complete a specified period of service and specified performance targets to be met (such as a specified increase in the entity's profit over a specified period of time). A performance condition might include a~~ ~~**market condition**.~~

vesting period The implicit or explicit required service period during which ~~all the~~ a specified **vesting**

condition~~s~~ of a **share-based payment arrangement** ~~are~~ is to be satisfied.