

STAFF PAPER

22–25 April 2014

IASB Meeting

Project	Narrow-scope amendments to IFRS 2 <i>Share-based Payment</i>		
Paper topic	Cover note		
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Introduction

1. The IFRS Interpretations Committee (the Interpretations Committee) recommended to the IASB that it should expose together a collection of four proposed amendments to IFRS 2 in an Exposure Draft (“*Clarifications of Classification and Measurement of Share-based payment transactions*”). These proposed amendments were tentatively approved by the Interpretations Committee at previous meetings.
2. Those four issues are:
 - (a) Issue 1: Accounting for cash-settled share-based payment transactions that include a performance condition;
 - (b) Issue 2: Share-based payments in which the manner of settlement is contingent on future events;
 - (c) Issue 3: Share-based payments settled net of tax withholdings; and
 - (d) Issue 4: Modification of a share-based payment transaction from cash-settled to equity-settled.
3. In the February 2014 meeting, the IASB discussed the recommendations of the Interpretations Committee. The following paragraphs present the summary of the discussions and tentative conclusions reached by the IASB.

Summary of the discussions in February 2014

Issue 1: Accounting for cash-settled share-based payment transactions that include a performance condition

4. The IASB decided 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.
5. The IASB agreed with the Interpretations Committee's recommendation to propose amendments to IFRS 2 in line with the wording proposed by the staff.

Issue 2: Share-based payments in which the manner of settlement is contingent on future events

6. The IASB discussed the approach recommended by the Interpretations Committee for providing guidance on this issue. That approach was that the share-based payment transaction should be classified as either cash-settled or equity-settled in its entirety, depending on which settlement method is probable.
7. Some IASB members were concerned over the use of the notion of 'probable' when deciding the classification of a share-based payment transaction. They expressed a view that the share-based payment transaction being considered is similar to a share-based payment transaction in which the counterparty has the choice of settlement, in that the entity does not have the unconditional right to avoid delivering cash or other assets.
8. Hence, they thought that the share-based payment transaction should be accounted for, by analogy, in accordance with the requirements in paragraphs 35-40 of IFRS 2. Other IASB members requested information on how each approach considered by the Interpretations Committee would change prevalent accounting practice. Consequently, the IASB directed the staff to bring further analysis of the relevant requirements in IFRS to a future meeting of the IASB.

Issue 3: Share-based payments settled net of tax withholdings

9. The IASB decided to add guidance to IFRS 2 that addresses limited types of share-based payment transactions with a net settlement feature as an exception to

the requirements in IFRS 2. That guidance will specify that a share-based payment transaction in which the entity settles the share-based payment arrangement net, by withholding a specified portion of the equity instruments to meet its minimum statutory tax withholding requirements, 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.

10. The IASB agreed with the Interpretations Committee's recommendation to propose amendments to IFRS 2 subject to revisions to the wording proposed by the staff.

Issue 4: Modification of a share-based payment transaction from cash-settled to equity-settled

11. The IASB discussed the approach recommended by the Interpretations Committee for clarifying the accounting for replacement of a cash-settled share-based payment with an equity-settled share-based payment. Applying that approach, the share-based payment transaction would be measured by reference to the modification date fair value of the equity instruments that are granted as a result of the modification.
12. Some IASB members questioned whether such measurement would be inconsistent with the requirement in paragraph 27 of IFRS 2 for the recognition of a minimum amount for the share-based payment following modifications to the terms and conditions of an equity-settled share-based payment transaction.
13. Accordingly, the IASB directed the staff to perform further analysis on whether, and if so how, this requirement should be applied to a modification to the terms and conditions of a cash-settled share-based payment transaction.

Structure of Agenda Papers for the April 2014 IASB meeting

14. We have prepared the following Agenda Papers for **Issue 2** and **Issue 4** above to present our additional analysis in order to meet the IASB's requests:
 - (a) Agenda Paper 12D(i): Narrow-scope amendments to IFRS 2 *Share-based Payment*—Classification of share-based payments in which the

manner of settlement is contingent on future events (**Issue 2 - Classification**)

- (b) Agenda Paper 12D(ii): Narrow-scope amendments to IFRS 2 *Share-based Payment* —Other issues including the accounting for reclassification of share-based payments in which the manner of settlement is contingent on future events (**Issue 2 – Accounting**)
- (c) Agenda Paper 12E: Narrow-scope amendments to IFRS 2 *Share-based Payment*—Modification of a share-based payment transaction from cash-settled to equity-settled (**Issue 4**)
- (d) Agenda Paper 12F: Narrow-scope amendments to IFRS 2 *Share-based Payment*—Transition requirements