

STAFF PAPER

June 2014

IASB Meeting

Project	Narrow-scope amendments to IFRS 2 <i>Share-based Payment Clarifications of Classification and Measurement of Share-based Payment Transactions</i>		
Paper topic	Summary of Due Process followed		
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Purpose of this paper

1. The purpose of this paper is to explain the steps in the due process that the IASB has taken before the publication of the Exposure Draft (Proposed Amendments to IFRS 2 *Share-based Payment*) and to ask the IASB to confirm that it is satisfied that it has complied with the due process requirements to date.

Background

2. At its meetings in March 2013, September 2013 and November 2013, the Interpretations Committee decided to recommend to the IASB that it should amend IFRS 2 in a narrow-scope amendment project by adding specific guidance to address some particular issues that had been brought to the Interpretations Committee's attention.
3. At its February 2014 and April 2014 meetings, the IASB discussed and approved the recommendations of the Interpretations Committee for the three issues described in this paper. Furthermore, the IASB agreed with the Interpretations Committee's recommendation to expose the three proposed amendments to IFRS 2 together in one exposure draft.
4. The following paragraphs present a summary of the discussions and conclusions reached by the IASB.

Summary of the discussions in February 2014 and April 2014

5. **Appendix B** of this paper shows the meetings held by the IASB and the Interpretations Committee in discussing the proposed amendments to IFRS 2.

Issue 1: Share-based payments settled net of tax withholdings

6. This was a request to clarify whether the portion of a share-based payment that is withheld for tax-withholding purposes should be classified as cash-settled or equity-settled, if the entire award would otherwise be classified as equity-settled without the net settlement feature.
7. 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.
8. The IASB agreed with the Interpretations Committee's recommendation to propose amendments to IFRS 2.

Issue 2: Modification of a share-based payment transaction from cash-settled to equity-settled

9. This was a request to clarify how to account for a share-based payment in situations in which a cash-settled share based payment is cancelled and is replaced by a new equity settled share based payment and the replacement share based payment has a higher fair value than the original share based payment.
10. 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.

11. The IASB tentatively decided to add guidance to IFRS 2 to clarify that:
 - (a) the share-based payment transaction would be measured by reference to the modification date fair value of the equity instruments granted as a result of the modification;
 - (b) the liability recognised in respect of the original cash-settled share-based payment should be derecognised upon the modification, and the equity-settled share-based payment should be recognised to the extent that the services has been rendered up to the modification date; and
 - (c) the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date should be recorded in profit or loss immediately.

Issue 3: Accounting for cash-settled share-based payment transactions that include a performance condition

12. This was a request to clarify how to account for a cash-settled share-based payment transaction that includes a performance condition.
13. The IASB decided that accounting for the effects of vesting conditions on a cash-settled share-based payment should follow the approach used for vesting conditions on equity-settled share-based payments.
14. The IASB agreed with the Interpretations Committee's recommendation to propose amendments to IFRS 2 to provide this guidance.

Transition requirements

15. The IASB tentatively decided that these narrow-scope amendments to IFRS 2 should be applied on a prospective basis. Notwithstanding that decision, the IASB tentatively decided that an entity should be permitted to apply

retrospectively all the amendments that are applicable to it if the entity has the information necessary to do so.

First-time adopters

16. The IASB tentatively decided that no specific guidance should be proposed for first-time adopters in the application of the proposed amendments, because appropriate relief is already given through the exemptions for share-based payments in paragraphs D2-D3 in Appendix D of IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

Consequential amendments

17. The IASB tentatively decided that it does not propose any consequential amendments on the basis of the staff analysis presented.

Effect of the proposed amendments

18. The purpose of the proposed amendments is to address the diversity in practice that has been observed.

Intention to dissent

19. In accordance with paragraph 6.9 of the *Due Process Handbook*, we are formally asking whether any members intend to dissent from publishing the Exposure Draft before we ballot.

Proposed timetable for balloting and publication

20. Our plan is to issue an Exposure Draft with the proposed amendments for the three issues described in paragraphs 6–14 above.
21. We plan to start the balloting process of the exposure draft in June 2014 and publish in early August 2014.

Comment period

22. We propose that the Exposure Draft be exposed for at least 120 days which is the standard period required for comment on an Exposure Draft in accordance with paragraph 6.7 of the *Due Process Handbook*.

Confirmation of due process steps

23. We note that the required due process steps for the publication of the proposed amendments have been completed, as documented in **Appendix A**. However, because the proposed amendments to IFRS 2 are narrow-scope in nature, the extent of the due process steps performed was more limited than the ones that are required for an Exposure Draft of a new Standard.
24. In **Appendix B**, we have included a table that shows the meetings held by the Interpretations Committee and the IASB in discussing the proposed amendments to IFRS 2. We have also included a reference to the agenda papers discussed at these meetings.

Questions to the IASB—Compliance with due process

1. Is the IASB satisfied that all due process steps required to date that relate to the publication of the proposed amendments have been complied with?
2. Do any IASB members plan to dissent from the publication of the proposed amendments?
3. Does the IASB agree with the proposed timetable for balloting and publication?
4. Does the IASB give permission to ballot?

Appendix A: Confirmation of Due Process Steps followed in the development of the Exposure Draft

A1. The following table sets out the due process steps followed by the IASB that are required for publication of the Exposure Draft:

Step	Required/ Optional	Actions
Board meetings held in public, with papers available for observers. All decisions are made in public session.	Required	<p>The issues were discussed by the IFRS Interpretations Committee (the Interpretations Committee) as follows:</p> <p>(a) Share-based payments settled net of tax withholdings. This issue was discussed by the Interpretations Committee at its March 2013 meeting¹. The IASB discussed this issue at its February 2014 and April 2014 meetings.</p> <p>(b) Modification of a share-based payment transaction from cash-settled to equity-settled. This issue was discussed by the Interpretations Committee at its March 2013 meeting². The IASB discussed this issue at its February 2014 and April 2014 meetings.</p> <p>(c) Accounting for cash-settled share-based payment transactions that include a performance condition. This issue was discussed by the Interpretations Committee at its September 2013 and November 2013 meetings. The IASB discussed this issue at its February 2014 and April 2014 meetings.</p> <p>The IASB decided to propose a narrow-scope amendment to IFRS 2 <i>Clarifications of Classification and Measurement of Share-based payment transactions (Proposed amendments to IFRS 2)</i>.</p> <p>An <i>IFRIC Update</i> and an <i>IASB Update</i> were posted after each of the Interpretations Committee meetings and the IASB meeting at which the issues were discussed.</p> <p>A project webpage has been created for this narrow scope amendment. The link to this webpage is:</p> <p>http://www.ifrs.org/Current-Projects/IASB-Projects/IFRS-2-Clarifications-Classification-and-Measurement/Pages/Home.aspx</p>
Consultation with the Trustees and the Advisory Council.	Required	<p>Because of the narrow-scope nature of the amendments this was considered to be unnecessary.</p>

¹ The Interpretations Committee originally discussed this issue at its September 2010, November 2010 and March 2011 meetings.

² The Interpretations Committee originally discussed this issue at its May 2011 meeting.

Analysis of the likely effects of the forthcoming Standard or major amendment, for example, initial costs or ongoing associated costs.	Required	We assessed the likely effects of the proposed amendment as being limited, because the scope of the proposed amendment is narrow. A description of the financial reporting effects of the proposed amendment is included in the Basis for Conclusions of the Exposure Draft.
Finalisation		
Due process steps reviewed by the IASB.	Required	The IASB will review the due process steps in its June 2014 meeting.
The ED has an appropriate comment period.	Required	The IASB will discuss at its June 2014 meeting the proposal that the ED should be published with a comment period of no less than 120 days.
Drafting		
Drafting quality assurance steps are adequate.	Required	The translation team will be asked to review the pre-ballot draft.
Drafting quality assurance steps are adequate.	Required	The XBRL team will be asked to review the pre-ballot draft.
Publication		
ED published.	Required	The Due Process Oversight Committee (DPOC) will be informed as part of the routine reporting to them and also following the June 2014 IASB meeting.
Press release to announce publication of ED.	Required	A press release will be published announcing the ED.

Appendix B: Summary of meetings held by the Interpretations Committee and the IASB (including agenda papers reference)

Issues analysed on IFRS 2	Interpretations Committee meeting(s)/agenda papers reference	IASB meeting (s) /agenda papers reference
<i>Share-based payments settled net of tax withholdings³</i>	March 2013— AP 5B	April 2014— AP12C and AP12F Feb 2014— AP 12E and AP 12G
<i>Modification of a share-based payment transaction from cash settled to equity-settled⁴</i>	March 2013— AP 5C	April 2014— AP12C , AP12E and AP12F Feb 2014— AP 12F and AP 12G
<i>Accounting for cash-settled share-based payment transactions that include a performance condition</i>	Sep 2013— AP 14 Nov 2013— AP 3	April 2014— AP12C and AP12F Feb 2014— AP 12C and AP 12G

³ The Interpretations Committee originally discussed this issue at the following meetings: September 2010 (AP14), November 2010 (AP5) and March 2011 (AP 7 and AP 7A).

⁴ The Interpretations Committee originally discussed this issue at its meeting in May 2011 (AP 7).