

IFRS Briefing Sheet

Amended standard IFRS 2 *Share-based Payment* (2008)

January 2008, **Issue 84**

This IFRS Briefing Sheet summarises the International Accounting Standards Board's (IASB) amendment to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*, which was published on 17 January 2008.

Background

The original definition of vesting conditions in IFRS 2 (2004) described them as *including* service conditions and performance conditions. However, it was unclear how *other* conditions related to share-based payment arrangements (i.e., that are neither service nor performance conditions) should be treated. Examples of such conditions include the requirement for an employee to contribute to an employee share purchase plan (ESPP), or for an employee to hold shares of an entity for a specified period in order to be eligible to participate in a share-based payment grant.

Executive Summary

This amendment to IFRS 2:

- clarifies the definition of vesting conditions
- introduces the concept of "non-vesting conditions"
- requires non-vesting conditions to be reflected in grant date fair value

- provides the accounting treatment for non-vesting conditions and cancellations.

Vesting Conditions

The definition of vesting conditions has been amended in IFRS 2 (2008) to clarify that vesting conditions are:

- conditions that determine whether the entity receives the services that entitle the counterparty to a share-based payment
- limited to service conditions and performance conditions.

The treatments of service and performance conditions in accounting for share-based payment arrangements remains unchanged in IFRS 2 (2008).

Service Conditions

Consistent with IFRS 2 (2004), service conditions are those conditions that require the counterparty to complete a specified period of service.

Performance Conditions

The amended definition of vesting conditions defines performance conditions as those conditions that require both:

- the counterparty to complete a specified period of service
- specified performance targets to be met.

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Consistent with IFRS 2 (2004) performance conditions may be either market or non-market performance conditions.

Non-vesting Conditions and Cancellations

The amendment to IFRS 2 (2008) introduces the term “non-vesting conditions”, which are conditions other than service or performance conditions. Unlike service and performance conditions, non-vesting conditions do not determine whether the entity receives the services that entitle the counterparty to the share-based payment.

There are three types of non-vesting conditions:

- non-vesting conditions that the entity can choose to meet
- non-vesting conditions that the counterparty can choose to meet
- non-vesting conditions that neither the entity nor the counterparty can choose to meet.

The requirement for employees to make monthly contributions to an ESPP is an example of a non-vesting condition that the counterparty can choose to meet, whereas the continuation of a share-based payment plan by the entity is an example of a non-vesting condition that the entity can choose to meet.

An example of a non-vesting condition that neither the entity nor the counterparty can choose to meet is a commodity index that is unrelated to the entity's share price.

Accounting for Non-vesting Conditions and Cancellations

Under the amendment:

- non-vesting conditions are reflected in measuring the grant date fair value of the awards
- there is no “true-up” for differences between expected and actual outcomes due to failure to meet non-vesting conditions.

Therefore, if all vesting conditions that are not market conditions are met, then the entity will recognise the grant date fair value of the share-based payment as compensation cost. However, a failure to meet non-vesting conditions may impact the timing of recognition (see below).

Failure to Meet Non-vesting Conditions that either the Entity or the Counterparty can Choose to Meet

Failure to meet a non-vesting condition that is within the control of the entity or the counterparty is treated as a cancellation.

Under cancellation accounting:

- the amount of the compensation cost that otherwise would be recognised over the remainder of the vesting period is recognised immediately upon cancellation (accelerated vesting), normally in profit or loss
- if the share-based payment arrangement includes a liability component, then the liability element is remeasured to fair value at the date of cancellation prior to its settlement.

The Board concluded that a cancellation by the counterparty should be treated in the same manner as a cancellation by the entity, as the Board believes that these events are indistinguishable.

Failure to Meet Non-vesting Conditions that neither the Entity nor the Counterparty can Choose to Meet

When neither the entity nor the counterparty can choose whether to meet a non-vesting condition, there is no change to the accounting if the non-vesting condition is not satisfied. The entity continues to recognise the full compensation cost over the remaining vesting period.

Additional Implementation Guidance Provided

A flowchart has been added to the Implementation Guidance to IFRS 2 to assist in evaluating whether a condition is a non-vesting or a vesting condition, and in the case of the latter, whether it is a service or a performance condition.

In addition, the amendment to IFRS 2 (2008) added a table, which illustrates the various conditions (vesting versus non-vesting) that result in a counterparty receiving an equity instrument and the related accounting for the equity-settled share-based payment arrangements.

Effective Date and Transition

The amendments in IFRS 2 (2008) apply retrospectively to annual periods beginning on or after 1 January 2009. Early application is permitted, with disclosure of that fact required.

If you would like further information on any of the matters discussed in this issue of *IFRS Briefing Sheet*, please talk to your usual local KPMG contact or call any of KPMG firms' offices.

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Publication name: *IFRS Briefing Sheet*

Publication number: Issue 84

Publication date: January 2008