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## Amendments to IFRS 2 – vesting conditions and cancellations

On 17 January 2008, the International Accounting Standards Board (IASB) issued a number of amendments to IFRS 2 **Share-based Payment**. The amendments clarify the definition of vesting conditions and the accounting treatment of cancellations by the counterparty to a share-based arrangement.

The revised Standard is effective from 1 January 2009, with earlier application permitted.

### Principal amendments

#### Vesting conditions

Vesting conditions are the conditions imposed under a share-based payment arrangement that the counterparty (whether an employee or otherwise) must satisfy in order to receive cash, other assets or equity instruments of the entity. Prior to the amendments, IFRS 2 stated that vesting conditions include **service conditions** (which require the counterparty to complete a specified period of service) and **performance conditions** (which require specified performance targets to be met – for example, a specified increase in the entity's profit over a period of time). The Standard was silent as to whether other features of a share-based payment arrangement could fall within the definition of vesting conditions.

The January 2008 amendments:

- clarify that vesting conditions are those conditions that determine whether the entity receives the services that result in the counterparty's entitlement;
- restrict the definition of vesting conditions to include only service conditions and performance conditions; and
- amend the definition of performance conditions to require the completion of a service period in addition to specified performance targets.

All features of a share-based payment arrangement other than service conditions and performance conditions will be considered to be **non-vesting conditions**.

IFRS 2 (as revised) specifies that, when estimating the fair value of equity instruments granted, an entity shall take into account:

- all non-vesting conditions (i.e. all conditions other than service and performance conditions); and
- vesting conditions that are market conditions (i.e. conditions that are related to the market price of the entity's equity instruments – for example, attaining a specified share price).

### **Failure to meet a non-vesting condition and cancellations**

Prior to the amendments, IFRS 2 described the treatment of a failure to meet a vesting condition, but was not explicit about the accounting consequences of a failure to meet a condition other than a vesting condition. The Standard dealt with scenarios where the entity cancelled the share-based arrangement but provided no guidance as to how to treat either:

- cancellations by the counterparty (e.g. counterparty stops making contributions to a Save-As-You-Earn scheme); or
- circumstances where neither the entity nor the counterparty is in a position to choose whether or not to meet a non-vesting condition (e.g. performance of a commodity index).

The January 2008 amendments address each of these scenarios.

If the entity or the counterparty can choose whether to meet a non-vesting condition, a failure by the entity or the counterparty to meet the non-vesting condition will be treated as a cancellation. If neither the entity nor the counterparty has the choice as to whether to meet a non-vesting condition, a failure to meet this non-vesting condition does not have any accounting effect, similar to the treatment of market conditions.

If a grant of equity instruments is cancelled or settled by the entity or the counterparty, the entity recognises immediately the amount of the expense that would otherwise have been recognised over the remainder of the vesting period (i.e. the share-based payment expense is accelerated and recognised immediately). If the share-based payment contains a liability component, the liability should be fair valued at the date of cancellation or settlement. Any payment made to settle the liability component should be accounted for as an extinguishment of the liability.

### **Effective date and transition**

The amendments are applicable for periods beginning on or after 1 January 2009, with early application permitted. If an entity applies the amendments for a period beginning before 1 January 2009, that fact should be disclosed.

The amendments are to be applied retrospectively.

### **Additional guidance**

A new table has been inserted at paragraph IG24, which categorises, with examples, the various conditions that determine whether a counterparty receives an equity instrument granted, and the accounting treatment of share-based payments with those conditions. For users' convenience, that table is reproduced overleaf.

	Summary of conditions that determine whether a counterparty receives an equity instrument granted					
	Vesting Conditions			Non-Vesting Conditions		
	Service conditions	Performance conditions		Neither the entity nor the counterparty can choose whether the condition is met	Counterparty can choose whether to meet the condition	Entity can choose whether to meet the condition
Performance conditions that are market conditions		Other performance conditions				
<b>Example conditions</b>	Requirement to remain in service for three years	Target based on the market price of the entity's equity instruments	IPO with a specified service requirement	Commodity index	Paying contributions towards the exercise price of a share-based payment	Continuation of the plan by the entity
<b>Include in grant-date fair value?</b>	No	Yes	No	Yes	Yes	Yes*
<b>Accounting treatment if the condition is not met after the grant date and during the vesting period</b>	Forfeiture. The entity revises the expense to reflect the best available estimate of the number of equity instruments expected to vest. (paragraph 19)	No change to accounting. The entity continues to recognise the expense over the remainder of the vesting period. (paragraph 21)	Forfeiture. The entity revises the expense to reflect the best available estimate of the number of equity instruments expected to vest. (paragraph 19)	No change to accounting. The entity continues to recognise the expense over the remainder of the vesting period. (paragraph 21A)	Cancellation. The entity recognises immediately the amount of the expense that would otherwise have been recognised over the remainder of the vesting period. (paragraph 28A)	Cancellation. The entity recognises immediately the amount of the expense that would otherwise have been recognised over the remainder of the vesting period. (paragraph 28)

\* In the calculation of the fair value of the share-based payment, the probability of continuation of the plan by the entity is assumed to be 100%.

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