STAFF PAPER

December 2015

IASB Meeting

Project	**Narrow–scope amendments to IFRS 2 *Share-based Payment Classification and Measurement of Share-based Payment Transactions* (final amendment)**
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 in completing the narrow-scope project *Classification and Measurement of Share-based Payment Transaction* (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.

Structure of the paper

2. The structure of the paper is as follows:
   - (a) summary of the amendments to IFRS 2;
   - (b) finalisation or re-exposure;
   - (c) intention to dissent;
   - (d) effective date;
   - (e) proposed balloting and publication;
   - (f) confirmation of the due process steps; and
   - (g) questions for the IASB.

Background

3. In November 2014, the IASB exposed three proposed amendments to IFRS 2 together in the Exposure Draft ('the ED') ED/2014/5 *Classification and Measurement of Share-based Payment Transactions* (Proposed amendments to IFRS 2 *Share-based Payment*). The issues included in the ED addressed:
   (a) the effects of vesting conditions on the measurement of a cash-settled share-based payment;
   (b) the classification of share-based payment transactions with net settlement features; and
   (c) the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.
4. At the July 2015 meeting, the Interpretations Committee was presented with a summary and an analysis of the 70 comment letters received on the ED. The Interpretations Committee decided to propose that the IASB should finalise the three amendments, subject to some revisions to the wording. We briefly describe the recommendations from the Interpretations Committee in the following paragraphs.
5. Regarding the proposed amendment about the effects of vesting conditions on the measurement of a cash-settled share-based payment, the Interpretations Committee recommended to the IASB that it should include some wording changes to the paragraphs that provide guidance on the measurement of cash-settled share-based payments.
6. Regarding the proposed amendments about the classification of share-based payment transactions with net settlement features, the Interpretations Committee recommended to the IASB that it should retain the existing scope of the proposed exception to require a share-based payment transaction with net settlement features (ie that it should be classified as equity-settled in its entirety), reinforce the reasons why the proposed classification represents an exception to the requirements in IFRS 2 and include an illustration of the proposed guidance in the implementation guidance of IFRS 2.

7. The Interpretations Committee further recommended to the IASB that it should clarify the accounting for the difference between the compensation cost recognised during the vesting period and the amount of cash paid to the tax authority, and to add a disclosure of the estimated amount of cash that an entity will pay in connection with the withholding of the employee’s tax obligation.

8. Regarding the proposed amendments about the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled, the Interpretations Committee recommended to the IASB that it should reinforce the reasons for the proposed accounting and include an illustration of the proposed guidance in the implementation guidance of IFRS 2.

9. At its November 2015 meeting, the IASB considered the recommendations from the Interpretations Committee. The IASB tentatively decided that it should proceed with finalising the proposed amendments as recommended by the Interpretations Committee, subject to some revisions as follows:

    (a) to add as an example of a disclosure that may be necessary to meet the disclosure objective of IFRS 2, the disclosure of the estimated amount of cash that the entity expects to pay in connection with the withholding of the employee’s tax obligation, when a share-based payment award with net settlement features is classified as equity-settled using the proposed exception; and

    (b) to make clear that the proposed exception for the classification of a share-based payment award with net settlement features does not apply to any shares withheld in excess of the tax withholding obligation.

10. The following paragraphs present a summary of the discussions and conclusions reached by the IASB.

Summary of the amendments to IFRS 2

Effects of vesting conditions on the measurement of a cash-settled share-based payment

11. The Interpretations Committee was asked to clarify how to account for a cash-settled share-based payment transaction that includes a performance condition, because IFRS 2 does not specifically address the impact of vesting and non-vesting conditions on the measurement of the fair value of the liability incurred in a cash-settled share-based payment transaction.

12. The IASB decided to clarify that the accounting for a cash-settled share-based payment that includes a performance condition should follow the approach used for measuring equity-settled share-based payments in paragraphs 19-21A of IFRS 2. On the basis of this guidance:

    (a) vesting conditions (other than market conditions), should not be taken into account when estimating the fair value of the cash-settled share-based payment at the measurement date. Instead, vesting conditions (other than market conditions) should be taken into account by adjusting the number of awards included in the measurement of the transaction amount so that, ultimately, the amount recognised for goods and services received as consideration for the awards granted shall be based on the number of awards that eventually vest and are settled.

    (b) market conditions, such as a target share price upon which vesting (or exercisability) is conditioned, as well as non-vesting conditions, shall be taken into account when estimating the fair value of the cash-settled share-based payment granted and when remeasuring the fair value of the awards at the end of each reporting period and at the date of settlement.

Classification of share-based payment transactions with net settlement features

13. An entity may be obliged by tax laws or regulations to withhold an amount for an employee's tax obligation associated with share-based payments and then transfer

the amount, normally in cash, to the taxation authorities. To fulfil this obligation, the terms of some employee share-based payment arrangements permit or require the entity to deduct (from the total number of equity instruments that would otherwise be issued to the employee upon exercise (or vesting) of the share-based payment), the number of equity instruments needed to equal the monetary value of the employee's tax obligation in order to meet the statutory tax withholding obligation.

14. The Interpretations Committee was asked 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.

15. The IASB observed that under the current requirements in paragraph 34 of IFRS 2, the transaction with net settlement features would have been bifurcated into an equity-settled component and a cash-settled component and each would be accounted for in accordance with how each component is settled.

16. However, the IASB decided to establish an exception to the requirements in IFRS 2 to remove the requirement to bifurcate if certain conditions are met. This exception:

    (a) establishes that if an entity settles the share-based payment arrangement net by withholding a specified portion of the equity instruments to meet the statutory tax withholding obligation, then the transaction should be classified as equity-settled in its entirety.

    (b) would only be applicable if the entire share-based payment would otherwise have been classified as equity-settled if it had not included the net settlement feature.

    (c) would not apply to any shares withheld in excess of the tax withholding obligation.

Accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled

17. The Interpretations Committee received a request to clarify how to account for a share-based payment in situations in which the terms and conditions of a cash-settled share based payment are modified that it becomes an equity-settled share-based payment transaction. The IASB observed that IFRS 2 does not specifically address the accounting for this situation and decided to amend IFRS 2 to provide guidance in this respect. Consequently, the IASB decided to clarify that in a situation in which the terms and conditions of a cash-settled share-based payment are modified in such a way, this cash-settled award is replaced by a grant of equity instruments:

    (a) the share-based payment transaction is measured by reference to the modification-date fair value of the equity instruments that are granted as a result of the modification;

    (b) the liability recognised in respect of the original cash-settled share-based payment is derecognised upon the modification, and the equity-settled share-based payment is recognised in equity to the extent that the services have 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, is recorded in profit or loss immediately.

18. Moreover, the IASB decided to clarify that the guidance in paragraphs 18 (a)–(c) of this paper also applies in a situation in which a cash-settled share-based payment is cancelled or settled (other than a grant that is cancelled by forfeiture when the vesting conditions are not satisfied), and where equity instruments are granted and where an entity identifies them as replacement equity instruments for the cancelled (or settled) cash-settled share-based payment.

Transition guidance

19. The IASB requires the following transition guidance for the amendments to IFRS 2:

(a) for modifications that change the classification from cash-settled to equity-settled, the new accounting would apply to the modifications that occur after the date the amendments are first applied.

(b) for cash-settled share-based payments that are subject to vesting and non-vesting conditions, an entity shall adjust the carrying amount of the liability in the statement of financial position in the period of change on the date the amendment is first applied, and recognise the effect of the change retained earnings (or another appropriate component of equity) at the beginning of the annual period in which the amendment is first applied.

(c) for awards with net settlement features; an entity shall reclassify the current carrying value of the liability to equity for those awards (or components of awards) that were accounted for as cash-settled awards but which now meet the criteria to be accounted for as equity-settled awards. This reclassification shall be recognised in equity at the beginning of the annual period in which the amendment is first applied.

20. The IASB also allows entities to perform retrospective application if the necessary information to do so is available without the use of hindsight.

First-time adopters

21. The IASB did not consider it necessary to add specific guidance for first-time adopters in the application of the 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

22. The proposed amendments to IFRS 2 provide guidance on specific transactions involving share-based payment transactions that are within the scope of IFRS 2 and that are not within the scope of other Standards. Consequently, our

consideration of these matters did not identify the need for consequential amendments to other Standards.

23. We made a small number of amendments to existing guidance in IFRS 2 to make it consistent with the proposed amendments. However, in general the proposed amendments to IFRS 2 provide guidance on aspects that were not previously covered in IFRS 2.

Finalisation or re-exposure

24. Paragraph 6.25 of the IFRS Foundation *Due Process Handbook* (February 2013) specifies the criteria by which the IASB assesses whether the proposals can be finalised or whether they should be re-exposed.

25. In considering whether there is a need for re-exposure, the IASB:

    (a) identifies substantial issues that emerged during the comment period on the Exposure Draft and that it had not previously considered;

    (b) assesses the evidence that it has considered;

    (c) determines whether it has sufficiently understood the issues, implications and likely effects of the new requirements and actively sought the views of interested parties; and

    (d) considers whether the various viewpoints were appropriately aired in the Exposure Draft and adequately discussed and reviewed in the Basis for Conclusions.

26. From the comment letters on the Exposure Draft, most respondents broadly supported the proposals. We think that the Interpretations Committee's additions to the amendments to IFRS 2 (as described in paragraphs 5–8 of this paper) and the IASB's additions to the amendments to IFRS 2 (as described in paragraph 9) are not fundamental and respond to the feedback received. Consequently, we think that, on the basis of the re-exposure criteria in paragraphs 6.25–6.29 of the *Due Process Handbook*, the proposed amendments to IFRS 2 should be finalised without re-exposure.

Intention to dissent

27. We note that when the IASB members voted on the finalisation of the proposed amendments to IFRS 2 in November 2015, no IASB members voted against it. However, we are required to formally ask whether any IASB members intend to dissent from the final amendments before we ballot.

Effective date

28. Paragraph 6.35 of the *Due Process Handbook* requires that the mandatory effective date is set so that jurisdictions have sufficient time to incorporate the new requirements into their legal systems and those applying IFRS have sufficient time to prepare for the new requirements.

29. We expect to issue the final amendments to IFRS 2 in Q1 of 2016. The amendments to IFRS 2 are narrow in scope and significantly reduce diversity in practice on a timely basis.

30. We propose that the mandatory effective date for the amendments is annual periods beginning on or after 1 January 2018. We also propose that early application for the amendments is permitted.

Proposed balloting and publication

31. We plan to start the balloting process of the Exposure Draft in January 2016 and publish in late February 2016.

Confirmation of the due process steps

32. In **Appendix A** of this paper we have summarised the due process steps that we have taken since publishing the Exposure Draft. In summarising these steps, and thereby demonstrating that the IASB has met all the due process requirements to date, we used the reporting template 'Finalisation of a Standard, Practice Guidance or Conceptual Framework chapter' from the Due Process Protocol.

33. We note that the required due process steps applicable so far at this stage have been completed. We think that the completion of these steps support the publication of the final amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*.

Questions for the IASB
1. Do the IASB members agree that the amendments to IFRS 2 should be finalised without re-exposure?
2. Do any IASB members intend to dissent from the final amendments?
3. Do IASB members agree with 1 January 2018 as the mandatory effective date for the final amendments with earlier application permitted?
4. Are IASB members satisfied that all due process steps required to date that relate to the publication of the final amendments have been complied with?

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*
Consideration of information gathered during consultation		
The IASB posts all of the comment letters that are received in relation to the Exposure Draft on the project pages.	Required if request issued	All comment letters that the IASB has received (70 comment letters) on the Exposure Draft were posted on the project webpages. The link is: http://www.ifrs.org/Current-Projects/IASB-Projects/IFRS-2-Clarifications-Classification-and-Measurement/ED-November-2014/Pages/Comment-letters.aspx
Round-table meetings between external participants and members of the IASB.	Optional	Not applicable.
IASB meetings are held in public, with papers being available for observers. All decisions are made in public sessions.	Required	The comment letter analysis prepared by the staff was discussed by the Interpretations Committee at its July 2015 meeting on the basis of a publicly available Staff Paper. The IASB discussed the comment letter analysis and the feedback from the Interpretations Committee at its November 2015 meeting (see Staff Papers 12A and 12B). It tentatively decided to finalise the proposed amendments to IFRS 2. A project webpage has been created for this narrow-scope amendment, which was updated by the staff after every Interpretations Committee or IASB meeting. The link to this webpage is: http://www.ifrs.org/Current-Projects/IASB-Projects/IFRS-2-Clarifications-Classification-and-Measurement/Pages/Home.aspx The results of the discussions of the Interpretations Committee and the IASB are also summarised in the *IFRIC Update* and the *IASB Update* for each meeting.
Analysis of likely effects of the forthcoming Standard or major amendment, for example, costs or ongoing associated costs.	Required	Because of the narrow scope and the expected limited consequences of the amendment (ie it is not a major amendment) an effect analysis was not prepared. However, the consequences of the narrow-scope amendment have been considered as part of the IASB's and the Interpretations Committee's discussions. The amendments to IFRS 2 will clarify the accounting for: • the effects of vesting and non-vesting conditions on cash-settled share-based payment transactions; • modifications of a share-based payment transaction from cash-settled to equity-settled; and • share-based payments settled net of tax withholdings. The likely effect of the amendments is that they will reduce divergence in practice.
Email alerts are issued to registered recipients.	Optional	Not applicable.

Outreach meetings to promote debate and hear views on proposals that are published for public comment.	Optional	Not applicable.
Regional discussion forums are organised with national standard-setters and the IASB.	Optional	Not applicable.
Finalisation		
Due process steps are reviewed by the IASB.	Required	This step will be met by this Staff Paper.
Need for re-exposure of a Standard is considered.	Required	Analysis of the need to re-expose is included in the main body of this Staff Paper.
The IASB sets an effective date for the Standard, considering the need for effective implementation, generally providing at least one year.	Required	Analysis of the effective date is included in the main body of this Staff Paper.
Drafting		
Drafting quality assurance steps are adequate.	Required	The Translations team will review the pre-ballot draft.
Drafting quality assurance steps are adequate.	Required	The XBRL team will review the pre-ballot draft.
Drafting quality assurance steps are adequate.	Optional	The Editorial team will review the drafts during the ballot process. We will perform an editorial review of the pre-ballot draft with external parties. The pre-ballot draft will be made available to members of the International Forum of Accounting Standard-Setters (IFASS).
Publication		
Press release to announce the final Standard.	Required	A press release will be published with the final amendments and made available to the Due Process Oversight Committee (DPOC) together with a summary of the media coverage.
A Feedback Statement is provided, which provides high level executive summaries of the Standard and explains how the IASB has responded to the comments received.	Required	A Feedback Statement is not needed because the amendments are narrow in scope (ie it is not a major amendment).
Podcast to provide interested parties with high level updates or other useful information about the Standard.	Optional	Not applicable.
Standard is published.	Required	Final amendments will be made available on eIFRS on the publication date. The DPOC will be informed of the official release.