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cutting through complexity

Clarifying share-based payment accounting

Proposed narrow-scope amendments to IFRS 2

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IN THE HEADLINES

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> “The proposals would improve consistency and resolve some long-standing ambiguities in share-based payment accounting.”
>
> – Kim Bromfield
> KPMG’s global IFRS employee benefits leader

Proposals apply to three types of arrangements

Currently, there is ambiguity in IFRS 2 *Share-based Payment* as to how a company should account for certain types of arrangements. In response to this issue, on 25 November 2014 the IASB published an exposure draft *Classification and measurement of share-based payment transactions* (the ED). If adopted, the proposals in the ED could affect the classification and/or measurement of these arrangements – and potentially the timing and amount of expense recognition for new and outstanding awards. The three types of arrangements that would be affected are as follows.

1 Cash-settled share-based payment transactions that include performance conditions

There is currently no guidance in IFRS 2 on how to measure the fair value of cash-settled share-based payments with vesting or non-vesting conditions. As a result, diversity in practice exists between measuring the liability using the same approach as for equity-settled awards and using full fair value. Under the proposals, a cash-settled share-based payment would be measured using the same approach as for equity-settled share-based payments – i.e. the modified grant date method. Therefore, in measuring the liability:

- market and non-vesting conditions would be taken into account in measuring its fair value; and
- the number of rights to receive cash would be adjusted to reflect the best estimate of those expected to vest as a result of satisfying service and any non-market performance conditions.

This proposed amendment would not change the cumulative amount of expense that is ultimately recognised, because the total consideration for a cash-settled share-based payment is equal to the cash paid on settlement.

2 Share-based payments settled net of tax withholdings

In some countries, the company may be obligated to collect or withhold tax related to a share-based payment, even though the tax obligation is often a liability of the employee and not the company. Some share-based payment arrangements permit or require the company to withhold a portion of the shares that would otherwise be issued to the employee, and to pay the tax authorities on the employee’s behalf. A question exists as to whether the portion of the share-based payment that is withheld in these instances should be accounted for as equity-settled or cash-settled.

The ED clarifies that for classification purposes, a share-based payment transaction with employees is accounted for as equity-settled if:

- the terms of the arrangement permit or require a company to settle the transaction net by withholding a specified portion of the equity instruments to meet the statutory tax withholding requirement (the net settlement feature); and
- the entire share-based payment transaction would otherwise be classified as equity-settled if there were no net settlement feature.

3 Modification to a share-based payment transaction that changes the classification from cash-settled to equity-settled

There is no specific guidance in IFRS 2 for cash-settled share-based payments that are modified; as a result, there is diversity in practice in accounting for such transactions. The ED proposes the following approach to accounting for a modification to a cash-settled share-based payment that results in its classification changing to equity-settled:

- at the modification date, the liability for the original cash-settled share-based payment would be derecognised, and the equity-settled share-based payment would be measured at its fair value as at the modification date and recognised to the extent that the services have been rendered up to that date; and
- the difference between the carrying amount of the liability as at the modification date, and the amount recognised in equity as at that date, would be recognised in profit or loss immediately.

Effective date and transition

The proposed amendments would apply prospectively from the effective date, which has not yet been proposed. Retrospective application would be permitted, if companies have the required information. Early application would be permitted.

Next steps

Companies should consider whether the proposals could result in a change to their accounting for share-based payment transactions. Comments are due to the IASB by 25 March 2015.

For more information on the proposals, please speak to your usual KPMG contact or go to the IASB press release.

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