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Approval by the Board of *Classification and Measurement of Share-based Payment Transactions* (Amendments to IFRS 2) issued in June 2016

Classification and Measurement of Share-based Payment Transactions was approved for issue by the fourteen members of the International Accounting Standards Board.

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Basis for Conclusions on the amendments to IFRS 2 *Share-based Payment*

This Basis for Conclusions accompanies, but is not part of, the proposed amendments.

Paragraphs BC237C–BC237L, BC255A–BC255P and BC371–BC382 and their related headings are added. New text is underlined.

Accounting for a modification of a share-based payment transaction that changes its classification from cash-settled to equity-settled (2016 amendments)[1]

BC237C This section summarises the Board's considerations when finalising its proposals to address 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. These changes were proposed in the Exposure Draft *Classification and Measurement of Share-based Payment Transactions* (Proposed amendments to IFRS 2) published in November 2014 (November 2014 ED).

BC237D The Board was informed that there are situations in which a cash-settled share-based payment is modified by cancelling it and replacing it with a new equity-settled share-based payment, and, at the replacement date, the fair value of the replacement award is different from the recognised value of the original award. Interested parties told the Board that there is diversity in practice because IFRS 2 does not provide specific requirements for these situations and asked the Board to clarify the accounting.

BC237E The Board decided that paragraphs 27 and B42–B44 of IFRS 2, which set out the requirements for modifications to the terms and conditions of equity-settled share-based payments, should not be applied by analogy to account for the fact patterns raised. This is because the requirement in paragraph 27 of IFRS 2 to recognise a minimum amount for the equity-settled share-based payment following a modification is inconsistent with the requirement in paragraph 30 of IFRS 2 to remeasure the liability for a cash-settled share-based payment at fair value at the end of each reporting date until the liability is settled.

BC237F Accordingly, the Board decided to require that the equity-settled share-based payment transaction be recognised in equity to the extent to which goods or services have been received at the modification date. The Board required this measurement to be made by reference to the modification-date fair value of the equity instruments granted. The Board noted that, at the original grant date, there was a shared understanding that the entity would pay cash for services to be rendered by the counterparty. However, at the modification date, the entity and the counterparty have a new shared understanding that the entity will issue equity instruments to the counterparty. Therefore, the Board concluded that the modification-date fair value should be used to measure the modified equity-settled share-based payment.

BC237G Furthermore, the Board noted that the liability for the original cash-settled share-based payment is derecognised on the modification date as it is considered to be settled when the entity grants the replacement equity-settled share-based payment. This is because, at the modification date, the entity is no longer obliged to transfer cash (or other assets) to the counterparty.

BC237H The Board observed that any difference between the carrying amount of the derecognised liability and the amount of recognised equity on the modification date is recognised immediately in profit or loss. The Board observed that this is consistent with how cash-settled share-based payments are measured in accordance with paragraph 30 of IFRS 2. The Board further observed that recognising the difference in value between the original and the replacement award in profit or loss is also consistent with the requirements for the extinguishment of a financial liability (that has been extinguished fully or partially by the issue of equity instruments) in paragraph 3.3.3 of IFRS 9 *Financial Instruments* and with paragraph 9 of IFRIC *Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments*.

[1] Paragraphs BC237C–BC237L are added as a consequence of amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*, issued in June 2016.

BC237I Respondents to the November 2014 ED questioned whether the guidance in paragraph B44A would also apply to a situation in which the modification changes the vesting period of the share-based payment transaction. The Board confirmed in paragraph B44B that the guidance in paragraph B44A is applied when the modification occurs during or after the vesting period, and when the vesting period is extended or shortened.

BC237J The Board provided guidance in paragraph B44C to account for a grant of equity instruments that has been identified as a replacement for a cancelled cash-settled share-based payment. The Board observed that if an entity does not identify a grant of equity instruments as a replacement, the entity would have to reverse the expense recognised for the cash-settled share-based payment and recognise an expense for the new equity-settled share-based payment. The Board noted that this accounting treatment is different from the accounting for modifications of equity-settled awards when the entity does not identify new equity instruments granted as replacement equity instruments for the cancelled equity instrument (as set out in paragraph 28(c) of IFRS 2). In that case, the entity does not reverse the expense recognised for the cancelled original equity-settled award and recognises an expense for the new grant of equity instruments.

BC237K Some respondents to the November 2014 ED suggested that the Board add examples to the implementation guidance of IFRS 2 to illustrate the accounting for other types of modifications of share-based payments (for example, a modification from equity-settled to cash-settled). The Board decided that it was not necessary to include additional examples (other than adding paragraph IG19B and IG Example 12C which illustrates the application of paragraphs B44A–B44C), because the existing implementation guidance in IFRS 2 could be applied by analogy. For example, Example 9 illustrates a grant of shares to which a cash settlement alternative is subsequently added.

Effective date and transition (2016 amendments)

BC237L In response to the comments received on the November 2014 ED, the Board decided to provide specific transition requirements in paragraph 59A of IFRS 2 for each of the amendments. The Board also decided to permit an entity to apply all of the amendments retrospectively if, (and only if), the necessary information to do so is available without the use of hindsight.

Share-based payment transactions with a net settlement feature for withholding tax obligations (2016 amendments)[2]

BC255A This section summarises the Board's considerations when it finalised its proposals to address the classification of a share-based payment transaction with a net settlement feature for withholding tax obligations, contained in the November 2014 ED.

BC255B Some jurisdictions have tax laws or regulations that oblige an entity to withhold an amount for an employee's tax obligation associated with a share-based payment and to transfer that amount, normally in cash, to the tax authority on the employee's behalf. Those tax withholding obligations vary from jurisdiction to jurisdiction. To fulfill this obligation, many plans include a net settlement feature that permits or requires the entity to deduct from the total number of equity instruments that it otherwise would deliver to the employee, the number of equity instruments needed to equal the monetary value of the tax obligation that the employee incurs as a result of the share-based payment transaction. The entity transfers the amount withheld to the tax authority in cash or other assets.

BC255C The Board received a request to address the classification of such a share-based payment transaction. Specifically, the Board was asked whether the portion of the share-based payment that the entity withholds to satisfy the employee's tax obligation should be classified as cash-settled or equity-settled, if the transaction would otherwise have been classified as an equity-settled share-based payment transaction.

BC255D There were two views on this issue:

(a) View 1—The share-based payment has two components and each component is accounted for consistently with its manner of settlement. The portion that the entity withholds, and for which it incurs a liability to transfer cash (or other assets) to the tax authority, should be accounted for as a cash-settled share-based payment transaction. The portion of the share-based payment that the entity settles by issuing equity instruments to the employee is accounted for as an equity-settled share-based payment.

2 Paragraphs BC255A–BC255P are added as a consequence of amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*, issued in June 2016.

(b) View 2—The entire share-based payment transaction should be classified as an equity-settled share-based payment transaction, because the net settlement should be viewed as if the entity had repurchased some of the equity instruments issued to the employee (ie the entity would apply the requirements in paragraph 29 of IFRS 2 for a repurchase of vested equity instruments).

BC255E View 1 is based on the view that the entity is settling part of the share-based payment transaction in cash; ie the entity has an obligation to transfer cash (or other assets) to the tax authority to settle the employee's tax obligation on the employee's behalf. Paragraph 34 of IFRS 2 requires a share-based payment transaction, or components of that transaction, to be classified as cash-settled if, and to the extent that, the entity has incurred a liability to settle in cash or other assets.

BC255F View 2 is based on the view that the entity is acting as an agent when it transfers cash to the tax authority because the employee has the tax obligation. Under this view, it is as if the entity settles the share-based payment transaction in its entirety by issuing equity instruments to the employee. As a separate (yet simultaneous) transaction, the entity repurchases a portion of those equity instruments from the employee. The entity then remits the cash value of the repurchased equity instruments to the tax authority on behalf of the employee to settle the employee's tax obligation in relation to the share-based payment.

BC255G The Board observed that paragraph 34 of IFRS 2 indicates that a share-based payment transaction, or components of that transaction, should be classified as a cash-settled share-based payment transaction if, and to the extent that, the entity has incurred a liability to settle in cash or other assets. Consequently a transaction with such a net settlement feature would be divided into two components and each component would be accounted for consistently with how it is settled (View 1). Consequently, the component that reflects the entity's obligation to pay cash to the tax authority would be accounted for as a cash-settled share-based payment and the component that reflects the entity's obligation to issue equity instruments to the employee would be accounted for as an equity-settled share-based payment.

BC255H The Board observed that the entity's payment to the tax authority represents, in substance, a payment to the counterparty (ie the employee) for the services received from the counterparty, despite the fact that the entity transfers the cash to the tax authority. This is because:

(a) when the entity pays the amount withheld to the tax authority on behalf of the employee, the entity is acting as an agent for the employee; however,

(b) the entity is also acting as a principal because it is fulfilling its obligation to the employee (ie the counterparty in the share-based payment transaction) to transfer cash (or other assets) for the goods or services received.

BC255I Nevertheless, despite the requirements in paragraph 34, the Board decided to make an exception with the result that the transaction would be classified as equity-settled in its entirety if it would have been so classified had it not included the net settlement feature. The Board decided that this exception should be limited to the share-based payment transaction described in paragraph 33E.

BC255J The Board decided to make the exception because it observed that dividing the specific transaction described in paragraph 33E into two components could be a significant operational challenge for preparers and thus impose cost in excess of the benefit of distinguishing the two components. This is because dividing the transaction into two components requires an entity to estimate changes that affect the amount that the entity is required to withhold and remit to the tax authority on the employee's behalf in respect of the share-based payment. As that estimate changes, the entity would need to reclassify a portion of the share-based payment between cash-settled and equity-settled.

BC255K Respondents to the November 2014 ED observed that this ED did not specifically address the accounting for the amount paid by the entity to the tax authority. In response to these concerns the Board decided to explain how the requirements of paragraph 29 of IFRS 2 would be applied. Paragraph 33G explains that the accounting for the amount transferred to the tax authority in respect of the employee's tax obligation associated with the share-based payment is consistent with the accounting described in paragraph 29 of this Standard (ie as if the entity had repurchased the vested equity instruments). This amendment does not address the recognition and measurement of any liability to the tax authority.

BC255L The Board observed that withholding shares to fund the payment (in cash or other assets) to the tax authority could result in a significant difference between the amount paid and the amount at which the share-based payment was measured. This is because the amount payable to the tax authority may reflect settlement-date fair value, whereas the amount recognised for the equity-settled share-based payment during the vesting period would reflect grant-date fair value.

BC255M The Board further observed that it could be necessary to inform users about the future cash flow effects associated with the share-based payment arrangement as the settlement of the tax payment to the tax authority approaches. Therefore, the Board decided to require an entity to disclose the estimated amount that it expects to transfer to the tax authority when this disclosure is needed to inform users about the future cash-flow effects associated with the share-based payment. The Board did not specify the basis for calculating such an estimate.

BC255N The Board also received questions about the accounting when the number of equity instruments withheld exceeds the number of equity instruments needed to equal the monetary value of the employee's tax obligation in respect of the share-based payment. The Board observed that the classification exception (in paragraph 33F) for the classification of a share-based payment award with a net settlement feature would not apply to any equity instruments withheld in excess of the number required to equal the monetary value of the employee's tax obligation. Consequently, when that excess amount is paid to the employee in cash (or other assets), and consistent with existing requirements, the excess number of equity instruments withheld should be separated and accounted for as a cash-settled share-based payment.

BC255O Some respondents to the November 2014 ED asked the Board to clarify whether the exception in paragraph 33F (ie relief from dividing the share-based payment into its different components) applies to arrangements other than those in which an entity is obliged by tax laws or regulations to withhold an employee's tax obligation. For example, an entity may not be obliged by tax laws or regulations to withhold an amount for an employee's tax obligation but it is the entity's normal practice to withhold such an amount. The Board noted that its intent is to limit the exception to circumstances in which the tax laws or regulations impose the obligation on the entity to withhold an amount for the employee's tax obligation associated with a share-based payment for the exception in paragraph 33F to apply.

BC255P Furthermore, the Board added paragraph IG19A and IG Example 12B to the Guidance on Implementing IFRS 2 to illustrate a share-based payment transaction with a net settlement feature for withholding tax obligations.

Effects of vesting conditions on the measurement of a cash-settled share-based payment (2016 amendments)[3]

BC371 This section summarises the Board's considerations when it finalised its proposals to address the accounting for the effects of vesting conditions on the measurement of a cash-settled share-based payment, contained in the November 2014 ED.

BC372 The Board received a request regarding the measurement requirements in IFRS 2 for cash-settled share-based payment transactions that include a performance condition.

BC373 The Board noted that IFRS 2 requires the use of fair value as a principle in measuring share-based payment transactions. The Board observed that paragraphs 19–21A of IFRS 2 provide the requirements for measuring the fair value of equity-settled share-based payment transactions that include vesting and non-vesting conditions. The Board also observed that, in the case of cash-settled share-based payment transactions, paragraph 33 of IFRS 2 requires an entity to measure the liability, initially and at the end of each reporting period until settled, at fair value. The entity is required to apply an option pricing model, taking into account the terms and conditions on which the cash-settled share-based payments were granted and the extent to which the employees have rendered service to date.

BC374 However, 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. Specifically, it was unclear whether an entity should apply, by analogy, the requirements in paragraphs 19–21A of IFRS 2 for measuring equity-settled share-based payment transactions when measuring cash-settled share-based payment transactions that include vesting and non-vesting conditions.

BC375 The Board observed that, in accordance with paragraph 6A, IFRS 2 uses the term 'fair value' in a way that differs in some respects from the definition of fair value in IFRS 13 *Fair Value Measurement*. When applying IFRS 2, an entity is required to measure fair value in accordance with that Standard (and not in accordance with IFRS 13) for cash-settled and equity-settled awards. Consequently, the Board decided to add paragraphs 33A–33D on how market and non-market vesting conditions and non-vesting conditions should be reflected in the measurement of a cash-settled share-based payment transaction. The Board decided that those conditions should be reflected in the measurement of cash-settled share-based payments in a manner consistent with how they are reflected in the measurement of an equity-settled share-based payment transaction.

BC376 The Board further observed that measuring the fair value of the liability incurred in a cash-settled share-based payment transaction by analogy to the requirements for equity-settled share-based payment transactions would avoid the practical difficulties of measuring the effects of vesting conditions (other than

3 Paragraphs BC371–BC382 are added as a consequence of amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions* issued in June 2016.

market conditions) on the fair value of the awards. Those practical difficulties were identified by the Board when it originally issued IFRS 2, and are explained in paragraph BC184 of IFRS 2.

BC377 Consequently the Board decided to amend paragraphs 30–31, and 33 and added paragraphs 33A–33D to clarify the effect that market and non-market vesting conditions and non-vesting conditions have on the measurement of the liability incurred in a cash-settled share-based payment transaction.

BC378 The Board observed that if an employee does not receive the payment because of a failure to satisfy any condition, this should result in remeasuring the liability to zero. The amendments make clear that the cumulative amount ultimately recognised for goods or services received as consideration for a cash-settled share-based payment will be equal to the amount of cash (or other assets) that is paid.

BC379 Furthermore, the Board amended paragraph IG19 and added IG Example 12A to the Guidance on Implementing IFRS 2 to illustrate the impact of a performance condition on the measurement of a cash-settled share-based payment transaction.

BC380 Respondents to the November 2014 ED questioned the meaning of 'best available estimate', as that notion was used in the proposal, for estimating the fair value of a cash-settled share-based payment. The Board noted that the term 'best available estimate' is already used in IFRS 2 and is not a new notion. This term is also used in paragraph 20 of IFRS 2 for estimating the number of equity instruments expected to vest of an equity-settled share-based payment. The Board further observed that analysing such a notion would potentially involve examining similar notions in other Standards and observed that such notions would be better examined as part of a broader project.

BC381 Respondents to the November 2014 ED suggested that the Board should add an explicit requirement for the disclosure of a contingent liability when vesting is not probable (and thus no liability is recognised, as illustrated in Year 1 of Example 12A). The Board observed that adding such a requirement is not necessary because the general requirement in paragraph 50 of IFRS 2 already requires entities to

> …disclose information that enables users of the financial statements to understand the effect of share-based payment transactions on the entity's profit or loss for the period and on its financial position.

BC382 Some respondents to the November 2014 ED suggested that the Board should add other examples to the Guidance on Implementing IFRS 2 to illustrate the effects of vesting and non-vesting conditions on the measurement of cash-settled awards. The Board did not think this was necessary because of the existing examples in the implementation guidance that illustrate the effects of market and non-market vesting conditions and of non-vesting conditions on equity-settled awards. These examples also serve to illustrate the effects of such conditions on cash-settled awards because the amendments require consistent treatment for both types of awards.

Amendments to the Guidance on implementing IFRS 2 *Share-based Payment*

Paragraph IG19 is amended and paragraphs IG19A–IG19B are added. IG Examples 12A–12C are added. Deleted text is struck through and new text is underlined.

Cash-settled share-based payment transactions

...

IG19 For example, an entity might grant share appreciation rights to employees as part of their remuneration package, whereby the employees will become entitled to a future cash payment (rather than an equity instrument), based on the increase in the entity's share price from a specified level over a specified period of time. If the share appreciation rights do not vest until the employees have completed a specified period of service, the entity recognises the services received, and a liability to pay for them, as the employees render service during that period. The liability is measured, initially and at the end of each reporting period until settled, at the fair value of the share appreciation rights ~~by applying an option pricing model, and the extent to which the employees have rendered service to date~~ in accordance with paragraphs 30–33D of IFRS 2. Changes in fair value are recognised in profit or loss. Therefore, if the amount recognised for the services received was included in the carrying amount of an asset recognised in the entity's statement of financial position (~~eg~~for example, inventory), the carrying amount of that asset is not adjusted for the effects of the liability remeasurement. Example 12 illustrates these requirements for a cash-settled share-based payment transaction that is subject to a service condition. Example 12A illustrates these requirements for a cash-settled share-based payment transaction that is subject to a performance condition.

IG Example 12

…

IG Example 12A

Background

An entity grants 100 cash-settled share appreciation rights (SARs) to each of its 500 employees on the condition that the employees remain in its employ for the next three years and the entity reaches a revenue target (CU1 billion in sales) by the end of Year 3. The entity expects all employees to remain in its employ.

For simplicity, this example assumes that none of the employees' compensation qualifies for capitalisation as part of the cost of an asset.

At the end of Year 1, the entity expects that the revenue target will not be achieved by the end of Year 3. During Year 2, the entity's revenue increased significantly and it expects that it will continue to grow. Consequently, at the end of Year 2, the entity expects that the revenue target will be achieved by the end of Year 3.

At the end of Year 3, the revenue target is achieved and 150 employees exercise their SARs. Another 150 employees exercise their SARs at the end of Year 4 and the remaining 200 employees exercise their SARs at the end of Year 5.

Using an option pricing model, the entity estimates the fair value of the SARs, ignoring the revenue target performance condition and the employment-service condition, at the end of each year until all of the cash-settled share-based payments are settled. At the end of Year 3, all of the SARs vest. The following table shows the estimated fair value of the SARs at the end of each year and the intrinsic values of the SARs at the date of exercise (which equals the cash paid out).

Year			Fair value of one SAR	Intrinsic value of one SAR
1			CU14.40	–
2			CU15.50	–
3			CU18.20	CU15.00
4			CU21.40	CU20.00
5			CU25.00	CU25.00
Application of requirements			Number of employees expected to satisfy the service condition	Best estimate of whether the revenue target will be met
Year 1			500	No
Year 2			500	Yes
Year 3			500	Yes
Year	Calculation		Expense	Liability
			CU	CU
1	SARs are not expected to vest: no expense is recognised	–	–	–
2	SARs are expected to vest: 500 employees × 100 SARs × CU15.50 × 2⁄3	–	516,667	516,667
3	(500–150) employees × 100 SARs × CU18.20 x 3⁄3–CU516,667	120,333	–	637,000
	+ 150 employees × 100 SARs × CU15.00	225,000	–	–
	Total	–	345,333	–
4	(350–150) employees × 100 SARs × CU21.40–CU637,000	(209,000)	–	428,000
	+ 150 employees × 100 SARs × CU20.00	300,000	–	–
	Total	–	91,000	–
5	(200–200) employees × 100 SARs × CU25.00–CU428,000	(428,000)	–	–
	+ 200 employees × 100 SARs × CU25.00	500,000	–	–
	Total	–	72,000	–
	Total	–	1,025,000	–

Share-based payment transactions with a net settlement feature for withholding tax obligations

IG19A Paragraphs 33E and 33F require an entity to classify an arrangement in its entirety as an equity-settled share-based payment transaction if it would have been so classified in the absence of a net settlement feature that obliges the entity to withhold an amount for an employee's tax obligation associated with a share-based payment. The entity transfers that amount, normally in cash, to the tax authority on the employee's behalf. Example 12B illustrates these requirements.

IG Example 12B

Background

The tax law in jurisdiction X requires entities to withhold an amount for an employee's tax obligation associated with a share-based payment and transfer that amount in cash to the tax authority on the employee's behalf.

On 1 January 20X1 an entity in jurisdiction X grants an award of 100 shares to an employee; that award is conditional upon the completion of four years' service. The entity expects that the employee will complete the service period. For simplicity, this example assumes that none of the employee's compensation qualifies for capitalisation as part of the cost of an asset.

The terms and conditions of the share-based payment arrangement require the entity to withhold shares from the settlement of the award to its employee in order to settle the employee's tax obligation (that is, the share-based payment arrangement has a 'net settlement feature'). Accordingly, the entity settles the transaction on a net basis by withholding the number of shares with a fair value equal to the monetary value of the employee's tax obligation and issuing the remaining shares to the employee on completion of the vesting period.

The employee's tax obligation associated with the award is calculated based on the fair value of the shares on the vesting date. The employee's applicable tax rate is 40 per cent.

At grant date, the fair value of each share is CU2. The fair value of each share at 31 December 20X4 is CU10.

The fair value of the shares on the vesting date is CU1000 (100 shares × CU10 per share) and therefore the employee's tax obligation is CU400 (100 shares × CU10 × 40%). Accordingly, on the vesting date, the entity issues 60 shares to the employee and withholds 40 shares (CU400 =40 shares × CU10 per share). The entity pays the fair value of the withheld shares in cash to the tax authority on the employee's behalf. In other words, it is as if the entity had issued all 100 vested shares to the employee, and at the same time, repurchased 40 shares at their fair value.

Application of requirements

		Dr.	**Cr.**	**Cr.**
		Expense	**Equity**	**Liability**
Year	**Calculation**	**CU**	**CU**	**CU**
1	100 shares × CU2 × 1⁄4	50	(50)	–
2	100 shares × CU2 × 2⁄4 –CU50	50	(50)	–
3	100 shares × CU2 × 3⁄4 –(CU50 + CU50)	50	(50)	–
4	100 shares × CU2 × 4⁄4 –(CU50 + CU50 + CU50)	50	(50)	–
	Total	200	(200)	–

The journal entries recorded by the entity are as follows:

During the vesting period

Accumulated compensation expense recognised over the vesting period

Dr Expense	200	
	Cr Equity	200

Recognition of the tax liability[(a)]

Dr Equity	400	
	Cr Liability	400

Settlement of tax obligation

Cash paid to the tax authority on the employee's behalf at the date of settlement

Dr Liability	400	
	Cr Cash	400

(a) The entity considers disclosing an estimate of the amount that it expects to transfer to the tax authority at the end of each reporting period. The entity makes such disclosure when it determines that this information is necessary to inform users about the future cash flow effects associated with the share-based payment.

Accounting for a modification of a share-based payment transaction that changes its classification from cash-settled to equity-settled

IG19B The following example illustrates the application of the requirements in paragraphs B44A of IFRS 2 to a modification of the terms and conditions of a cash-settled share-based payment transaction that becomes an equity-settled share-based payment transaction.

IG Example 12C

Background

On 1 January 20X1 an entity grants 100 share appreciation rights (SARs) that will be settled in cash to each of 100 employees on the condition that employees will remain employed for the next four years.

On 31 December 20X1 the entity estimates that the fair value of each SAR is CU10 and consequently, the total fair value of the cash-settled award is CU100,000. On 31 December 20X2 the estimated fair value of each SAR is CU12 and consequently, the total fair value of the cash-settled award is CU120,000.

On 31 December 20X2 the entity cancels the SARs and, in their place, grants 100 share options to each employee on the condition that each employee remains in its employ for the next two years. Therefore the original vesting period is not changed. On this date the fair value of each share option is CU13.20 and consequently, the total fair value of the new grant is CU132,000. All of the employees are expected to and ultimately do provide the required service.

For simplicity, this example assumes that none of the employees' compensation qualifies for capitalisation as part of the cost of an asset.

Application of requirements

At the modification date (31 December 20X2), the entity applies paragraph B44A. Accordingly:

(a) from the date of the modification, the share options are measured by reference to their modification-date fair value and, at the modification date, the share options are recognised in equity to the extent to which the employees have rendered services;

(b) the liability for the SARs is derecognised at the modification date; and

(c) the difference between the carrying amount of the liability derecognised and the equity amount recognised at the modification date is recognised immediately in profit or loss.

At the modification date (31 December 20X2), the entity compares the fair value of the equity-settled replacement award for services provided through to the modification date (CU132,000 × 2⁄4 = CU66,000) with the fair value of the cash-settled original award for those services (CU120,000 × 2⁄4 = CU60,000). The difference (CU6,000) is recognised immediately in profit or loss at the date of the modification.

The remainder of the equity-settled share-based payment (measured at its modification-date fair value) is recognised in profit or loss over the remaining two-year vesting period from the date of the modification.

Year	Calculation	Dr. Expense CU	Cumulative expense CU	Cr. Equity CU	Cr. Liability CU
1	100 employees ×100 SARs x CU10 × 1⁄4	25,000	–	–	25,000
2	*Remeasurement before the modification* 100 employees x 100 SARs × CU12.00 × 2⁄4–25,000	35,000	60,000	–	35,000
	Derecognition of the liability, recognition of the modification date fair value amount in equity and recognition of the effect of settlement for CU6,000 (100 employees x 100 share options × CU13.20 × 2⁄4)–(100 employees × 100 SARs × CU12.00 × 2⁄4)	6,000	66,000	66,000	(60,000)
3	100 employees × 100 share options × CU13.20 × 3⁄4–CU66,000	33,000	99,000	33,000	–

IG Example 12C					
4	100 employees x 100 share options × CU13.20 × 4⁄4–CU99,000	33,000	132,000	33,000	–
	Total			132,000	–