



**IFRS AT A GLANCE**  
**IFRS 2 *Share-based Payment***



# IFRS 2 Share-based Payment

## SCOPE

IFRS 2 applies to all share-based payment transactions, which are defined as follows:

- ▶ Equity-settled, in which the entity receives goods or services as consideration for equity instruments of the entity (including shares or share options);
- ▶ Cash-settled, in which the entity receives goods or services by incurring a liability to the supplier that is based on the price (or value) of the entity's shares or other equity instruments of the entity
- ▶ Transactions in which the entity receives goods or services and either the entity or the supplier of those goods or services have a choice of settling the transaction in cash (or other assets) or equity instruments.

IFRS 2 also applies:

- ▶ To transfers by shareholders to parties (including employees) that have transferred goods or services to the entity. This would include transfers of equity instruments of the entity or fellow subsidiaries by the entity's parent entity to parties that have provided goods and services
- ▶ When an entity does not receive any specifically identifiable goods/services.

IFRS 2 does not apply to:

- ▶ Transactions in which the entity acquires goods as part of the net assets acquired in a business combination to which IFRS 3 Business Combinations applies or to the contribution of a business on the formation of a joint venture to which IFRS 11 Joint Arrangements applies
- ▶ Share-based payment transactions in which the entity receives or acquires goods or services under a contract within the scope of IAS 32 Financial Instruments: Presentation and IFRS 9 Financial Instruments
- ▶ Transactions with an employee in his/her capacity as a holder of equity instruments.

## IDENTIFYING THE SHARE-BASED PAYMENT CONDITIONS

### VESTING CONDITIONS

A condition that determines whether the entity receives the services that entitle the counterparty to receive the share-based payment and is either: a service condition, or a performance condition.

#### SERVICE CONDITION

Requires the counterparty to complete a specified period of service during which services are provided to the entity. If the counterparty, regardless of the reason, ceases to provide service during the vesting period, it has failed to satisfy the condition. A performance target is not required to be met.

- ▶ Excluded from grant date fair value calculation
- ▶ Adjustment to the number of shares and/or vesting date amount for actual results.

#### PERFORMANCE CONDITION

Requires:

- ▶ The counterparty to complete a specified period of service (i.e. service condition) - the service requirement can be explicit or implicit, and
- ▶ Specified performance target(s) to be met while the counterparty is rendering that service.

The period of achieving the performance target(s):

- ▶ Shall not extend beyond the end of the service period, and
- ▶ May start before the service period on the condition that the commencement date of the performance target is not substantially before the commencement of the service period.

A performance target is defined by reference to:

- ▶ The entity's own operations (or activities) or the operations or activities of another entity in the same group (ie a non-market condition), or
- ▶ The price (or value) of the entity's equity instruments or the equity instruments of another entity in the same group (including shares and share options) (ie a market condition).

A performance target might relate either to the performance of the entity as a whole or to some part of the entity (or part of the group), such as a division or an individual employee.

#### NON-MARKET CONDITION

Relates to operations of the entity or to the operations of another entity in the same group.

#### MARKET CONDITION

Performance condition, upon which the exercise price, the vesting or exercisability of an equity instrument depends, that is related to the market price of the entity's equity instruments (including share options) or those of another entity within the group.

### NON-VESTING CONDITIONS

A condition that determines whether the entity receives the services that entitle the counterparty to receive the share-based payment and is either: a service condition, or a performance condition.

- ▶ Included in the grant date fair value calculation
- ▶ No adjustment to the number of shares or vesting date amount for actual results.

## RECOGNITION

- ▶ Recognise the goods or services received or acquired in a share-based payment transaction when the goods are obtained or as the services are received
- ▶ Recognise an increase in equity for an equity-settled share-based payment transaction
- ▶ Recognise a liability for a cash-settled share-based payment transaction
- ▶ When the goods or services received or acquired do not qualify for recognition as assets, recognise an expense.



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MEASUREMENT				
EQUITY-SETTLED		CHOICE OF SETTLEMENT	CASH-SETTLED	GROUP SETTLED SHARE-BASED PAYMENTS
<p><b>Transactions with employees</b></p> <ul style="list-style-type: none"> <li>▶ Measure at the fair value of the equity instruments granted at grant date</li> <li>▶ The fair value is never remeasured</li> <li>▶ The grant date fair value is recognised over the vesting period.</li> </ul>	<p><b>Transactions with non-employees</b></p> <ul style="list-style-type: none"> <li>▶ Measure at the fair value of the goods or services received at the date the entity obtains the goods or receives the service</li> <li>▶ If the fair value of the goods or services received cannot be estimated reliably, measure by reference to the fair value of the equity instruments granted.</li> </ul>	<p><b>Share-based payment transactions where there is a choice of settlement</b></p> <ul style="list-style-type: none"> <li>▶ If the counterparty has the right to choose whether a share-based payment transaction is settled in cash or by issuing equity instruments, the entity has granted a compound instrument (a cash-settled component and an equity-settled component)</li> <li>▶ If the entity has the choice of whether to settle in cash or by issuing equity instruments, the entity shall determine whether it has a present obligation to settle in cash and account for the transaction as cash-settled or if no such obligation exists, account for the transaction as equity-settled.</li> </ul>	<p><b>Cash-settled share-based payment transactions</b></p> <ul style="list-style-type: none"> <li>▶ Measure the liability at the fair value at grant date</li> <li>▶ Re-measure the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period</li> <li>▶ Liability is recognised over the vesting period (if applicable).</li> </ul>	<p>An entity that receives goods or services (receiving entity) in an equity-settled or a cash-settled share-based payment transaction is required to account for the transaction in its separate or individual financial statements.</p> <ul style="list-style-type: none"> <li>▶ The entity receiving the goods or services recognises them, regardless of which entity settles the transaction, this must be on an equity-settled or a cash-settled basis assessed from the entities own perspective (this might not be the same as the amount recognised by the consolidated group)</li> <li>▶ The term 'group' has the same definition as per IFRS 10 Consolidated Financial Statements that it includes only a parent and its subsidiaries.</li> </ul>

# Contact

For further information about how BDO can assist you and your organisation, please get in touch with one of our key contacts listed below.

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