Share-based Payment

This compiled Standard applies to annual periods beginning on or after 1 January 2020. Earlier application is permitted for annual periods beginning after 24 July 2014 but before 1 January 2020. It incorporates relevant amendments made up to and including 21 May 2019.

Prepared on 2 March 2020 by the staff of the Australian Accounting Standards Board.

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Contents

COMPARISON WITH IFRS 2

ACCOUNTING STANDARD
AASB 2 *SHARE-BASED PAYMENT*

AVAILABLE ON THE AASB WEBSITE

Basis for Conclusions on IFRS 2

Australian Accounting Standard AASB 2 *Share-based Payment* (as amended) is set out in paragraphs 1 – Aus64.2 and Appendices A – C. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time they appear in the Standard. AASB 2 is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation of Standards*, which identifies the Australian Accounting Interpretations, and AASB 1057 *Application of Australian Accounting Standards*. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

Comparison with IFRS 2

AASB 2 *Share-based Payment* as amended incorporates IFRS 2 *Share-based Payment* as issued and amended by the International Accounting Standards Board (IASB). Australian-specific paragraphs (which are not included in IFRS 2) are identified with the prefix “Aus” or “RDR”. Paragraphs that apply only to not-for-profit entities begin by identifying their limited applicability.

Tier 1

For-profit entities complying with AASB 2 also comply with IFRS 2.

Not-for-profit entities’ compliance with IFRS 2 will depend on whether any “Aus” paragraphs that specifically apply to not-for-profit entities provide additional guidance or contain applicable requirements that are inconsistent with IFRS 2.

Tier 2

Entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements (Tier 2) will not be in compliance with IFRS Standards.

AASB 1053 *Application of Tiers of Australian Accounting Standards* explains the two tiers of reporting requirements.

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Accounting Standard AASB 2

The Australian Accounting Standards Board made Accounting Standard AASB 2 *Share-based Payment* under section 334 of the *Corporations Act 2001* on 24 July 2015.

This compiled version of AASB 2 applies to annual periods beginning on or after 1 January 2020. It incorporates relevant amendments contained in other AASB Standards made by the AASB up to and including 21 May 2019 (see Compilation Details).

Accounting Standard AASB 2
Share-based Payment

Objective

1 The objective of this Standard is to specify the financial reporting by an entity when it undertakes a *share-based payment transaction*. In particular, it requires an entity to reflect in its profit or loss and financial position the effects of share-based payment transactions, including expenses associated with transactions in which *share options* are granted to employees.

AusCF1 AusCF paragraphs and footnotes included in this Standard apply only to:

(a) not-for-profit entities; and

(b) for-profit entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

Such entities are referred to as 'AusCF entities'. For AusCF entities, the term 'reporting entity' is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. For-profit entities applying the *Conceptual Framework for Financial Reporting* (as set out in paragraph Aus1.1 of the *Conceptual Framework*) shall not apply AusCF paragraphs or footnotes.

Scope

2 An entity shall apply this Standard in accounting for all share-based payment transactions, whether or not the entity can identify specifically some or all of the goods or services received, including:

(a) *equity-settled share-based payment transactions*,

(b) *cash-settled share-based payment transactions*, and

(c) transactions in which the entity receives or acquires goods or services and the terms of the arrangement provide either the entity or the supplier of those goods or services with a choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments,

except as noted in paragraphs 3A–6. In the absence of specifically identifiable goods or services, other circumstances may indicate that goods or services have been (or will be) received, in which case this Standard applies.

3 [Deleted]

3A A share-based payment transaction may be settled by another group entity (or a shareholder of any group entity) on behalf of the entity receiving or acquiring the goods or services. Paragraph 2 also applies to an entity that

(a) receives goods or services when another entity in the same group (or a shareholder of any group entity) has the obligation to settle the share-based payment transaction, or

(b) has an obligation to settle a share-based payment transaction when another entity in the same group receives the goods or services

unless the transaction is clearly for a purpose other than payment for goods or services supplied to the entity receiving them.

4 For the purposes of this Standard, a transaction with an employee (or other party) in his/her capacity as a holder of equity instruments of the entity is not a share-based payment transaction. For example, if an entity grants all holders of a particular class of its equity instruments the right to acquire additional equity instruments of the entity at a price that is less than the fair value of those equity instruments, and an employee receives such a right because he/she is a holder of equity instruments of that particular class, the granting or exercise of that right is not subject to the requirements of this Standard.

5 As noted in paragraph 2, this Standard applies to share-based payment transactions in which an entity acquires or receives goods or services. Goods includes inventories, consumables, property, plant and equipment, intangible assets and other non-financial assets. However, an entity shall not apply this Standard to transactions in which the entity acquires goods as part of the net assets acquired in a business combination as defined by AASB 3 *Business Combinations*, in a combination of entities or businesses under common control as described in paragraphs B1–B4 of AASB 3, or the contribution of a business on the formation of a joint venture as defined by AASB 11 *Joint Arrangements*. Hence, equity instruments issued in a business combination in exchange for control of the acquiree are not within the scope of this Standard. However, equity instruments granted to employees of the acquiree in their capacity as employees (eg in return for continued service) are within the scope of this Standard. Similarly, the cancellation, replacement or other modification of *share-based payment arrangements* because of a business combination or other equity restructuring shall be accounted for in accordance with this Standard. AASB 3 provides guidance on determining whether equity instruments issued in a business combination are part of the consideration transferred in exchange for control of the acquiree (and therefore within the scope of AASB 3) or are in return for continued service to be recognised in the post-combination period (and therefore within the scope of this Standard).

6 This Standard does not apply to share-based payment transactions in which the entity receives or acquires goods or services under a contract within the scope of paragraphs 8–10 of AASB 132 *Financial Instruments: Presentation*[1] or paragraphs 2.4–2.7 of AASB 9 *Financial Instruments*.

6A This Standard uses the term ‘fair value’ in a way that differs in some respects from the definition of fair value in AASB 13 *Fair Value Measurement*. Therefore, when applying AASB 2 an entity measures fair value in accordance with this Standard, not AASB 13.

Recognition

7 An entity shall recognise the goods or services received or acquired in a share-based payment transaction when it obtains the goods or as the services are received. The entity shall recognise a corresponding increase in equity if the goods or services were received in an equity-settled share-based payment transaction, or a liability if the goods or services were acquired in a cash-settled share-based payment transaction.

8 When the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets, they shall be recognised as expenses.

9 Typically, an expense arises from the consumption of goods or services. For example, services are typically consumed immediately, in which case an expense is recognised as the counterparty renders service. Goods might be consumed over a period of time or, in the case of inventories, sold at a later date, in which case an expense is recognised when the goods are consumed or sold. However, sometimes it is necessary to recognise an expense before the goods or services are consumed or sold, because they do not qualify for recognition as assets. For example, an entity might acquire goods as part of the research phase of a project to develop a new product. Although those goods have not been consumed, they might not qualify for recognition as assets under the applicable Standard.

Equity-settled share-based payment transactions

Overview

10 For equity-settled share-based payment transactions, the entity shall measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value, and the

1 The title of AASB 132 was amended in 2005.

corresponding increase in equity, indirectly, by reference to[2] the fair value of the equity instruments granted.

11 To apply the requirements of paragraph 10 to transactions with *employees and others providing similar services*,[3] the entity shall measure the fair value of the services received by reference to the fair value of the equity instruments granted, because typically it is not possible to estimate reliably the fair value of the services received, as explained in paragraph 12. The fair value of those equity instruments shall be measured at *grant date*.

12 Typically, shares, share options or other equity instruments are granted to employees as part of their remuneration package, in addition to a cash salary and other employment benefits. Usually, it is not possible to measure directly the services received for particular components of the employee's remuneration package. It might also not be possible to measure the fair value of the total remuneration package independently, without measuring directly the fair value of the equity instruments granted. Furthermore, shares or share options are sometimes granted as part of a bonus arrangement, rather than as a part of basic remuneration, eg as an incentive to the employees to remain in the entity's employ or to reward them for their efforts in improving the entity's performance. By granting shares or share options, in addition to other remuneration, the entity is paying additional remuneration to obtain additional benefits. Estimating the fair value of those additional benefits is likely to be difficult. Because of the difficulty of measuring directly the fair value of the services received, the entity shall measure the fair value of the employee services received by reference to the fair value of the equity instruments granted.

13 To apply the requirements of paragraph 10 to transactions with parties other than employees, there shall be a rebuttable presumption that the fair value of the goods or services received can be estimated reliably. That fair value shall be measured at the date the entity obtains the goods or the counterparty renders service. In rare cases, if the entity rebuts this presumption because it cannot estimate reliably the fair value of the goods or services received, the entity shall measure the goods or services received, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders service.

13A In particular, if the identifiable consideration received (if any) by the entity appears to be less than the fair value of the equity instruments granted or liability incurred, typically this situation indicates that other consideration (ie unidentifiable goods or services) has been (or will be) received by the entity. The entity shall measure the identifiable goods or services received in accordance with this Standard. The entity shall measure the unidentifiable goods or services received (or to be received) as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received). The entity shall measure the unidentifiable goods or services received at the grant date. However, for cash-settled transactions, the liability shall be remeasured at the end of each reporting period until it is settled in accordance with paragraphs 30–33.

Transactions in which services are received

14 If the equity instruments granted *vest* immediately, the counterparty is not required to complete a specified period of service before becoming unconditionally entitled to those equity instruments. In the absence of evidence to the contrary, the entity shall presume that services rendered by the counterparty as consideration for the equity instruments have been received. In this case, on grant date the entity shall recognise the services received in full, with a corresponding increase in equity.

15 If the equity instruments granted do not vest until the counterparty completes a specified period of service, the entity shall presume that the services to be rendered by the counterparty as consideration for those equity instruments will be received in the future, during the *vesting period*. The entity shall account for those services as they are rendered by the counterparty during the vesting period, with a corresponding increase in equity. For example:

(a) if an employee is granted share options conditional upon completing three years' service, then the entity shall presume that the services to be rendered by the employee as consideration for the share options will be received in the future, over that three-year vesting period.

(b) if an employee is granted share options conditional upon the achievement of a *performance condition* and remaining in the entity's employ until that performance condition is satisfied, and the length of the vesting period varies depending on when that performance condition is satisfied, the entity shall presume that the services to be rendered by the employee as consideration for the

2 This Standard uses the phrase 'by reference to' rather than 'at', because the transaction is ultimately measured by multiplying the fair value of the equity instruments granted, measured at the date specified in paragraph 11 or 13 (whichever is applicable), by the number of equity instruments that vest, as explained in paragraph 19.

3 In the remainder of this Standard, all references to employees also include others providing similar services.

share options will be received in the future, over the expected vesting period. The entity shall estimate the length of the expected vesting period at grant date, based on the most likely outcome of the performance condition. If the performance condition is a *market condition*, the estimate of the length of the expected vesting period shall be consistent with the assumptions used in estimating the fair value of the options granted, and shall not be subsequently revised. If the performance condition is not a market condition, the entity shall revise its estimate of the length of the vesting period, if necessary, if subsequent information indicates that the length of the vesting period differs from previous estimates.

Transactions measured by reference to the fair value of the equity instruments granted

Determining the fair value of equity instruments granted

16 For transactions measured by reference to the fair value of the equity instruments granted, an entity shall measure the fair value of equity instruments granted at the *measurement date*, based on market prices if available, taking into account the terms and conditions upon which those equity instruments were granted (subject to the requirements of paragraphs 19–22).

17 If market prices are not available, the entity shall estimate the fair value of the equity instruments granted using a valuation technique to estimate what the price of those equity instruments would have been on the measurement date in an arm's length transaction between knowledgeable, willing parties. The valuation technique shall be consistent with generally accepted valuation methodologies for pricing financial instruments, and shall incorporate all factors and assumptions that knowledgeable, willing market participants would consider in setting the price (subject to the requirements of paragraphs 19–22).

18 Appendix B contains further guidance on the measurement of the fair value of shares and share options, focusing on the specific terms and conditions that are common features of a grant of shares or share options to employees.

Treatment of vesting conditions

19 A grant of equity instruments might be conditional upon satisfying specified vesting conditions. For example, a grant of shares or share options to an employee is typically conditional on the employee remaining in the entity's employ for a specified period of time. There might be performance conditions that must be satisfied, such as the entity achieving a specified growth in profit or a specified increase in the entity's share price. Vesting conditions, other than market conditions, shall not be taken into account when estimating the fair value of the shares or share options at the measurement date. Instead, vesting conditions, other than market conditions, shall be taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognised for goods or services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Hence, on a cumulative basis, no amount is recognised for goods or services received if the equity instruments granted do not vest because of failure to satisfy a *vesting condition*, other than a market condition, for example, the counterparty fails to complete a specified service period, or a performance condition is not satisfied, subject to the requirements of paragraph 21.

20 To apply the requirements of paragraph 19, the entity shall recognise an amount for the goods or services received during the vesting period based on the best available estimate of the number of equity instruments expected to vest and shall revise that estimate, if necessary, if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates. On vesting date, the entity shall revise the estimate to equal the number of equity instruments that ultimately vested, subject to the requirements of paragraph 21.

21 Market conditions, such as a target share price upon which vesting (or exercisability) is conditioned, shall be taken into account when estimating the fair value of the equity instruments granted. Therefore, for grants of equity instruments with market conditions, the entity shall recognise the goods or services received from a counterparty who satisfies all other vesting conditions (eg services received from an employee who remains in service for the specified period of service), irrespective of whether that market condition is satisfied.

Treatment of non-vesting conditions

21A Similarly, an entity shall take into account all non-vesting conditions when estimating the fair value of the equity instruments granted. Therefore, for grants of equity instruments with non-vesting conditions, the entity shall recognise the goods or services received from a counterparty that satisfies all vesting conditions that are not market conditions (eg services received from an employee who remains in service for the specified period of service), irrespective of whether those non-vesting conditions are satisfied.

Treatment of a reload feature

22 For options with a *reload feature*, the reload feature shall not be taken into account when estimating the fair value of options granted at the measurement date. Instead, a *reload option* shall be accounted for as a new option grant, if and when a reload option is subsequently granted.

After vesting date

23 Having recognised the goods or services received in accordance with paragraphs 10–22, and a corresponding increase in equity, the entity shall make no subsequent adjustment to total equity after vesting date. For example, the entity shall not subsequently reverse the amount recognised for services received from an employee if the vested equity instruments are later forfeited or, in the case of share options, the options are not exercised. However, this requirement does not preclude the entity from recognising a transfer within equity, ie a transfer from one component of equity to another.

If the fair value of the equity instruments cannot be estimated reliably

24 The requirements in paragraphs 16–23 apply when the entity is required to measure a share-based payment transaction by reference to the fair value of the equity instruments granted. In rare cases, the entity may be unable to estimate reliably the fair value of the equity instruments granted at the measurement date, in accordance with the requirements in paragraphs 16–22. In these rare cases only, the entity shall instead:

(a) measure the equity instruments at their *intrinsic value*, initially at the date the entity obtains the goods or the counterparty renders service and subsequently at the end of each reporting period and at the date of final settlement, with any change in intrinsic value recognised in profit or loss. For a grant of share options, the share-based payment arrangement is finally settled when the options are exercised, are forfeited (eg upon cessation of employment) or lapse (eg at the end of the option's life).

(b) recognise the goods or services received based on the number of equity instruments that ultimately vest or (where applicable) are ultimately exercised. To apply this requirement to share options, for example, the entity shall recognise the goods or services received during the vesting period, if any, in accordance with paragraphs 14 and 15, except that the requirements in paragraph 15(b) concerning a market condition do not apply. The amount recognised for goods or services received during the vesting period shall be based on the number of share options expected to vest. The entity shall revise that estimate, if necessary, if subsequent information indicates that the number of share options expected to vest differs from previous estimates. On vesting date, the entity shall revise the estimate to equal the number of equity instruments that ultimately vested. After vesting date, the entity shall reverse the amount recognised for goods or services received if the share options are later forfeited, or lapse at the end of the share option's life.

25 If an entity applies paragraph 24, it is not necessary to apply paragraphs 26–29, because any modifications to the terms and conditions on which the equity instruments were granted will be taken into account when applying the intrinsic value method set out in paragraph 24. However, if an entity settles a grant of equity instruments to which paragraph 24 has been applied:

(a) if the settlement occurs during the vesting period, the entity shall account for the settlement as an acceleration of vesting, and shall therefore recognise immediately the amount that would otherwise have been recognised for services received over the remainder of the vesting period.

(b) any payment made on settlement shall be accounted for as the repurchase of equity instruments, ie as a deduction from equity, except to the extent that the payment exceeds the intrinsic value of the equity instruments, measured at the repurchase date. Any such excess shall be recognised as an expense.

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Modifications to the terms and conditions on which equity instruments were granted, including cancellations and settlements

26 An entity might modify the terms and conditions on which the equity instruments were granted. For example, it might reduce the exercise price of options granted to employees (ie reprice the options), which increases the fair value of those options. The requirements in paragraphs 27–29 to account for the effects of modifications are expressed in the context of share-based payment transactions with employees. However, the requirements shall also be applied to share-based payment transactions with parties other than employees that are measured by reference to the fair value of the equity instruments granted. In the latter case, any references in paragraphs 27–29 to grant date shall instead refer to the date the entity obtains the goods or the counterparty renders service.

27 The entity shall recognise, as a minimum, the services received measured at the grant date fair value of the equity instruments granted, unless those equity instruments do not vest because of failure to satisfy a vesting condition (other than a market condition) that was specified at grant date. This applies irrespective of any modifications to the terms and conditions on which the equity instruments were granted, or a cancellation or settlement of that grant of equity instruments. In addition, the entity shall recognise the effects of modifications that increase the total fair value of the share-based payment arrangement or are otherwise beneficial to the employee. Guidance on applying this requirement is given in Appendix B.

28 If a grant of equity instruments is cancelled or settled during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied):

(a) the entity shall account for the cancellation or settlement as an acceleration of vesting, and shall therefore recognise immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period.

(b) any payment made to the employee on the cancellation or settlement of the grant shall be accounted for as the repurchase of an equity interest, ie as a deduction from equity, except to the extent that the payment exceeds the fair value of the equity instruments granted, measured at the repurchase date. Any such excess shall be recognised as an expense. However, if the share-based payment arrangement included liability components, the entity shall remeasure the fair value of the liability at the date of cancellation or settlement. Any payment made to settle the liability component shall be accounted for as an extinguishment of the liability.

(c) if new equity instruments are granted to the employee and, on the date when those new equity instruments are granted, the entity identifies the new equity instruments granted as replacement equity instruments for the cancelled equity instruments, the entity shall account for the granting of replacement equity instruments in the same way as a modification of the original grant of equity instruments, in accordance with paragraph 27 and the guidance in Appendix B. The incremental fair value granted is the difference between the fair value of the replacement equity instruments and the net fair value of the cancelled equity instruments, at the date the replacement equity instruments are granted. The net fair value of the cancelled equity instruments is their fair value, immediately before the cancellation, less the amount of any payment made to the employee on cancellation of the equity instruments that is accounted for as a deduction from equity in accordance with (b) above. If the entity does not identify new equity instruments granted as replacement equity instruments for the cancelled equity instruments, the entity shall account for those new equity instruments as a new grant of equity instruments.

28A If an entity or counterparty can choose whether to meet a non-vesting condition, the entity shall treat the entity's or counterparty's failure to meet that non-vesting condition during the vesting period as a cancellation.

29 If an entity repurchases vested equity instruments, the payment made to the employee shall be accounted for as a deduction from equity, except to the extent that the payment exceeds the fair value of the equity instruments repurchased, measured at the repurchase date. Any such excess shall be recognised as an expense.

Cash-settled share-based payment transactions

30 For cash-settled share-based payment transactions, the entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability, subject to the requirements of paragraphs 31–33D. Until the liability is settled, the entity shall remeasure the fair value of the

liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

31 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. Alternatively, an entity might grant to its employees a right to receive a future cash payment by granting to them a right to shares (including shares to be issued upon the exercise of share options) that are redeemable, either mandatorily (for example, upon cessation of employment) or at the employee's option. These arrangements are examples of cash-settled share-based payment transactions. Share appreciation rights are used to illustrate some of the requirements in paragraphs 32–33D, however, the requirements in those paragraphs apply to all cash-settled share-based payment transactions.

32 The entity shall recognise the services received, and a liability to pay for those services, as the employees render service. For example, some share appreciation rights vest immediately, and the employees are therefore not required to complete a specified period of service to become entitled to the cash payment. In the absence of evidence to the contrary, the entity shall presume that the services rendered by the employees in exchange for the share appreciation rights have been received. Thus, the entity shall recognise immediately the services received and a liability to pay for them. If the share appreciation rights do not vest until the employees have completed a specified period of service, the entity shall recognise the services received, and a liability to pay for them, as the employees render service during that period.

33 The liability shall be 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, taking into account the terms and conditions on which the share appreciation rights were granted, and the extent to which the employees have rendered service to date—subject to the requirements of paragraphs 33A–33D. An entity might modify the terms and conditions on which a cash-settled share-based payment is granted. Guidance for a modification of a share-based payment transaction that changes its classification from cash-settled to equity-settled is given in paragraphs B44A–B44C in Appendix B.

Treatment of vesting and non-vesting conditions

33A A cash-settled share-based payment transaction might be conditional upon satisfying specified vesting conditions. There might be performance conditions that must be satisfied, such as the entity achieving a specified growth in profit or a specified increase in the entity's share price. Vesting conditions, other than market conditions, shall 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, shall be taken into account by adjusting the number of awards included in the measurement of the liability arising from the transaction.

33B To apply the requirements in paragraph 33A, the entity shall recognise an amount for the goods or services received during the vesting period. That amount shall be based on the best available estimate of the number of awards that are expected to vest. The entity shall revise that estimate, if necessary, if subsequent information indicates that the number of awards that are expected to vest differs from previous estimates. On the vesting date, the entity shall revise the estimate to equal the number of awards that ultimately vested.

33C 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 at the end of each reporting period and at the date of settlement.

33D As a result of applying paragraphs 30–33C, the cumulative amount ultimately recognised for goods or services received as consideration for the cash-settled share-based payment is equal to the cash that is paid.

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

33E Tax laws or regulations may oblige an entity to withhold an amount for an employee's tax obligation associated with a share-based payment and transfer that amount, normally in cash, to the tax authority on the employee's behalf. To fulfil this obligation, the terms of the share-based payment arrangement may permit or require the entity to withhold the number of equity instruments equal to the monetary value of the employee's tax obligation from the total number of equity instruments that otherwise would have been issued to the employee upon exercise (or vesting) of the share-based payment (ie the share-based payment arrangement has a 'net settlement feature').

33F As an exception to the requirements in paragraph 34, the transaction described in paragraph 33E shall be classified in its entirety as an equity-settled share-based payment transaction if it would have been so classified in the absence of the net settlement feature.

33G The entity applies paragraph 29 of this Standard to account for the withholding of shares to fund the payment to the tax authority in respect of the employee's tax obligation associated with the share-based payment. Therefore, the payment made shall be accounted for as a deduction from equity for the shares withheld, except to the extent that the payment exceeds the fair value at the net settlement date of the equity instruments withheld.

33H The exception in paragraph 33F does not apply to:

(a) a share-based payment arrangement with a net settlement feature for which there is no obligation on the entity under tax laws or regulations to withhold an amount for an employee’s tax obligation associated with that share-based payment; or

(b) any equity instruments that the entity withholds in excess of the employee’s tax obligation associated with the share-based payment (ie the entity withheld an amount of shares that exceeds the monetary value of the employee’s tax obligation). Such excess shares withheld shall be accounted for as a cash-settled share-based payment when this amount is paid in cash (or other assets) to the employee.

Share-based payment transactions with cash alternatives

34 For share-based payment transactions in which the terms of the arrangement provide either the entity or the counterparty with the choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments, the entity shall account for that transaction, or the components of that transaction, 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, or as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred.

Share-based payment transactions in which the terms of the arrangement provide the counterparty with a choice of settlement

35 If an entity has granted the counterparty the right to choose whether a share-based payment transaction is settled in cash[4] or by issuing equity instruments, the entity has granted a compound financial instrument, which includes a debt component (ie the counterparty’s right to demand payment in cash) and an equity component (ie the counterparty’s right to demand settlement in equity instruments rather than in cash). For transactions with parties other than employees, in which the fair value of the goods or services received is measured directly, the entity shall measure the equity component of the compound financial instrument as the difference between the fair value of the goods or services received and the fair value of the debt component, at the date when the goods or services are received.

36 For other transactions, including transactions with employees, the entity shall measure the fair value of the compound financial instrument at the measurement date, taking into account the terms and conditions on which the rights to cash or equity instruments were granted.

37 To apply paragraph 36, the entity shall first measure the fair value of the debt component, and then measure the fair value of the equity component—taking into account that the counterparty must forfeit the right to receive cash in order to receive the equity instrument. The fair value of the compound financial instrument is the sum of the fair values of the two components. However, share-based payment transactions in which the counterparty has the choice of settlement are often structured so that the fair value of one settlement alternative is the same as the other. For example, the counterparty might have the choice of receiving share options or cash-settled share appreciation rights. In such cases, the fair value of the equity component is zero, and hence the fair value of the compound financial instrument is the same as the fair value of the debt component. Conversely, if the fair values of the settlement alternatives differ, the fair value of the equity component usually will be greater than zero, in which case the fair value of the compound financial instrument will be greater than the fair value of the debt component.

38 The entity shall account separately for the goods or services received or acquired in respect of each component of the compound financial instrument. For the debt component, the entity shall recognise the goods or services acquired, and a liability to pay for those goods or services, as the counterparty supplies goods or renders service, in accordance with the requirements applying to cash-settled share-based payment

4 In paragraphs 35–43, all references to cash also include other assets of the entity.

transactions (paragraphs 30–33). For the equity component (if any), the entity shall recognise the goods or services received, and an increase in equity, as the counterparty supplies goods or renders service, in accordance with the requirements applying to equity-settled share-based payment transactions (paragraphs 10–29).

39 At the date of settlement, the entity shall remeasure the liability to its fair value. If the entity issues equity instruments on settlement rather than paying cash, the liability shall be transferred direct to equity, as the consideration for the equity instruments issued.

40 If the entity pays in cash on settlement rather than issuing equity instruments, that payment shall be applied to settle the liability in full. Any equity component previously recognised shall remain within equity. By electing to receive cash on settlement, the counterparty forfeited the right to receive equity instruments. However, this requirement does not preclude the entity from recognising a transfer within equity, ie a transfer from one component of equity to another.

Share-based payment transactions in which the terms of the arrangement provide the entity with a choice of settlement

41 For a share-based payment transaction in which the terms of the arrangement provide an entity with 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 share-based payment transaction accordingly. The entity has a present obligation to settle in cash if the choice of settlement in equity instruments has no commercial substance (eg because the entity is legally prohibited from issuing shares), or the entity has a past practice or a stated policy of settling in cash, or generally settles in cash whenever the counterparty asks for cash settlement.

42 If the entity has a present obligation to settle in cash, it shall account for the transaction in accordance with the requirements applying to cash-settled share-based payment transactions, in paragraphs 30–33.

43 If no such obligation exists, the entity shall account for the transaction in accordance with the requirements applying to equity-settled share-based payment transactions, in paragraphs 10–29. Upon settlement:

(a) if the entity elects to settle in cash, the cash payment shall be accounted for as the repurchase of an equity interest, ie as a deduction from equity, except as noted in (c) below.

(b) if the entity elects to settle by issuing equity instruments, no further accounting is required (other than a transfer from one component of equity to another, if necessary), except as noted in (c) below.

(c) if the entity elects the settlement alternative with the higher fair value, as at the date of settlement, the entity shall recognise an additional expense for the excess value given, ie the difference between the cash paid and the fair value of the equity instruments that would otherwise have been issued, or the difference between the fair value of the equity instruments issued and the amount of cash that would otherwise have been paid, whichever is applicable.

Share-based payment transactions among group entities (2009 amendments)

43A For share-based payment transactions among group entities, in its separate or individual financial statements, the entity receiving the goods or services shall measure the goods or services received as either an equity-settled or a cash-settled share-based payment transaction by assessing:

(a) the nature of the awards granted, and

(b) its own rights and obligations.

The amount recognised by the entity receiving the goods or services may differ from the amount recognised by the consolidated group or by another group entity settling the share-based payment transaction.

43B The entity receiving the goods or services shall measure the goods or services received as an equity-settled share-based payment transaction when:

(a) the awards granted are its own equity instruments, or

(b) the entity has no obligation to settle the share-based payment transaction.

The entity shall subsequently remeasure such an equity-settled share-based payment transaction only for changes in non-market vesting conditions in accordance with paragraphs 19–21. In all other circumstances, the entity receiving the goods or services shall measure the goods or services received as a cash-settled share-based payment transaction.

43C The entity settling a share-based payment transaction when another entity in the group receives the goods or services shall recognise the transaction as an equity-settled share-based payment transaction only if it is settled in the entity's own equity instruments. Otherwise, the transaction shall be recognised as a cash-settled share-based payment transaction.

43D Some group transactions involve repayment arrangements that require one group entity to pay another group entity for the provision of the share-based payments to the suppliers of goods or services. In such cases, the entity that receives the goods or services shall account for the share-based payment transaction in accordance with paragraph 43B regardless of intragroup repayment arrangements.

Disclosures

44 An entity shall disclose information that enables users of the financial statements to understand the nature and extent of share-based payment arrangements that existed during the period.

45 To give effect to the principle in paragraph 44, the entity shall disclose at least the following:

(a) a description of each type of share-based payment arrangement that existed at any time during the period, including the general terms and conditions of each arrangement, such as vesting requirements, the maximum term of options granted, and the method of settlement (eg whether in cash or equity). An entity with substantially similar types of share-based payment arrangements may aggregate this information, unless separate disclosure of each arrangement is necessary to satisfy the principle in paragraph 44.

(b) the number and weighted average exercise prices of share options for each of the following groups of options:

(i) outstanding at the beginning of the period;

(ii) granted during the period;

(iii) forfeited during the period;

(iv) exercised during the period;

(v) expired during the period;

(vi) outstanding at the end of the period; and

(vii) exercisable at the end of the period.

(c) for share options exercised during the period, the weighted average share price at the date of exercise. If options were exercised on a regular basis throughout the period, the entity may instead disclose the weighted average share price during the period.

(d) for share options outstanding at the end of the period, the range of exercise prices and weighted average remaining contractual life. If the range of exercise prices is wide, the outstanding options shall be divided into ranges that are meaningful for assessing the number and timing of additional shares that may be issued and the cash that may be received upon exercise of those options.

46 An entity shall disclose information that enables users of the financial statements to understand how the fair value of the goods or services received, or the fair value of the equity instruments granted, during the period was determined.

47 If the entity has measured the fair value of goods or services received as consideration for equity instruments of the entity indirectly, by reference to the fair value of the equity instruments granted, to give effect to the principle in paragraph 46, the entity shall disclose at least the following:

(a) for share options granted during the period, the weighted average fair value of those options at the measurement date and information on how that fair value was measured, including:

(i) the option pricing model used and the inputs to that model, including the weighted average share price, exercise price, expected volatility, option life, expected dividends, the risk-free interest rate and any other inputs to the model, including the method used and the assumptions made to incorporate the effects of expected early exercise;

(ii) how expected volatility was determined, including an explanation of the extent to which expected volatility was based on historical volatility; and

(iii) whether and how any other features of the option grant were incorporated into the measurement of fair value, such as a market condition.

(b) for other equity instruments granted during the period (ie other than share options), the number and weighted average fair value of those equity instruments at the measurement date, and information on how that fair value was measured, including:

(i) if fair value was not measured on the basis of an observable market price, how it was determined;

(ii) whether and how expected dividends were incorporated into the measurement of fair value; and

(iii) whether and how any other features of the equity instruments granted were incorporated into the measurement of fair value.

(c) for share-based payment arrangements that were modified during the period:

(i) an explanation of those modifications;

(ii) the incremental fair value granted (as a result of those modifications); and

(iii) information on how the incremental fair value granted was measured, consistently with the requirements set out in (a) and (b) above, where applicable.

48 If the entity has measured directly the fair value of goods or services received during the period, the entity shall disclose how that fair value was determined, eg whether fair value was measured at a market price for those goods or services.

49 If the entity has rebutted the presumption in paragraph 13, it shall disclose that fact, and give an explanation of why the presumption was rebutted.

50 An entity shall 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.

51 To give effect to the principle in paragraph 50, the entity shall disclose at least the following:

(a) the total expense recognised for the period arising from share-based payment transactions in which the goods or services received did not qualify for recognition as assets and hence were recognised immediately as an expense, including separate disclosure of that portion of the total expense that arises from transactions accounted for as equity-settled share-based payment transactions;

(b) for liabilities arising from share-based payment transactions:

(i) the total carrying amount at the end of the period; and

(ii) the total intrinsic value at the end of the period of liabilities for which the counterparty's right to cash or other assets had vested by the end of the period (eg vested share appreciation rights).

52 If the information required to be disclosed by this Standard does not satisfy the principles in paragraphs 44, 46 and 50, the entity shall disclose such additional information as is necessary to satisfy them. For example, if an entity has classified any share-based payment transactions as equity-settled in accordance with paragraph 33F, the entity shall disclose an estimate of the amount that it expects to transfer to the tax authority to settle the employee's tax obligation when it is necessary to inform users about the future cash flow effects associated with the share-based payment arrangement.

Transitional provisions

Aus52.1 Paragraphs 53–59 shall not be applied by entities that have previously applied AASB 2 (July 2004), unless required to do so by this or another Australian Accounting Standard.

53 For equity-settled share-based payment transactions, the entity shall apply this Standard to grants of shares, share options or other equity instruments that were granted after 7 November 2002 and had not yet vested at the effective date of this Standard.

54 The entity is encouraged, but not required, to apply this Standard to other grants of equity instruments if the entity has disclosed publicly the fair value of those equity instruments, determined at the measurement date.

55 For all grants of equity instruments to which this Standard is applied, the entity shall restate comparative information and, where applicable, adjust the opening balance of retained earnings for the earliest period presented.

56 For all grants of equity instruments to which this Standard has not been applied (eg equity instruments granted on or before 7 November 2002), the entity shall nevertheless disclose the information required by paragraphs 44 and 45.

57 If, after the Standard becomes effective, an entity modifies the terms or conditions of a grant of equity instruments to which this Standard has not been applied, the entity shall nevertheless apply paragraphs 26–29 to account for any such modifications.

58 For liabilities arising from share-based payment transactions existing at the effective date of this Standard, the entity shall apply the Standard retrospectively. For these liabilities, the entity shall restate comparative information, including adjusting the opening balance of retained earnings in the earliest period presented for which comparative information has been restated, except that the entity is not required to restate comparative information to the extent that the information relates to a period or date that is earlier than 7 November 2002.

59 The entity is encouraged, but not required, to apply retrospectively the Standard to other liabilities arising from share-based payment transactions, for example, to liabilities that were settled during a period for which comparative information is presented.

59A An entity shall apply the amendments in paragraphs 30–31, 33–33H and B44A–B44C as set out below. Prior periods shall not be restated.

(a) The amendments in paragraphs B44A–B44C apply only to modifications that occur on or after the date that an entity first applies the amendments.

(b) The amendments in paragraphs 30–31 and 33–33D apply to share-based payment transactions that are unvested at the date that an entity first applies the amendments and to share-based payment transactions with a grant date on or after the date that an entity first applies the amendments. For unvested share-based payment transactions granted prior to the date that an entity first applies the amendments, an entity shall remeasure the liability at that date and recognise the effect of the remeasurement in opening retained earnings (or other component of equity, as appropriate) of the reporting period in which the amendments are first applied.

(c) The amendments in paragraphs 33E–33H and the amendment to paragraph 52 apply to share-based payment transactions that are unvested (or vested but unexercised), at the date that an entity first applies the amendments and to share-based payment transactions with a grant date on or after the date that an entity first applies the amendments. For unvested (or vested but unexercised) share-based payment transactions (or components thereof) that were previously classified as cash-settled share-based payments but now are classified as equity-settled in accordance with the amendments, an entity shall reclassify the carrying value of the share-based payment liability to equity at the date that it first applies the amendments.

59B Notwithstanding the requirements in paragraph 59A, an entity may apply the amendments in paragraph 63D retrospectively, subject to the transitional provisions in paragraphs 53–59 of this Standard, in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* if and only if it is possible without hindsight. If an entity elects retrospective application, it must do so for all of the amendments made by AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*.

Effective date

60 An entity shall apply this Standard for annual periods beginning on or after 1 January 2018. Earlier application is encouraged for periods beginning after 24 July 2014 but before 1 January 2018. If an entity applies the Standard for a period beginning before 1 January 2018, it shall disclose that fact.

61–63B [Deleted by the AASB]

63C AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)*, issued in December 2014, amended paragraph 6 in the previous version of this Standard. An entity shall apply that amendment when it applies AASB 9.

63D AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*, issued in July 2016, amended paragraphs 19, 30–31, 33, 52 and Aus52.1 and added paragraphs 33A–33H, 59A–59B, 63D and B44A–B44C and their related headings. An entity shall apply those amendments for annual periods beginning on or after 1 January 2018. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

63E AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*, issued in 2019, added paragraph AusCF1 and amended the footnote to the definition of an equity instrument in Appendix A. An entity shall apply the amendments for annual periods beginning on or after 1 January 2020. Earlier application is permitted if at the same time an entity also applies all other amendments made by AASB 2019-1. An entity shall apply the amendments to AASB 2 retrospectively, subject to (in the case of the amendment to Appendix A) the transitional provisions in paragraphs 53–59 of this Standard, in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. However, if an entity determines that retrospective application would be impracticable or would involve undue cost or effort, it shall apply the amendments to AASB 2 by reference to paragraphs 23–28, 50–53 and 54F of AASB 108.

Withdrawal of Interpretations

64 [Deleted by the AASB]

Commencement of the legislative instrument

Aus64.1 For legal purposes, this legislative instrument commences on 31 December 2017.

Withdrawal of AASB pronouncements

Aus64.2 This Standard repeals AASB 2 *Share-based Payment* issued in July 2004. Despite the repeal, after the time this Standard starts to apply under section 334 of the Corporations Act (either generally or in relation to an individual entity), the repealed Standard continues to apply in relation to any period ending before that time as if the repeal had not occurred.

[Note: When this Standard applies under section 334 of the Corporations Act (either generally or in relation to an individual entity), it supersedes the application of the repealed Standard.]

Appendix A
Defined terms

This appendix is an integral part of the Standard.

cash-settled share-based payment transaction	A **share-based payment transaction** in which the entity acquires goods or services by incurring a liability to transfer cash or other assets to the supplier of those goods or services for amounts that are based on the price (or value) of **equity instruments** (including shares or **share options**) of the entity or another group entity.
employees and others providing similar services	Individuals who render personal services to the entity and either (a) the individuals are regarded as employees for legal or tax purposes, (b) the individuals work for the entity under its direction in the same way as individuals who are regarded as employees for legal or tax purposes, or (c) the services rendered are similar to those rendered by employees. For example, the term encompasses all management personnel, ie those persons having authority and responsibility for planning, directing and controlling the activities of the entity, including non-executive directors.
equity instrument	A contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.[5, AusCF5]
equity instrument granted	The right (conditional or unconditional) to an **equity instrument** of the entity conferred by the entity on another party, under a **share-based payment arrangement**.
equity-settled share-based payment transaction	A **share-based payment transaction** in which the entity (a) receives goods or services as consideration for its own **equity instruments** (including shares or **share options**), or (b) receives goods or services but has no obligation to settle the transaction with the supplier.
fair value	The amount for which an asset could be exchanged, a liability settled, or an **equity instrument granted** could be exchanged, between knowledgeable, willing parties in an arm's length transaction.
grant date	The date at which the entity and another party (including an employee) agree to a **share-based payment arrangement**, being when the entity and the counterparty have a shared understanding of the terms and conditions of the arrangement. At grant date the entity confers on the counterparty the right to cash, other assets, or **equity instruments** of the entity, provided the specified **vesting conditions**, if any, are met. If that agreement is subject to an approval process (for example, by shareholders), grant date is the date when that approval is obtained.
intrinsic value	The difference between the **fair value** of the shares to which the counterparty has the (conditional or unconditional) right to subscribe or which it has the right to receive, and the price (if any) the counterparty is (or will be) required to pay for those shares. For example, a **share option** with an exercise price of CU15,[6] on a share with a fair value of CU20, has an intrinsic value of CU5.

5 The *Conceptual Framework for Financial* Reporting issued in 2019 defines a liability as a present obligation of the entity to transfer an economic resource as a result of past events.

AusCF5 Notwithstanding footnote 5, in respect of AusCF entities, the *Framework for the Preparation and Presentation of Financial Statements* defines a liability as a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits (ie an outflow of cash or other assets of the entity).

6 In this appendix, monetary amounts are denominated in 'currency units (CU)'.

market condition

A **performance condition** upon which the exercise price, vesting or exercisability of an **equity instrument** depends that is related to the market price (or value) of the entity's **equity instruments** (or the equity instruments of another entity in the same group), such as:

(a) attaining a specified share price or a specified amount of **intrinsic value** of a **share option**; or

(b) achieving a specified target that is based on the market price (or value) of the entity's **equity instruments** (or the equity instruments of another entity in the same group) relative to an index of market prices of **equity instruments** of other entities.

A market condition requires the counterparty to complete a specified period of service (ie a **service condition**); the service requirement can be explicit or implicit.

measurement date

The date at which the **fair value** of the **equity instruments granted** is measured for the purposes of this Standard. For transactions with **employees and others providing similar services**, the measurement date is **grant date**. For transactions with parties other than employees (and those providing similar services), the measurement date is the date the entity obtains the goods or the counterparty renders service.

performance condition

A **vesting condition** that requires:

(a) the counterparty to complete a specified period of service (ie a **service condition**); the service requirement can be explicit or implicit; and

(b) specified performance target(s) to be met while the counterparty is rendering the service required in (a).

The period of achieving the performance target(s):

(a) shall not extend beyond the end of the service period; and

(b) 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:

(a) 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

(b) 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.

reload feature

A feature that provides for an automatic grant of additional **share options** whenever the option holder exercises previously granted options using the entity's shares, rather than cash, to satisfy the exercise price.

reload option

A new **share option** granted when a share is used to satisfy the exercise price of a previous share option.

service condition

A **vesting condition** that 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 service condition does not require a performance target to be met.

share-based payment arrangement	An agreement between the entity (or another group[7] entity or any shareholder of any group entity) and another party (including an employee) that entitles the other party to receive (a) cash or other assets of the entity for amounts that are based on the price (or value) of **equity instruments** (including shares or **share options**) of the entity or another group entity, or (b) **equity instruments** (including shares or **share options**) of the entity or another group entity, provided the specified **vesting conditions**, if any, are met.
share-based payment transaction	A transaction in which the entity (a) receives goods or services from the supplier of those goods or services (including an employee) in a **share-based payment arrangement**, or (b) incurs an obligation to settle the transaction with the supplier in a **share-based payment arrangement** when another group entity receives those goods or services.
share option	A contract that gives the holder the right, but not the obligation, to subscribe to the entity's shares at a fixed or determinable price for a specified period of time.
vest	To become an entitlement. Under a **share-based payment arrangement**, a counterparty's right to receive cash, other assets or **equity instruments** of the entity vests when the counterparty's entitlement is no longer conditional on the satisfaction of any **vesting conditions**.
vesting condition	A condition that determines whether the entity receives the services that entitle the counterparty to receive cash, other assets or **equity instruments** of the entity, under a **share-based payment arrangement**. A vesting condition is either a **service condition** or a **performance condition**.
vesting period	The period during which all the specified **vesting conditions** of a **share-based payment arrangement** are to be satisfied.

7 A 'group' is defined in Appendix A of AASB 10 *Consolidated Financial Statements* as 'a parent and its subsidiaries' from the perspective of the reporting entity's ultimate parent.

Appendix B
Application guidance

This appendix is an integral part of the Standard.

Estimating the fair value of equity instruments granted

B1 Paragraphs B2–B41 of this appendix discuss measurement of the fair value of shares and share options granted, focusing on the specific terms and conditions that are common features of a grant of shares or share options to employees. Therefore, it is not exhaustive. Furthermore, because the valuation issues discussed below focus on shares and share options granted to employees, it is assumed that the fair value of the shares or share options is measured at grant date. However, many of the valuation issues discussed below (eg determining expected volatility) also apply in the context of estimating the fair value of shares or share options granted to parties other than employees at the date the entity obtains the goods or the counterparty renders service.

Shares

B2 For shares granted to employees, the fair value of the shares shall be measured at the market price of the entity's shares (or an estimated market price, if the entity's shares are not publicly traded), adjusted to take into account the terms and conditions upon which the shares were granted (except for vesting conditions that are excluded from the measurement of fair value in accordance with paragraphs 19–21).

B3 For example, if the employee is not entitled to receive dividends during the vesting period, this factor shall be taken into account when estimating the fair value of the shares granted. Similarly, if the shares are subject to restrictions on transfer after vesting date, that factor shall be taken into account, but only to the extent that the post-vesting restrictions affect the price that a knowledgeable, willing market participant would pay for that share. For example, if the shares are actively traded in a deep and liquid market, post-vesting transfer restrictions may have little, if any, effect on the price that a knowledgeable, willing market participant would pay for those shares. Restrictions on transfer or other restrictions that exist during the vesting period shall not be taken into account when estimating the grant date fair value of the shares granted, because those restrictions stem from the existence of vesting conditions, which are accounted for in accordance with paragraphs 19–21.

Share options

B4 For share options granted to employees, in many cases market prices are not available, because the options granted are subject to terms and conditions that do not apply to traded options. If traded options with similar terms and conditions do not exist, the fair value of the options granted shall be estimated by applying an option pricing model.

B5 The entity shall consider factors that knowledgeable, willing market participants would consider in selecting the option pricing model to apply. For example, many employee options have long lives, are usually exercisable during the period between vesting date and the end of the options' life, and are often exercised early. These factors should be considered when estimating the grant date fair value of the options. For many entities, this might preclude the use of the Black-Scholes-Merton formula, which does not allow for the possibility of exercise before the end of the option's life and may not adequately reflect the effects of expected early exercise. It also does not allow for the possibility that expected volatility and other model inputs might vary over the option's life. However, for share options with relatively short contractual lives, or that must be exercised within a short period of time after vesting date, the factors identified above may not apply. In these instances, the Black-Scholes-Merton formula may produce a value that is substantially the same as a more flexible option pricing model.

B6 All option pricing models take into account, as a minimum, the following factors:

(a) the exercise price of the option;

(b) the life of the option;

(c) the current price of the underlying shares;

(d) the expected volatility of the share price;

(e) the dividends expected on the shares (if appropriate); and

(f) the risk-free interest rate for the life of the option.

B7 Other factors that knowledgeable, willing market participants would consider in setting the price shall also be taken into account (except for vesting conditions and reload features that are excluded from the measurement of fair value in accordance with paragraphs 19–22).

B8 For example, a share option granted to an employee typically cannot be exercised during specified periods (eg during the vesting period or during periods specified by securities regulators). This factor shall be taken into account if the option pricing model applied would otherwise assume that the option could be exercised at any time during its life. However, if an entity uses an option pricing model that values options that can be exercised only at the end of the options' life, no adjustment is required for the inability to exercise them during the vesting period (or other periods during the options' life), because the model assumes that the options cannot be exercised during those periods.

B9 Similarly, another factor common to employee share options is the possibility of early exercise of the option, for example, because the option is not freely transferable, or because the employee must exercise all vested options upon cessation of employment. The effects of expected early exercise shall be taken into account, as discussed in paragraphs B16–B21.

B10 Factors that a knowledgeable, willing market participant would not consider in setting the price of a share option (or other equity instrument) shall not be taken into account when estimating the fair value of share options (or other equity instruments) granted. For example, for share options granted to employees, factors that affect the value of the option from the individual employee's perspective only are not relevant to estimating the price that would be set by a knowledgeable, willing market participant.

Inputs to option pricing models

B11 In estimating the expected volatility of and dividends on the underlying shares, the objective is to approximate the expectations that would be reflected in a current market or negotiated exchange price for the option. Similarly, when estimating the effects of early exercise of employee share options, the objective is to approximate the expectations that an outside party with access to detailed information about employees' exercise behaviour would develop based on information available at the grant date.

B12 Often, there is likely to be a range of reasonable expectations about future volatility, dividends and exercise behaviour. If so, an expected value should be calculated, by weighting each amount within the range by its associated probability of occurrence.

B13 Expectations about the future are generally based on experience, modified if the future is reasonably expected to differ from the past. In some circumstances, identifiable factors may indicate that unadjusted historical experience is a relatively poor predictor of future experience. For example, if an entity with two distinctly different lines of business disposes of the one that was significantly less risky than the other, historical volatility may not be the best information on which to base reasonable expectations for the future.

B14 In other circumstances, historical information may not be available. For example, a newly listed entity will have little, if any, historical data on the volatility of its share price. Unlisted and newly listed entities are discussed further below.

B15 In summary, an entity should not simply base estimates of volatility, exercise behaviour and dividends on historical information without considering the extent to which the past experience is expected to be reasonably predictive of future experience.

Expected early exercise

B16 Employees often exercise share options early, for a variety of reasons. For example, employee share options are typically non-transferable. This often causes employees to exercise their share options early, because that is the only way for the employees to liquidate their position. Also, employees who cease employment are usually required to exercise any vested options within a short period of time, otherwise the share options are forfeited. This factor also causes the early exercise of employee share options. Other factors causing early exercise are risk aversion and lack of wealth diversification.

B17 The means by which the effects of expected early exercise are taken into account depends upon the type of option pricing model applied. For example, expected early exercise could be taken into account by using an estimate of the option's expected life (which, for an employee share option, is the period of time from grant date to the date on which the option is expected to be exercised) as an input into an option pricing model (eg the Black-Scholes-Merton formula). Alternatively, expected early exercise could be modelled in a binomial or similar option pricing model that uses contractual life as an input.

B18 Factors to consider in estimating early exercise include:

(a) the length of the vesting period, because the share option typically cannot be exercised until the end of the vesting period. Hence, determining the valuation implications of expected early exercise is based on the assumption that the options will vest. The implications of vesting conditions are discussed in paragraphs 19–21.

(b) the average length of time similar options have remained outstanding in the past.

(c) the price of the underlying shares. Experience may indicate that the employees tend to exercise options when the share price reaches a specified level above the exercise price.

(d) the employee's level within the organisation. For example, experience might indicate that higher-level employees tend to exercise options later than lower-level employees (discussed further in paragraph B21).

(e) expected volatility of the underlying shares. On average, employees might tend to exercise options on highly volatile shares earlier than on shares with low volatility.

B19 As noted in paragraph B17, the effects of early exercise could be taken into account by using an estimate of the option's expected life as an input into an option pricing model. When estimating the expected life of share options granted to a group of employees, the entity could base that estimate on an appropriately weighted average expected life for the entire employee group or on appropriately weighted average lives for subgroups of employees within the group, based on more detailed data about employees' exercise behaviour (discussed further below).

B20 Separating an option grant into groups for employees with relatively homogeneous exercise behaviour is likely to be important. Option value is not a linear function of option term; value increases at a decreasing rate as the term lengthens. For example, if all other assumptions are equal, although a two-year option is worth more than a one-year option, it is not worth twice as much. That means that calculating estimated option value on the basis of a single weighted average life that includes widely differing individual lives would overstate the total fair value of the share options granted. Separating options granted into several groups, each of which has a relatively narrow range of lives included in its weighted average life, reduces that overstatement.

B21 Similar considerations apply when using a binomial or similar model. For example, the experience of an entity that grants options broadly to all levels of employees might indicate that top-level executives tend to hold their options longer than middle-management employees hold theirs and that lower-level employees tend to exercise their options earlier than any other group. In addition, employees who are encouraged or required to hold a minimum amount of their employer's equity instruments, including options, might on average exercise options later than employees not subject to that provision. In those situations, separating options by groups of recipients with relatively homogeneous exercise behaviour will result in a more accurate estimate of the total fair value of the share options granted.

Expected volatility

B22 Expected volatility is a measure of the amount by which a price is expected to fluctuate during a period. The measure of volatility used in option pricing models is the annualised standard deviation of the continuously compounded rates of return on the share over a period of time. Volatility is typically expressed in annualised terms that are comparable regardless of the time period used in the calculation, for example, daily, weekly or monthly price observations.

B23 The rate of return (which may be positive or negative) on a share for a period measures how much a shareholder has benefited from dividends and appreciation (or depreciation) of the share price.

B24 The expected annualised volatility of a share is the range within which the continuously compounded annual rate of return is expected to fall approximately two-thirds of the time. For example, to say that a share with an expected continuously compounded rate of return of 12 per cent has a volatility of 30 per cent means that the probability that the rate of return on the share for one year will be between –18 per cent (12% – 30%) and 42 per cent (12% + 30%) is approximately two-thirds. If the share price is CU100 at the beginning of the year and no dividends are paid, the year-end share price would be expected to be between CU83.53 (CU100 × $e^{-0.18}$) and CU152.20 (CU100 × $e^{0.42}$) approximately two-thirds of the time.

B25 Factors to consider in estimating expected volatility include:

(a) implied volatility from traded share options on the entity's shares, or other traded instruments of the entity that include option features (such as convertible debt), if any.

(b) the historical volatility of the share price over the most recent period that is generally commensurate with the expected term of the option (taking into account the remaining contractual life of the option and the effects of expected early exercise).

(c) the length of time an entity's shares have been publicly traded. A newly listed entity might have a high historical volatility, compared with similar entities that have been listed longer. Further guidance for newly listed entities is given below.

(d) the tendency of volatility to revert to its mean, ie its long-term average level, and other factors indicating that expected future volatility might differ from past volatility. For example, if an entity's share price was extraordinarily volatile for some identifiable period of time because of a failed takeover bid or a major restructuring, that period could be disregarded in computing historical average annual volatility.

(e) appropriate and regular intervals for price observations. The price observations should be consistent from period to period. For example, an entity might use the closing price for each week or the highest price for the week, but it should not use the closing price for some weeks and the highest price for other weeks. Also, the price observations should be expressed in the same currency as the exercise price.

Newly listed entities

B26 As noted in paragraph B25, an entity should consider historical volatility of the share price over the most recent period that is generally commensurate with the expected option term. If a newly listed entity does not have sufficient information on historical volatility, it should nevertheless compute historical volatility for the longest period for which trading activity is available. It could also consider the historical volatility of similar entities following a comparable period in their lives. For example, an entity that has been listed for only one year and grants options with an average expected life of five years might consider the pattern and level of historical volatility of entities in the same industry for the first six years in which the shares of those entities were publicly traded.

Unlisted entities

B27 An unlisted entity will not have historical information to consider when estimating expected volatility. Some factors to consider instead are set out below.

B28 In some cases, an unlisted entity that regularly issues options or shares to employees (or other parties) might have set up an internal market for its shares. The volatility of those share prices could be considered when estimating expected volatility.

B29 Alternatively, the entity could consider the historical or implied volatility of similar listed entities, for which share price or option price information is available, to use when estimating expected volatility. This would be appropriate if the entity has based the value of its shares on the share prices of similar listed entities.

B30 If the entity has not based its estimate of the value of its shares on the share prices of similar listed entities, and has instead used another valuation methodology to value its shares, the entity could derive an estimate of expected volatility consistent with that valuation methodology. For example, the entity might value its shares on a net asset or earnings basis. It could consider the expected volatility of those net asset values or earnings.

Expected dividends

B31 Whether expected dividends should be taken into account when measuring the fair value of shares or options granted depends on whether the counterparty is entitled to dividends or dividend equivalents.

B32 For example, if employees were granted options and are entitled to dividends on the underlying shares or dividend equivalents (which might be paid in cash or applied to reduce the exercise price) between grant date and exercise date, the options granted should be valued as if no dividends will be paid on the underlying shares, ie the input for expected dividends should be zero.

B33 Similarly, when the grant date fair value of shares granted to employees is estimated, no adjustment is required for expected dividends if the employee is entitled to receive dividends paid during the vesting period.

B34 Conversely, if the employees are not entitled to dividends or dividend equivalents during the vesting period (or before exercise, in the case of an option), the grant date valuation of the rights to shares or options should take expected dividends into account. That is to say, when the fair value of an option grant is estimated, expected dividends should be included in the application of an option pricing model. When the fair value of a share grant is estimated, that valuation should be reduced by the present value of dividends expected to be paid during the vesting period.

B35 Option pricing models generally call for expected dividend yield. However, the models may be modified to use an expected dividend amount rather than a yield. An entity may use either its expected yield or its expected payments. If the entity uses the latter, it should consider its historical pattern of increases in dividends. For example, if an entity's policy has generally been to increase dividends by approximately 3 per cent per year, its estimated option value should not assume a fixed dividend amount throughout the option's life unless there is evidence that supports that assumption.

B36 Generally, the assumption about expected dividends should be based on publicly available information. An entity that does not pay dividends and has no plans to do so should assume an expected dividend yield of zero. However, an emerging entity with no history of paying dividends might expect to begin paying dividends during the expected lives of its employee share options. Those entities could use an average of their past dividend yield (zero) and the mean dividend yield of an appropriately comparable peer group.

Risk-free interest rate

B37 Typically, the risk-free interest rate is the implied yield currently available on zero-coupon government issues of the country in whose currency the exercise price is expressed, with a remaining term equal to the expected term of the option being valued (based on the option's remaining contractual life and taking into account the effects of expected early exercise). It may be necessary to use an appropriate substitute, if no such government issues exist or circumstances indicate that the implied yield on zero-coupon government issues is not representative of the risk-free interest rate (for example, in high inflation economies). Also, an appropriate substitute should be used if market participants would typically determine the risk-free interest rate by using that substitute, rather than the implied yield of zero-coupon government issues, when estimating the fair value of an option with a life equal to the expected term of the option being valued.

Capital structure effects

B38 Typically, third parties, not the entity, write traded share options. When these share options are exercised, the writer delivers shares to the option holder. Those shares are acquired from existing shareholders. Hence the exercise of traded share options has no dilutive effect.

B39 In contrast, if share options are written by the entity, new shares are issued when those share options are exercised (either actually issued or issued in substance, if shares previously repurchased and held in treasury are used). Given that the shares will be issued at the exercise price rather than the current market price at the date of exercise, this actual or potential dilution might reduce the share price, so that the option holder does not make as large a gain on exercise as on exercising an otherwise similar traded option that does not dilute the share price.

B40 Whether this has a significant effect on the value of the share options granted depends on various factors, such as the number of new shares that will be issued on exercise of the options compared with the number of shares already issued. Also, if the market already expects that the option grant will take place, the market may have already factored the potential dilution into the share price at the date of grant.

B41 However, the entity should consider whether the possible dilutive effect of the future exercise of the share options granted might have an impact on their estimated fair value at grant date. Option pricing models can be adapted to take into account this potential dilutive effect.

Modifications to equity-settled share-based payment arrangements

B42 Paragraph 27 requires that, irrespective of any modifications to the terms and conditions on which the equity instruments were granted, or a cancellation or settlement of that grant of equity instruments, the entity should recognise, as a minimum, the services received measured at the grant date fair value of the equity instruments granted, unless those equity instruments do not vest because of failure to satisfy a vesting condition (other than a market condition) that was specified at grant date. In addition, the entity should recognise the effects of modifications that increase the total fair value of the share-based payment arrangement or are otherwise beneficial to the employee.

B43 To apply the requirements of paragraph 27:

(a) if the modification increases the fair value of the equity instruments granted (eg by reducing the exercise price), measured immediately before and after the modification, the entity shall include the incremental fair value granted in the measurement of the amount recognised for services received as consideration for the equity instruments granted. The incremental fair value granted is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. If the modification occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognised for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognised over the remainder of the original vesting period. If the modification occurs after vesting date, the incremental fair value granted is recognised immediately, or over the vesting period if the employee is required to complete an additional period of service before becoming unconditionally entitled to those modified equity instruments.

(b) similarly, if the modification increases the number of equity instruments granted, the entity shall include the fair value of the additional equity instruments granted, measured at the date of the modification, in the measurement of the amount recognised for services received as consideration for the equity instruments granted, consistently with the requirements in (a) above. For example, if the modification occurs during the vesting period, the fair value of the additional equity instruments granted is included in the measurement of the amount recognised for services received over the period from the modification date until the date when the additional equity instruments vest, in addition to the amount based on the grant date fair value of the equity instruments originally granted, which is recognised over the remainder of the original vesting period.

(c) if the entity modifies the vesting conditions in a manner that is beneficial to the employee, for example, by reducing the vesting period or by modifying or eliminating a performance condition (other than a market condition, changes to which are accounted for in accordance with (a) above), the entity shall take the modified vesting conditions into account when applying the requirements of paragraphs 19–21.

B44 Furthermore, if the entity modifies the terms or conditions of the equity instruments granted in a manner that reduces the total fair value of the share-based payment arrangement, or is not otherwise beneficial to the employee, the entity shall nevertheless continue to account for the services received as consideration for the equity instruments granted as if that modification had not occurred (other than a cancellation of some or all the equity instruments granted, which shall be accounted for in accordance with paragraph 28). For example:

(a) if the modification reduces the fair value of the equity instruments granted, measured immediately before and after the modification, the entity shall not take into account that decrease in fair value and shall continue to measure the amount recognised for services received as consideration for the equity instruments based on the grant date fair value of the equity instruments granted.

(b) if the modification reduces the number of equity instruments granted to an employee, that reduction shall be accounted for as a cancellation of that portion of the grant, in accordance with the requirements of paragraph 28.

(c) if the entity modifies the vesting conditions in a manner that is not beneficial to the employee, for example, by increasing the vesting period or by modifying or adding a performance condition (other than a market condition, changes to which are accounted for in accordance with (a) above), the entity shall not take the modified vesting conditions into account when applying the requirements of paragraphs 19–21.

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

B44A If the terms and conditions of a cash-settled share-based payment transaction are modified with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as such from the date of the modification. Specifically:

(a) The equity-settled share-based payment transaction is measured by reference to the fair value of the equity instruments granted at the modification date. The equity-settled share-based payment transaction is recognised in equity on the modification date to the extent to which goods or services have been received.

(b) The liability for the cash-settled share-based payment transaction as at the modification date is derecognised on that date.

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

B44B If, as a result of the modification, the vesting period is extended or shortened, the application of the requirements in paragraph B44A reflect the modified vesting period. The requirements in paragraph B44A apply even if the modification occurs after the vesting period.

B44C A cash-settled share-based payment transaction may be cancelled or settled (other than a transaction cancelled by forfeiture when the vesting conditions are not satisfied). If equity instruments are granted and, on that grant date, the entity identifies them as a replacement for the cancelled cash-settled share-based payment, the entity shall apply paragraphs B44A and B44B.

Share-based payment transactions among group entities (2009 amendments)

B45 Paragraphs 43A–43C address the accounting for share-based payment transactions among group entities in each entity's separate or individual financial statements. Paragraphs B46–B61 discuss how to apply the requirements in paragraphs 43A–43C. As noted in paragraph 43D, share-based payment transactions among group entities may take place for a variety of reasons depending on facts and circumstances. Therefore, this discussion is not exhaustive and assumes that when the entity receiving the goods or services has no obligation to settle the transaction, the transaction is a parent's equity contribution to the subsidiary, regardless of any intragroup repayment arrangements.

B46 Although the discussion below focuses on transactions with employees, it also applies to similar share-based payment transactions with suppliers of goods or services other than employees. An arrangement between a parent and its subsidiary may require the subsidiary to pay the parent for the provision of the equity instruments to the employees. The discussion below does not address how to account for such an intragroup payment arrangement.

B47 Four issues are commonly encountered in share-based payment transactions among group entities. For convenience, the examples below discuss the issues in terms of a parent and its subsidiary.

Share-based payment arrangements involving an entity's own equity instruments

B48 The first issue is whether the following transactions involving an entity's own equity instruments should be accounted for as equity-settled or as cash-settled in accordance with the requirements of this Standard:

(a) an entity grants to its employees rights to equity instruments of the entity (eg share options), and either chooses or is required to buy equity instruments (ie treasury shares) from another party, to satisfy its obligations to its employees; and

(b) an entity's employees are granted rights to equity instruments of the entity (eg share options), either by the entity itself or by its shareholders, and the shareholders of the entity provide the equity instruments needed.

B49 The entity shall account for share-based payment transactions in which it receives services as consideration for its own equity instruments as equity-settled. This applies regardless of whether the entity chooses or is required to buy those equity instruments from another party to satisfy its obligations to its employees under the share-based payment arrangement. It also applies regardless of whether:

(a) the employee's rights to the entity's equity instruments were granted by the entity itself or by its shareholder(s); or

(b) the share-based payment arrangement was settled by the entity itself or by its shareholder(s).

B50 If the shareholder has an obligation to settle the transaction with its investee's employees, it provides equity instruments of its investee rather than its own. Therefore, if its investee is in the same group as the shareholder, in accordance with paragraph 43C, the shareholder shall measure its obligation in accordance with the requirements applicable to cash-settled share-based payment transactions in the shareholder's separate financial statements and those applicable to equity-settled share-based payment transactions in the shareholder's consolidated financial statements.

Share-based payment arrangements involving equity instruments of the parent

B51 The second issue concerns share-based payment transactions between two or more entities within the same group involving an equity instrument of another group entity. For example, employees of a subsidiary are granted rights to equity instruments of its parent as consideration for the services provided to the subsidiary.

B52 Therefore, the second issue concerns the following share-based payment arrangements:

(a) a parent grants rights to its equity instruments directly to the employees of its subsidiary: the parent (not the subsidiary) has the obligation to provide the employees of the subsidiary with the equity instruments; and

(b) a subsidiary grants rights to equity instruments of its parent to its employees: the subsidiary has the obligation to provide its employees with the equity instruments.

A parent grants rights to its equity instruments to the employees of its subsidiary (paragraph B52(a))

B53 The subsidiary does not have an obligation to provide its parent's equity instruments to the subsidiary's employees. Therefore, in accordance with paragraph 43B, the subsidiary shall measure the services received from its employees in accordance with the requirements applicable to equity-settled share-based payment transactions, and recognise a corresponding increase in equity as a contribution from the parent.

B54 The parent has an obligation to settle the transaction with the subsidiary's employees by providing the parent's own equity instruments. Therefore, in accordance with paragraph 43C, the parent shall measure its obligation in accordance with the requirements applicable to equity-settled share-based payment transactions.

A subsidiary grants rights to equity instruments of its parent to its employees (paragraph B52(b))

B55 Because the subsidiary does not meet either of the conditions in paragraph 43B, it shall account for the transaction with its employees as cash-settled. This requirement applies irrespective of how the subsidiary obtains the equity instruments to satisfy its obligations to its employees.

Share-based payment arrangements involving cash-settled payments to employees

B56 The third issue is how an entity that receives goods or services from its suppliers (including employees) should account for share-based arrangements that are cash-settled when the entity itself does not have any obligation to make the required payments to its suppliers. For example, consider the following arrangements in which the parent (not the entity itself) has an obligation to make the required cash payments to the employees of the entity:

(a) the employees of the entity will receive cash payments that are linked to the price of its equity instruments.

(b) the employees of the entity will receive cash payments that are linked to the price of its parent's equity instruments.

B57 The subsidiary does not have an obligation to settle the transaction with its employees. Therefore, the subsidiary shall account for the transaction with its employees as equity-settled, and recognise a corresponding increase in equity as a contribution from its parent. The subsidiary shall remeasure the cost of the transaction subsequently for any changes resulting from non-market vesting conditions not being met in accordance with paragraphs 19–21. This differs from the measurement of the transaction as cash-settled in the consolidated financial statements of the group.

B58 Because the parent has an obligation to settle the transaction with the employees, and the consideration is cash, the parent (and the consolidated group) shall measure its obligation in accordance with the requirements applicable to cash-settled share-based payment transactions in paragraph 43C.

Transfer of employees between group entities

B59 The fourth issue relates to group share-based payment arrangements that involve employees of more than one group entity. For example, a parent might grant rights to its equity instruments to the employees of its subsidiaries, conditional upon the completion of continuing service with the group for a specified period. An employee of one subsidiary might transfer employment to another subsidiary during the specified vesting period without the employee's rights to equity instruments of the parent under the original share-based payment arrangement being affected. If the subsidiaries have no obligation to settle the share-based payment transaction with their employees, they account for it as an equity-settled transaction. Each subsidiary shall measure the services received from the employee by reference to the fair value of the equity instruments at the date the rights to those equity instruments were originally granted by the parent as defined in Appendix A, and the proportion of the vesting period the employee served with each subsidiary.

B60 If the subsidiary has an obligation to settle the transaction with its employees in its parent's equity instruments, it accounts for the transaction as cash-settled. Each subsidiary shall measure the services received on the basis of grant date fair value of the equity instruments for the proportion of the vesting period the employee served with each subsidiary. In addition, each subsidiary shall recognise any change in the fair value of the equity instruments during the employee's service period with each subsidiary.

B61 Such an employee, after transferring between group entities, may fail to satisfy a vesting condition other than a market condition as defined in Appendix A, eg the employee leaves the group before completing the service period. In this case, because the vesting condition is service to the group, each subsidiary shall adjust the amount previously recognised in respect of the services received from the employee in accordance with the principles in paragraph 19. Hence, if the rights to the equity instruments granted by the parent do not vest because of an employee's failure to meet a vesting condition other than a market condition, no amount is recognised on a cumulative basis for the services received from that employee in the financial statements of any group entity.

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Appendix C
Australian reduced disclosure requirements

This appendix is an integral part of AASB 2.

AusC1 The following do not apply to entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements:

(a) paragraphs 45(c), 45(d), 46, 47(a), 47(b), 47(c)(ii), 47(c)(iii), 48-50, 51 and 52; and

(b) in paragraph 47, the text "to give effect to the principle in paragraph 46,".

Entities applying Australian Accounting Standards – Reduced Disclosure Requirements may elect to comply with some or all of these excluded requirements.

AusC2 The requirements that do not apply to entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements are also identified in this Standard by shading of the relevant text.

AusC3 RDR paragraphs in this Standard apply only to entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements.

RDR46.1 For equity-settled share-based payment arrangements, an entity applying Australian Accounting Standards – Reduced Disclosure Requirements shall disclose information about how it measured the fair value of goods or services received or the fair value of the equity instruments granted. If a valuation methodology was used, the entity shall disclose the method and its reason for choosing it.

RDR46.2 For cash-settled share-based payment arrangements, an entity applying Australian Accounting Standards – Reduced Disclosure Requirements shall disclose information about how the liability was measured.

RDR50.1 An entity applying Australian Accounting Standards – Reduced Disclosure Requirements shall disclose the following information about the effect of share-based payment transactions on the entity's profit or loss for the period and on its financial position:

(a) the total expense recognised in profit or loss for the period; and

(b) the total carrying amount at the end of the period of liabilities arising from share-based payment transactions.

CONTENTS

Guidance on implementing AASB 2 *Share-based Payment*

This guidance accompanies, but is not part of, AASB 2.

Definition of grant date

IG1 AASB 2 defines grant date as the date at which the entity and the employee (or other party providing similar services) agree to a share-based payment arrangement, being when the entity and the counterparty have a shared understanding of the terms and conditions of the arrangement. At grant date the entity confers on the counterparty the right to cash, other assets, or equity instruments of the entity, provided the specified vesting conditions, if any, are met. If that agreement is subject to an approval process (for example, by shareholders), grant date is the date when that approval is obtained.

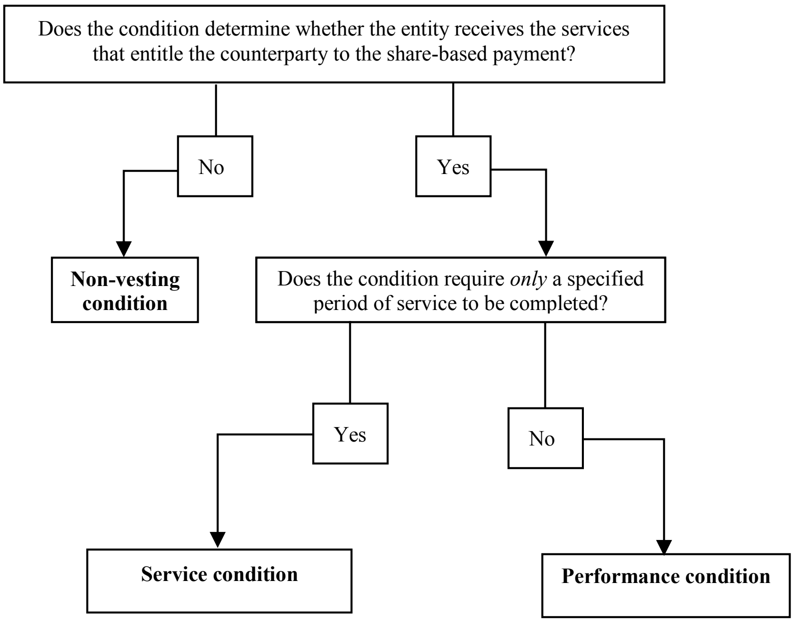
IG2 As noted above, grant date is when both parties agree to a share-based payment arrangement. The word 'agree' is used in its usual sense, which means that there must be both an offer and acceptance of that offer. Hence, the date at which one party makes an offer to another party is not grant date. The date of grant is when that other party accepts the offer. In some instances, the counterparty explicitly agrees to the arrangement, eg by signing a contract. In other instances, agreement might be implicit, eg for many share-based payment arrangements with employees, the employees' agreement is evidenced by their commencing to render services.

IG3 Furthermore, for both parties to have agreed to the share-based payment arrangement, both parties must have a shared understanding of the terms and conditions of the arrangement. Therefore, if some of the terms and conditions of the arrangement are agreed on one date, with the remainder of the terms and conditions agreed on a later date, then grant date is on that later date, when all of the terms and conditions have been agreed. For example, if an entity agrees to issue share options to an employee, but the exercise price of the options will be set by a compensation committee that meets in three months' time, grant date is when the exercise price is set by the compensation committee.

IG4 In some cases, grant date might occur after the employees to whom the equity instruments were granted have begun rendering services. For example, if a grant of equity instruments is subject to shareholder approval, grant date might occur some months after the employees have begun rendering services in respect of that grant. The Standard requires the entity to recognise the services when received. In this situation, the entity should estimate the grant date fair value of the equity instruments (eg by estimating the fair value of the equity instruments at the end of the reporting period), for the purposes of recognising the services received during the period between service commencement date and grant date. Once the date of grant has been established, the entity should revise the earlier estimate so that the amounts recognised for services received in respect of the grant are ultimately based on the grant date fair value of the equity instruments.

Definition of vesting conditions

IG4A AASB 2 defines vesting conditions as the conditions that determine whether the entity receives the services that entitle the counterparty to receive cash, other assets or equity instruments of the entity under a share-based payment arrangement. The following flowchart illustrates the evaluation of whether a condition is a service or performance condition or a non-vesting condition.



Transactions with parties other than employees

IG5 For transactions with parties other than employees (and others providing similar services) that are measured by reference to the fair value of the equity instruments granted, paragraph 13 of AASB 2 includes a rebuttable presumption that the fair value of the goods or services received can be estimated reliably. In these situations, paragraph 13 of AASB 2 requires the entity to measure that fair value at the date the entity obtains the goods or the counterparty renders service.

Transaction in which the entity cannot identify specifically some or all of the goods or services received

IG5A In some cases, however, it might be difficult to demonstrate that goods or services have been (or will be) received. For example, an entity may grant shares to a charitable organisation for nil consideration. It is usually not possible to identify the specific goods or services received in return for such a transaction. A similar situation might arise in transactions with other parties.

IG5B Paragraph 11 of AASB 2 requires transactions in which share-based payments are made to employees to be measured by reference to the fair value of the share-based payments at grant date.[8] Hence, the entity is not required to measure directly the fair value of the employee services received.

IG5C It should be noted that the phrase ‘the fair value of the share-based payment’ refers to the fair value of the particular share-based payment concerned. For example, an entity might be required by government legislation to issue some portion of its shares to nationals of a particular country that may be transferred only to other nationals of that country. Such a transfer restriction may affect the fair value of the shares concerned, and therefore those shares may have a fair value that is less than the fair value of otherwise identical shares that do not carry such restrictions. In this situation, the phrase ‘the fair value of the share-based payment’ would refer to the fair value of the restricted shares, not the fair value of other, unrestricted shares.

IG5D Paragraph 13A of AASB 2 specifies how such transactions should be measured. The following example illustrates how the entity should apply the requirements of the Standard to a transaction in which the entity cannot identify specifically some or all of the goods or services received.

8 In AASB 2, all references to employees include others providing similar services.

IG Example 1

Share-based payment transaction in which the entity cannot identify specifically some or all of the goods or services received

Background

An entity granted shares with a total fair value of CU100,000[(a)] to parties other than employees who are from a particular section of the community (historically disadvantaged individuals), as a means of enhancing its image as a good corporate citizen. The economic benefits derived from enhancing its corporate image could take a variety of forms, such as increasing its customer base, attracting or retaining employees, or improving or maintaining its ability to tender successfully for business contracts.

The entity cannot identify the specific consideration received. For example, no cash was received and no service conditions were imposed. Therefore, the identifiable consideration (nil) is less than the fair value of the equity instruments granted (CU100,000).

Application of requirements

Although the entity cannot identify the specific goods or services received, the circumstances indicate that goods or services have been (or will be) received, and therefore AASB 2 applies.

In this situation, because the entity cannot identify the specific goods or services received, the rebuttable presumption in paragraph 13 of AASB 2, that the fair value of the goods or services received can be estimated reliably, does not apply. The entity should instead measure the goods or services received by reference to the fair value of the equity instruments granted.

(a) In this example, and in all other examples in this guidance, monetary amounts are denominated in 'currency units (CU)'.

Measurement date for transactions with parties other than employees

IG6 If the goods or services are received on more than one date, the entity should measure the fair value of the equity instruments granted on each date when goods or services are received. The entity should apply that fair value when measuring the goods or services received on that date.

IG7 However, an approximation could be used in some cases. For example, if an entity received services continuously during a three-month period, and its share price did not change significantly during that period, the entity could use the average share price during the three-month period when estimating the fair value of the equity instruments granted.

Transitional arrangements

IG8 In paragraph 54 of AASB 2, the entity is encouraged, but not required, to apply the requirements of the Standard to other grants of equity instruments (ie grants other than those specified in paragraph 53 of the Standard), if the entity has disclosed publicly the fair value of those equity instruments, measured at the measurement date. For example, such equity instruments include equity instruments for which the entity has disclosed in the notes to its financial statements the information required in the US by SFAS 123 *Accounting for Stock-based Compensation*.

Equity-settled share-based payment transactions

IG9 For equity-settled transactions measured by reference to the fair value of the equity instruments granted, paragraph 19 of AASB 2 states that vesting conditions, other than market conditions,[9] are not taken into account when estimating the fair value of the shares or share options at the measurement date (ie grant date, for transactions with employees and others providing similar services). Instead, vesting conditions are taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognised for goods or services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest. Hence, on a cumulative basis, no amount is recognised for goods or services received if the equity instruments granted

9 In the remainder of this paragraph, the discussion of vesting conditions excludes market conditions, which are subject to the requirements of paragraph 21 of AASB 2.

do not vest because of failure to satisfy a vesting condition, eg the counterparty fails to complete a specified service period, or a performance condition is not satisfied. This accounting method is known as the modified grant date method, because the number of equity instruments included in the determination of the transaction amount is adjusted to reflect the outcome of the vesting conditions, but no adjustment is made to the fair value of those equity instruments. That fair value is estimated at grant date (for transactions with employees and others providing similar services) and not subsequently revised. Hence, neither increases nor decreases in the fair value of the equity instruments after grant date are taken into account when determining the transaction amount (other than in the context of measuring the incremental fair value transferred if a grant of equity instruments is subsequently modified).

IG10 To apply these requirements, paragraph 20 of AASB 2 requires the entity to recognise the goods or services received during the vesting period based on the best available estimate of the number of equity instruments expected to vest and to revise that estimate, if necessary, if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates. On vesting date, the entity revises the estimate to equal the number of equity instruments that ultimately vested (subject to the requirements of paragraph 21 concerning market conditions).

IG11 In the examples below, the share options granted all vest at the same time, at the end of a specified period. In some situations, share options or other equity instruments granted might vest in instalments over the vesting period. For example, suppose an employee is granted 100 share options, which will vest in instalments of 25 share options at the end of each year over the next four years. To apply the requirements of the Standard, the entity should treat each instalment as a separate share option grant, because each instalment has a different vesting period, and hence the fair value of each instalment will differ (because the length of the vesting period affects, for example, the likely timing of cash flows arising from the exercise of the options).

IG Example 1A

Background

An entity grants 100 share options to each of its 500 employees. Each grant is conditional upon the employee working for the entity over the next three years. The entity estimates that the fair value of each share option is CU15.

On the basis of a weighted average probability, the entity estimates that 20 per cent of employees will leave during the three-year period and therefore forfeit their rights to the share options.

Application of requirements

Scenario 1

If everything turns out exactly as expected, the entity recognises the following amounts during the vesting period, for services received as consideration for the share options.

Year	Calculation	Remuneration expense for period	Cumulative remuneration expense
		CU	CU
1	50,000 options × 80% × CU15 × $^1/_3$ years	200,000	200,000
2	(50,000 options × 80% × CU15 × $^2/_3$ years) – CU200,000	200,000	400,000
3	(50,000 options × 80% × CU15 × $^3/_3$ years) – CU400,000	200,000	600,000

Scenario 2

During year 1, 20 employees leave. The entity revises its estimate of total employee departures over the three-year period from 20 per cent (100 employees) to 15 per cent (75 employees). During year 2, a further 22 employees leave. The entity revises its estimate of total employee departures over the three-year period from 15 per cent to 12 per cent (60 employees). During year 3, a further 15 employees leave. Hence, a total of 57 employees forfeited their rights to the share options during the three-year period, and a total of 44,300 share options (443 employees × 100 options per employee) vested at the end of year 3.

Authorised Version F2020C00174 registered 12/03/2020

IG Example 1A			
Year	Calculation	Remuneration expense for period	Cumulative remuneration expense
		CU	CU
1	50,000 options × 85% × CU15 × $^1/_3$ years	212,500	212,500
2	(50,000 options × 88% × CU15 × $^2/_3$ years) – CU212,500	227,500	440,000
3	(44,300 options × CU15) – CU440,000	224,500	664,500

IG12 In Example 1A, the share options were granted conditionally upon the employees' completing a specified service period. In some cases, a share option or share grant might also be conditional upon the achievement of a specified performance target. Examples 2, 3 and 4 illustrate the application of the Standard to share option or share grants with performance conditions (other than market conditions, which are discussed in paragraph IG13 and illustrated in Examples 5 and 6). In Example 2, the length of the vesting period varies, depending on when the performance condition is satisfied. Paragraph 15 of the Standard requires the entity to estimate the length of the expected vesting period, based on the most likely outcome of the performance condition, and to revise that estimate, if necessary, if subsequent information indicates that the length of the vesting period is likely to differ from previous estimates.

IG Example 2

Grant with a performance condition, in which the length of the vesting period varies

Background

At the beginning of year 1, the entity grants 100 shares each to 500 employees, conditional upon the employees' remaining in the entity's employ during the vesting period. The shares will vest at the end of year 1 if the entity's earnings increase by more than 18 per cent; at the end of year 2 if the entity's earnings increase by more than an average of 13 per cent per year over the two-year period; and at the end of year 3 if the entity's earnings increase by more than an average of 10 per cent per year over the three-year period. The shares have a fair value of CU30 per share at the start of year 1, which equals the share price at grant date. No dividends are expected to be paid over the three-year period.

By the end of year 1, the entity's earnings have increased by 14 per cent, and 30 employees have left. The entity expects that earnings will continue to increase at a similar rate in year 2, and therefore expects that the shares will vest at the end of year 2. The entity expects, on the basis of a weighted average probability, that a further 30 employees will leave during year 2, and therefore expects that 440 employees will vest in 100 shares each at the end of year 2.

By the end of year 2, the entity's earnings have increased by only 10 per cent and therefore the shares do not vest at the end of year 2. 28 employees have left during the year. The entity expects that a further 25 employees will leave during year 3, and that the entity's earnings will increase by at least 6 per cent, thereby achieving the average of 10 per cent per year.

By the end of year 3, 23 employees have left and the entity's earnings had increased by 8 per cent, resulting in an average increase of 10.67 per cent per year. Therefore, 419 employees received 100 shares at the end of year 3.

Application of requirements

Year	Calculation	Remuneration expense for period	Cumulative remuneration expense
		CU	CU
1	440 employees × 100 shares × CU30 × $^1/_2$	660,000	660,000

IG Example 2			
2	(417 employees × 100 shares × CU30 × $^{2}/_{3}$) – CU660,000	174,000	834,000
3	(419 employees × 100 shares × CU30 × $^{3}/_{3}$) – CU834,000	423,000	1,257,000

IG Example 3

Grant with a performance condition, in which the number of equity instruments varies

Background

At the beginning of year 1, Entity A grants share options to each of its 100 employees working in the sales department. The share options will vest at the end of year 3, provided that the employees remain in the entity's employ, and provided that the volume of sales of a particular product increases by at least an average of 5 per cent per year. If the volume of sales of the product increases by an average of between 5 per cent and 10 per cent per year, each employee will receive 100 share options. If the volume of sales increases by an average of between 10 per cent and 15 per cent each year, each employee will receive 200 share options. If the volume of sales increases by an average of 15 per cent or more, each employee will receive 300 share options.

On grant date, Entity A estimates that the share options have a fair value of CU20 per option. Entity A also estimates that the volume of sales of the product will increase by an average of between 10 per cent and 15 per cent per year, and therefore expects that, for each employee who remains in service until the end of year 3, 200 share options will vest. The entity also estimates, on the basis of a weighted average probability, that 20 per cent of employees will leave before the end of year 3.

By the end of year 1, seven employees have left and the entity still expects that a total of 20 employees will leave by the end of year 3. Hence, the entity expects that 80 employees will remain in service for the three-year period. Product sales have increased by 12 per cent and the entity expects this rate of increase to continue over the next 2 years.

By the end of year 2, a further five employees have left, bringing the total to 12 to date. The entity now expects only three more employees will leave during year 3, and therefore expects a total of 15 employees will have left during the three-year period, and hence 85 employees are expected to remain. Product sales have increased by 18 per cent, resulting in an average of 15 per cent over the two years to date. The entity now expects that sales will average 15 per cent or more over the three-year period, and hence expects each sales employee to receive 300 share options at the end of year 3.

By the end of year 3, a further two employees have left. Hence, 14 employees have left during the three-year period, and 86 employees remain. The entity's sales have increased by an average of 16 per cent over the three years. Therefore, each of the 86 employees receives 300 share options.

Application of requirements

Year	Calculation	Remuneration expense for period	Cumulative remuneration expense
		CU	CU
1	80 employees × 200 options × CU20 × $^{1}/_{3}$	106,667	106,667
2	(85 employees × 300 options × CU20 × $^{2}/_{3}$) – CU106,667	233,333	340,000
3	(86 employees × 300 options × CU20 × $^{3}/_{3}$) – CU340,000	176,000	516,000

IG Example 4

Grant with a performance condition, in which the exercise price varies

Background

At the beginning of year 1, an entity grants to a senior executive 10,000 share options, conditional upon the executive remaining in the entity's employ until the end of year 3. The exercise price is CU40. However, the exercise price drops to CU30 if the entity's earnings increase by at least an average of 10 per cent per year over the three-year period.

On grant date, the entity estimates that the fair value of the share options, with an exercise price of CU30, is CU16 per option. If the exercise price is CU40, the entity estimates that the share options have a fair value of CU12 per option.

During year 1, the entity's earnings increased by 12 per cent, and the entity expects that earnings will continue to increase at this rate over the next two years. The entity therefore expects that the earnings target will be achieved, and hence the share options will have an exercise price of CU30.

During year 2, the entity's earnings increased by 13 per cent, and the entity continues to expect that the earnings target will be achieved.

During year 3, the entity's earnings increased by only 3 per cent, and therefore the earnings target was not achieved. The executive completes three years' service, and therefore satisfies the service condition. Because the earnings target was not achieved, the 10,000 vested share options have an exercise price of CU40.

Application of requirements

Because the exercise price varies depending on the outcome of a performance condition that is not a market condition, the effect of that performance condition (ie the possibility that the exercise price might be CU40 and the possibility that the exercise price might be CU30) is not taken into account when estimating the fair value of the share options at grant date. Instead, the entity estimates the fair value of the share options at grant date under each scenario (ie exercise price of CU40 and exercise price of CU30) and ultimately revises the transaction amount to reflect the outcome of that performance condition, as illustrated below.

Year	Calculation	Remuneration expense for period	Cumulative remuneration expense
		CU	CU
1	10,000 options × CU16 × $^{1}/_{3}$	53,333	53,333
2	(10,000 options × CU16 × $^{2}/_{3}$) – CU53,333	53,334	106,667
3	(10,000 options × CU12 × $^{3}/_{3}$) – CU106,667	13,333	120,000

IG13 Paragraph 21 of the Standard requires market conditions, such as a target share price upon which vesting (or exercisability) is conditional, to be taken into account when estimating the fair value of the equity instruments granted. Therefore, for grants of equity instruments with market conditions, the entity recognises the goods or services received from a counterparty who satisfies all other vesting conditions (eg services received from an employee who remains in service for the specified period of service), irrespective of whether that market condition is satisfied. Example 5 illustrates these requirements.

IG Example 5

Grant with a market condition

Background

At the beginning of year 1, an entity grants to a senior executive 10,000 share options, conditional upon the executive remaining in the entity's employ until the end of year 3. However, the share options cannot be exercised unless the share price has increased from CU50 at the beginning of year 1 to above CU65 at the end of year 3. If the share price is above CU65 at the end of year 3, the share options can be exercised at any time during the next seven years, ie by the end of year 10.

The entity applies a binomial option pricing model, which takes into account the possibility that the share price will exceed CU65 at the end of year 3 (and hence the share options become exercisable) and the possibility that the share price will not exceed CU65 at the end of year 3 (and hence the options will be forfeited). It estimates the fair value of the share options with this market condition to be CU24 per option.

Application of requirements

Because paragraph 21 of the Standard requires the entity to recognise the services received from a counterparty who satisfies all other vesting conditions (eg services received from an employee who remains in service for the specified service period), irrespective of whether that market condition is satisfied, it makes no difference whether the share price target is achieved. The possibility that the share price target might not be achieved has already been taken into account when estimating the fair value of the share options at grant date. Therefore, if the entity expects the executive to complete the three-year service period, and the executive does so, the entity recognises the following amounts in years 1, 2 and 3:

Year	Calculation	Remuneration expense for period	Cumulative remuneration expense
		CU	CU
1	10,000 options × CU24 × $^{1}/_{3}$	80,000	80,000
2	(10,000 options × CU24 × $^{2}/_{3}$) – CU80,000	80,000	160,000
3	(10,000 options × CU24) – CU160,000	80,000	240,000

As noted above, these amounts are recognised irrespective of the outcome of the market condition. However, if the executive left during year 2 (or year 3), the amount recognised during year 1 (and year 2) would be reversed in year 2 (or year 3). This is because the service condition, in contrast to the market condition, was not taken into account when estimating the fair value of the share options at grant date. Instead, the service condition is taken into account by adjusting the transaction amount to be based on the number of equity instruments that ultimately vest, in accordance with paragraphs 19 and 20 of the Standard.

IG14 In Example 5, the outcome of the market condition did not change the length of the vesting period. However, if the length of the vesting period varies depending on when a performance condition is satisfied, paragraph 15 of the Standard requires the entity to presume that the services to be rendered by the employees as consideration for the equity instruments granted will be received in the future, over the expected vesting period. The entity is required to estimate the length of the expected vesting period at grant date, based on the most likely outcome of the performance condition. If the performance condition is a market condition, the estimate of the length of the expected vesting period must be consistent with the assumptions used in estimating the fair value of the share options granted, and is not subsequently revised. Example 6 illustrates these requirements.

IG Example 6

Grant with a market condition, in which the length of the vesting period varies

Background

At the beginning of year 1, an entity grants 10,000 share options with a ten-year life to each of ten senior executives. The share options will vest and become exercisable immediately if and when the entity's share price increases from CU50 to CU70, provided that the executive remains in service until the share price target is achieved.

The entity applies a binomial option pricing model, which takes into account the possibility that the share price target will be achieved during the ten-year life of the options, and the possibility that the target will not be achieved. The entity estimates that the fair value of the share options at grant date is CU25 per option. From the option pricing model, the entity determines that the mode of the distribution of possible vesting dates is five years. In other words, of all the possible outcomes, the most likely outcome of the market condition is that the share price target will be achieved at the end of year 5. Therefore, the entity estimates that the expected vesting period is five years. The entity also estimates that two executives will have left by the end of year 5, and therefore expects that 80,000 share options (10,000 share options × 8 executives) will vest at the end of year 5.

Throughout years 1–4, the entity continues to estimate that a total of two executives will leave by the end of year 5. However, in total three executives leave, one in each of years 3, 4 and 5. The share price target is achieved at the end of year 6. Another executive leaves during year 6, before the share price target is achieved.

Application of requirements

Paragraph 15 of the Standard requires the entity to recognise the services received over the expected vesting period, as estimated at grant date, and also requires the entity not to revise that estimate. Therefore, the entity recognises the services received from the executives over years 1–5. Hence, the transaction amount is ultimately based on 70,000 share options (10,000 share options × 7 executives who remain in service at the end of year 5).

Although another executive left during year 6, no adjustment is made, because the executive had already completed the expected vesting period of five years. Therefore, the entity recognises the following amounts in years 1–5:

Year	Calculation	Remuneration expense for period	Cumulative remuneration expense
		CU	CU
1	80,000 options × CU25 × $^1/_5$	400,000	400,000
2	(80,000 options × CU25 × $^2/_5$) – CU400,000	400,000	800,000
3	(80,000 options × CU25 × $^3/_5$) – CU800,000	400,000	1,200,000
4	(80,000 options × CU25 × $^4/_5$) – CU1,200,000	400,000	1,600,000
5	(70,000 options × CU25) – CU1,600,000	150,000	1,750,000

IG15 Paragraphs 26–29 and B42–B44 of the Standard set out requirements that apply if a share option is repriced (or the entity otherwise modifies the terms or conditions of a share-based payment arrangement). Examples 7–9 illustrate some of these requirements.

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IG Example 7

Grant of share options that are subsequently repriced

Background

At the beginning of year 1, an entity grants 100 share options to each of its 500 employees. Each grant is conditional upon the employee remaining in service over the next three years. The entity estimates that the fair value of each option is CU15. On the basis of a weighted average probability, the entity estimates that 100 employees will leave during the three-year period and therefore forfeit their rights to the share options.

Suppose that 40 employees leave during year 1. Also suppose that by the end of year 1, the entity's share price has dropped, and the entity reprices its share options, and that the repriced share options vest at the end of year 3. The entity estimates that a further 70 employees will leave during years 2 and 3, and hence the total expected employee departures over the three-year vesting period is 110 employees. During year 2, a further 35 employees leave, and the entity estimates that a further 30 employees will leave during year 3, to bring the total expected employee departures over the three-year vesting period to 105 employees. During year 3, a total of 28 employees leave, and hence a total of 103 employees ceased employment during the vesting period. For the remaining 397 employees, the share options vested at the end of year 3.

The entity estimates that, at the date of repricing, the fair value of each of the original share options granted (ie before taking into account the repricing) is CU5 and that the fair value of each repriced share option is CU8.

Application of requirements

Paragraph 27 of the Standard requires the entity to recognise the effects of modifications that increase the total fair value of the share-based payment arrangement or are otherwise beneficial to the employee. If the modification increases the fair value of the equity instruments granted (eg by reducing the exercise price), measured immediately before and after the modification, paragraph B43(a) of Appendix B requires the entity to include the incremental fair value granted (ie the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification) in the measurement of the amount recognised for services received as consideration for the equity instruments granted. If the modification occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognised for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognised over the remainder of the original vesting period.

The incremental value is CU3 per share option (CU8 – CU5). This amount is recognised over the remaining two years of the vesting period, along with remuneration expense based on the original option value of CU15.

The amounts recognised in years 1–3 are as follows:

Year	Calculation	Remuneration expense for period	Cumulative remuneration expense
		CU	CU
1	(500 – 110) employees × 100 options × CU15 × $^1/_3$	195,000	195,000
2	(500 – 105) employees × 100 options × (CU15 × $^2/_3$ + CU3 × $^1/_2$) – CU195,000	259,250	454,250
3	(500 – 103) employees × 100 options × (CU15 + CU3) – CU454,250	260,350	714,600

IG Example 8

Grant of share options with a vesting condition that is subsequently modified

Background

At the beginning of year 1, the entity grants 1,000 share options to each member of its sales team, conditional upon the employee remaining in the entity's employ for three years, and the team selling more than 50,000 units of a particular product over the three-year period. The fair value of the share options is CU15 per option at the date of grant.

During year 2, the entity increases the sales target to 100,000 units. By the end of year 3, the entity has sold 55,000 units, and the share options are forfeited. Twelve members of the sales team have remained in service for the three-year period.

Application of requirements

Paragraph 20 of the Standard requires, for a performance condition that is not a market condition, the entity to recognise the services received during the vesting period based on the best available estimate of the number of equity instruments expected to vest and to revise that estimate, if necessary, if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates. On vesting date, the entity revises the estimate to equal the number of equity instruments that ultimately vested. However, paragraph 27 of the Standard requires, irrespective of any modifications to the terms and conditions on which the equity instruments were granted, or a cancellation or settlement of that grant of equity instruments, the entity to recognise, as a minimum, the services received, measured at the grant date fair value of the equity instruments granted, unless those equity instruments do not vest because of failure to satisfy a vesting condition (other than a market condition) that was specified at grant date. Furthermore, paragraph B44(c) of Appendix B specifies that, if the entity modifies the vesting conditions in a manner that is not beneficial to the employee, the entity does not take the modified vesting conditions into account when applying the requirements of paragraphs 19–21 of the Standard.

Therefore, because the modification to the performance condition made it less likely that the share options will vest, which was not beneficial to the employee, the entity takes no account of the modified performance condition when recognising the services received. Instead, it continues to recognise the services received over the three-year period based on the original vesting conditions. Hence, the entity ultimately recognises cumulative remuneration expense of CU180,000 over the three-year period (12 employees × 1,000 options × CU15).

The same result would have occurred if, instead of modifying the performance target, the entity had increased the number of years of service required for the share options to vest from three years to ten years. Because such a modification would make it less likely that the options will vest, which would not be beneficial to the employees, the entity would take no account of the modified service condition when recognising the services received. Instead, it would recognise the services received from the twelve employees who remained in service over the original three-year vesting period.

IG Example 9

Grant of shares, with a cash alternative subsequently added

Background

At the beginning of year 1, the entity grants 10,000 shares with a fair value of CU33 per share to a senior executive, conditional upon the completion of three years' service. By the end of year 2, the share price has dropped to CU25 per share. At that date, the entity adds a cash alternative to the grant, whereby the executive can choose whether to receive 10,000 shares or cash equal to the value of 10,000 shares on vesting date. The share price is CU22 on vesting date.

Application of requirements

Paragraph 27 of the Standard requires, irrespective of any modifications to the terms and conditions on which the equity instruments were granted, or a cancellation or settlement of that grant of equity instruments, the entity to recognise, as a minimum, the services received measured at the grant date fair value of the equity instruments granted, unless those equity instruments do not vest because of failure to satisfy a vesting condition (other than a market condition) that was specified at grant date. Therefore, the entity recognises the services received over the three-year period, based on the grant date fair value of the

IG Example 9

shares.

Furthermore, the addition of the cash alternative at the end of year 2 creates an obligation to settle in cash. In accordance with the requirements for cash-settled share-based payment transactions (paragraphs 30–33 of the Standard), the entity recognises the liability to settle in cash at the modification date, based on the fair value of the shares at the modification date and the extent to which the specified services have been received. Furthermore, the entity remeasures the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period. Therefore, the entity recognises the following amounts:

Year	Calculation	Expense	Equity	Liability
		CU	CU	CU
1	Remuneration expense for year: 10,000 shares × CU33 × $^1/_3$	110,000	110,000	
2	Remuneration expense for year: (10,000 shares × CU33 × $^2/_3$) – CU110,000	110,000	110,000	
	Reclassify equity to liabilities: 10,000 shares × CU25 × $^2/_3$		(166,667)	166,667
3	Remuneration expense for year: (10,000 shares × CU33 × $^3/_3$) – CU220,000	110,000[(a)]	26,667	83,333
	Adjust liability to closing fair value: (CU166,667 + CU83,333) – (CU22 × 10,000 shares)	(30,000)		(30,000)
	Total	300,000	80,000	220,000

(a) Allocated between liabilities and equity, to bring in the final third of the liability based on the fair value of the shares as at the date of the modification.

IG15A If a share-based payment has a non-vesting condition that the counterparty can choose not to meet and the counterparty does not meet that non-vesting condition during the vesting period, paragraph 28A of the Standard requires that event to be treated as a cancellation. Example 9A illustrates the accounting for this type of event.

IG Example 9A

Share-based payment with vesting and non-vesting conditions when the counterparty can choose whether the non-vesting condition is met

Background

An entity grants an employee the opportunity to participate in a plan in which the employee obtains share options if he agrees to save 25 per cent of his monthly salary of CU400 for a three-year period. The monthly payments are made by deduction from the employee's salary. The employee may use the accumulated savings to exercise his options at the end of three years, or take a refund of his contributions at any point during the three-year period. The estimated annual expense for the share-based payment arrangement is CU120.

After 18 months, the employee stops paying contributions to the plan and takes a refund of contributions paid to date of CU1,800.

Application of requirements

There are three components to this plan: paid salary, salary deduction paid to the savings plan and share-based payment. The entity recognises an expense in respect of each component and a corresponding increase in liability or equity as appropriate. The requirement to pay contributions to the plan is a non-vesting condition, which the employee chooses not to meet in the second year. Therefore, in accordance with paragraphs 28(b) and 28A of the Standard, the repayment of contributions is treated as an

IG Example 9A

extinguishment of the liability and the cessation of contributions in year 2 is treated as a cancellation.

YEAR 1	Expense	Cash	Liability	Equity
	CU	CU	CU	CU
Paid salary	3,600 (75% × 400 × 12)	(3,600)		
Salary deduction paid to the savings plan	1,200 (25% × 400 × 12)		(1,200)	
Share-based payment	120			(120)
Total	4,920	(3,600)	(1,200)	(120)
YEAR 2				
Paid salary	4,200 (75% × 400 × 6 + 100% × 400 × 6)	(4,200)		
Salary deduction paid to the savings plan	600 (25% × 400 × 6)		(600)	
Refund of contributions to the employee		(1,800)	1,800	
Share-based payment (acceleration of remaining expense)	240 (120 × 3 – 120)			(240)
Total	5,040	(6,000)	1,200	(240)

IG16 Paragraph 24 of the Standard requires that, in rare cases only, in which the Standard requires the entity to measure an equity-settled share-based payment transaction by reference to the fair value of the equity instruments granted, but the entity is unable to estimate reliably that fair value at the specified measurement date (eg grant date, for transactions with employees), the entity shall instead measure the transaction using an intrinsic value measurement method. Paragraph 24 also contains requirements on how to apply this method. The following example illustrates these requirements.

IG Example 10

Grant of share options that is accounted for by applying the intrinsic value method

Background

At the beginning of year 1, an entity grants 1,000 share options to 50 employees. The share options will vest at the end of year 3, provided the employees remain in service until then. The share options have a life of 10 years. The exercise price is CU60 and the entity's share price is also CU60 at the date of grant.

At the date of grant, the entity concludes that it cannot estimate reliably the fair value of the share options granted.

At the end of year 1, three employees have ceased employment and the entity estimates that a further seven employees will leave during years 2 and 3. Hence, the entity estimates that 80 per cent of the share options will vest.

IG Example 10

Two employees leave during year 2, and the entity revises its estimate of the number of share options that it expects will vest to 86 per cent.

Two employees leave during year 3. Hence, 43,000 share options vested at the end of year 3.

The entity's share price during years 1–10, and the number of share options exercised during years 4–10, are set out below. Share options that were exercised during a particular year were all exercised at the end of that year.

Year	Share price at year-end	Number of share options exercised at year-end
1	63	0
2	65	0
3	75	0
4	88	6,000
5	100	8,000
6	90	5,000
7	96	9,000
8	105	8,000
9	108	5,000
10	115	2,000

Application of requirements

In accordance with paragraph 24 of the Standard, the entity recognises the following amounts in years 1–10.

Year	Calculation	Expense for period	Cumulative expense
		CU	CU
1	50,000 options × 80% × (CU63 – CU60) × $^1/_3$ years	40,000	40,000
2	50,000 options × 86% × (CU65 – CU60) × $^2/_3$ years – CU40,000	103,333	143,333
3	43,000 options × (CU75 – CU60) – CU143,333	501,667	645,000
4	37,000 outstanding options × (CU88 – CU75) + 6,000 exercised options × (CU88 – CU75)	559,000	1,204,000
5	29,000 outstanding options × (CU100 – CU88) + 8,000 exercised options × (CU100 – CU88)	444,000	1,648,000
6	24,000 outstanding options × (CU90 – CU100) + 5,000 exercised options × (CU90 – CU100)	(290,000)	1,358,000
7	15,000 outstanding options × (CU96 – CU90) + 9,000 exercised options × (CU96 – CU90)	144,000	1,502,000
8	7,000 outstanding options × (CU105 – CU96) + 8,000 exercised options × (CU105 – CU96)	135,000	1,637,000
9	2,000 outstanding options × (CU108 – CU105) + 5,000 exercised options × (CU108 – CU105)	21,000	1,658,000
10	2,000 exercised options × (CU115 – CU108)	14,000	1,672,000

IG17 There are many different types of employee share and share option plans. The following example illustrates the application of AASB 2 to one particular type of plan—an employee share purchase plan. Typically, an

employee share purchase plan provides employees with the opportunity to purchase the entity's shares at a discounted price. The terms and conditions under which employee share purchase plans operate differ from country to country. That is to say, not only are there many different types of employee share and share options plans, there are also many different types of employee share purchase plans. Therefore, the following example illustrates the application of AASB 2 to one specific employee share purchase plan.

IG Example 11

Employee share purchase plan

Background

An entity offers all its 1,000 employees the opportunity to participate in an employee share purchase plan. The employees have two weeks to decide whether to accept the offer. Under the terms of the plan, the employees are entitled to purchase a maximum of 100 shares each. The purchase price will be 20 per cent less than the market price of the entity's shares at the date the offer is accepted, and the purchase price must be paid immediately upon acceptance of the offer. All shares purchased must be held in trust for the employees, and cannot be sold for five years. The employee is not permitted to withdraw from the plan during that period. For example, if the employee ceases employment during the five-year period, the shares must nevertheless remain in the plan until the end of the five-year period. Any dividends paid during the five-year period will be held in trust for the employees until the end of the five-year period.

In total, 800 employees accept the offer and each employee purchases, on average, 80 shares, ie the employees purchase a total of 64,000 shares. The weighted-average market price of the shares at the purchase date is CU30 per share, and the weighted-average purchase price is CU24 per share.

Application of requirements

For transactions with employees, AASB 2 requires the transaction amount to be measured by reference to the fair value of the equity instruments granted (AASB 2, paragraph 11). To apply this requirement, it is necessary first to determine the type of equity instrument granted to the employees. Although the plan is described as an employee share purchase plan (ESPP), some ESPPs include option features and are therefore, in effect, share option plans. For example, an ESPP might include a 'look-back feature', whereby the employee is able to purchase shares at a discount, and choose whether the discount is applied to the entity's share price at the date of grant or its share price at the date of purchase. Or an ESPP might specify the purchase price, and then allow the employees a significant period of time to decide whether to participate in the plan. Another example of an option feature is an ESPP that permits the participating employees to cancel their participation before or at the end of a specified period and obtain a refund of amounts previously paid into the plan.

However, in this example, the plan includes no option features. The discount is applied to the share price at the purchase date, and the employees are not permitted to withdraw from the plan.

Another factor to consider is the effect of post-vesting transfer restrictions, if any. Paragraph B3 of AASB 2 states that, if shares are subject to restrictions on transfer after vesting date, that factor should be taken into account when estimating the fair value of those shares, but only to the extent that the post-vesting restrictions affect the price that a knowledgeable, willing market participant would pay for that share. For example, if the shares are actively traded in a deep and liquid market, post-vesting transfer restrictions may have little, if any, effect on the price that a knowledgeable, willing market participant would pay for those shares.

In this example, the shares are vested when purchased, but cannot be sold for five years after the date of purchase. Therefore, the entity should consider the valuation effect of the five-year post-vesting transfer restriction. This entails using a valuation technique to estimate what the price of the restricted share would have been on the purchase date in an arm's length transaction between knowledgeable, willing parties. Suppose that, in this example, the entity estimates that the fair value of each restricted share is CU28. In this case, the fair value of the equity instruments granted is CU4 per share (being the fair value of the restricted share of CU28 less the purchase price of CU24). Because 64,000 shares were purchased, the total fair value of the equity instruments granted is CU256,000.

In this example, there is no vesting period. Therefore, in accordance with paragraph 14 of AASB 2, the entity should recognise an expense of CU256,000 immediately.

IG Example 11

However, in some cases, the expense relating to an ESPP might not be material. AASB 108 *Accounting Policies, Changes in Accounting Policies and Errors* states that the accounting policies in Australian Accounting Standards need not be applied when the effect of applying them is immaterial (AASB 108, paragraph 8). AASB 101 *Presentation of Financial Statements* states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole (AASB 101, paragraph 7). Therefore, in this example, the entity should consider whether the expense of CU256,000 is material.

Cash-settled share-based payment transactions

IG18 Paragraphs 30–33 of the Standard set out requirements for transactions in which an entity acquires goods or services by incurring liabilities to the supplier of those goods or services in amounts based on the price of the entity's shares or other equity instruments. The entity is required to recognise initially the goods or services acquired, and a liability to pay for those goods or services, when the entity obtains the goods or as the services are rendered, measured at the fair value of the liability. Thereafter, until the liability is settled, the entity is required to recognise changes in the fair value of the liability.

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 in accordance with paragraphs 30–33D of AASB 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 (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

Background

An entity grants 100 cash share appreciation rights (SARs) to each of its 500 employees, on condition that the employees remain in its employ for the next three years.

During year 1, 35 employees leave. The entity estimates that a further 60 will leave during years 2 and 3. During year 2, 40 employees leave and the entity estimates that a further 25 will leave during year 3. During year 3, 22 employees leave. At the end of year 3, 150 employees exercise their SARs, another 140 employees exercise their SARs at the end of year 4 and the remaining 113 employees exercise their SARs at the end of year 5.

The entity estimates the fair value of the SARs at the end of each year in which a liability exists as shown below. At the end of year 3, all SARs held by the remaining employees vest. The intrinsic values of the SARs at the date of exercise (which equal the cash paid out) at the end of years 3, 4 and 5 are also shown below.

Year	Fair value	Intrinsic value
1	CU14.40	
2	CU15.50	
3	CU18.20	CU15.00

IG Example 12

4		CU21.40		CU20.00
5				CU25.00

Application of requirements

Year	Calculation		Expense CU	Liability CU
1	(500 – 95) employees × 100 SARs × CU14.40 × $^1/_3$		194,400	194,400
2	(500 – 100) employees × 100 SARs × CU15.50 × $^2/_3$ – CU194,400		218,933	413,333
3	(500 – 97 – 150) employees × 100 SARs × CU18.20 – CU413,333	47,127		460,460
	+ 150 employees × 100 SARs × CU15.00	225,000		
	Total		272,127	
4	(253 – 140) employees × 100 SARs × CU21.40 – CU460,460	(218,640)		241,820
	+ 140 employees × 100 SARs × CU20.00	280,000		
	Total		61,360	
5	CU0 – CU241,820	(241,820)		0
	+ 113 employees × 100 SARs × CU25.00	282,500		
	Total		40,680	
	Total		787,500	

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).

IG Example 12A				
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.

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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 CU1,000 (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

Year	Calculation	Dr. Expense CU	Cr. Equity CU	Cr. Liability 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

IG Example 12B
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 AASB 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.

IG Example 12C					
		Dr. Expense	**Cumulative expense**	**Cr. Equity**	**Cr. Liability**
Year	**Calculation**	**CU**	**CU**	**CU**	**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	–
4	100 employees x 100 share options × CU13.20 × $^4/_4$ – CU99,000	33,000	132,000	33,000	–
	Total			132,000	–

Share-based payment arrangements with cash alternatives

IG20 Some employee share-based payment arrangements permit the employee to choose whether to receive cash or equity instruments. In this situation, a compound financial instrument has been granted, ie a financial instrument with debt and equity components. Paragraph 37 of the Standard requires the entity to estimate the fair value of the compound financial instrument at grant date, by first measuring the fair value of the debt component, and then measuring the fair value of the equity component—taking into account that the employee must forfeit the right to receive cash to receive the equity instrument.

IG21 Typically, share-based payment arrangements with cash alternatives are structured so that the fair value of one settlement alternative is the same as the other. For example, the employee might have the choice of receiving share options or cash share appreciation rights. In such cases, the fair value of the equity component will be zero, and hence the fair value of the compound financial instrument will be the same as the fair value of the debt component. However, if the fair values of the settlement alternatives differ, usually the fair value of the equity component will be greater than zero, in which case the fair value of the compound financial instrument will be greater than the fair value of the debt component.

IG22 Paragraph 38 of the Standard requires the entity to account separately for the services received in respect of each component of the compound financial instrument. For the debt component, the entity recognises the services received, and a liability to pay for those services, as the counterparty renders service, in accordance with the requirements applying to cash-settled share-based payment transactions. For the equity component (if any), the entity recognises the services received, and an increase in equity, as the counterparty renders service, in accordance with the requirements applying to equity-settled share-based payment transactions. Example 13 illustrates these requirements.

IG Example 13

Background

An entity grants to an employee the right to choose either 1,000 phantom shares, ie a right to a cash payment equal to the value of 1,000 shares, or 1,200 shares. The grant is conditional upon the completion of three years' service. If the employee chooses the share alternative, the shares must be held for three years after vesting date.

At grant date, the entity's share price is CU50 per share. At the end of years 1, 2 and 3, the share price is CU52, CU55 and CU60 respectively. The entity does not expect to pay dividends in the next three years. After taking into account the effects of the post-vesting transfer restrictions, the entity estimates that the grant date fair value of the share alternative is CU48 per share.

At the end of year 3, the employee chooses:

Scenario 1: The cash alternative

Scenario 2: The equity alternative

Application of requirements

The fair value of the equity alternative is CU57,600 (1,200 shares × CU48). The fair value of the cash alternative is CU50,000 (1,000 phantom shares × CU50). Therefore, the fair value of the equity component of the compound instrument is CU7,600 (CU57,600 – CU50,000).

The entity recognises the following amounts:

Year		Expense	Equity	Liability
		CU	CU	CU
1	Liability component: (1,000 × CU52 × $^1/_3$)	17,333		17,333
	Equity component: (CU7,600 × $^1/_3$)	2,533	2,533	
2	Liability component: (1,000 × CU55 × $^2/_3$) – CU17,333	19,333		19,333
	Equity component: (CU7,600 × $^1/_3$)	2,533	2,533	
3	Liability component: (1,000 × CU60) – CU36,666	23,334		23,334
	Equity component: (CU7,600 × $^1/_3$)	2,534	2,534	
End Year 3	Scenario 1: cash of CU60,000 paid			
	Scenario 1 totals	67,600	7,600	0
	Scenario 2: 1,200 shares issued		60,000	(60,000)
	Scenario 2 totals	67,600	67,600	0

Share-based payment transactions among group entities

IG22A Paragraphs 43A and 43B of AASB 2 specify the accounting requirements for share-based payment transactions among group entities in the separate or individual financial statements of the entity receiving the goods or services. Example 14 illustrates the journal entries in the separate or individual financial statements for a group transaction in which a parent grants rights to its equity instruments to the employees of its subsidiary.

IG Example 14		
Share-based payment transactions in which a parent grants rights to its equity instruments to the employees of its subsidiary		
Background		
A parent grants 200 share options to each of 100 employees of its subsidiary, conditional upon the completion of two years' service with the subsidiary. The fair value of the share options on grant date is CU30 each. At grant date, the subsidiary estimates that 80 per cent of the employees will complete the two-year service period. This estimate does not change during the vesting period. At the end of the vesting period, 81 employees complete the required two years of service. The parent does not require the subsidiary to pay for the shares needed to settle the grant of share options.		
Application of requirements		
As required by paragraph B53 of the Standard, over the two-year vesting period, the subsidiary measures the services received from the employees in accordance with the requirements applicable to equity-settled share-based payment transactions. Thus, the subsidiary measures the services received from the employees on the basis of the fair value of the share options at grant date. An increase in equity is recognised as a contribution from the parent in the separate or individual financial statements of the subsidiary.		
The journal entries recorded by the subsidiary for each of the two years are as follows:		
Year 1		
Dr Remuneration expense (200 × 100 × CU30 × 0.8/2)	CU240,000	
Cr Equity (Contribution from the parent)		CU240,000
Year 2		
Dr Remuneration expense (200 × 100 × CU30 × 0.81 – 240,000)	CU246,000	
Cr Equity (Contribution from the parent)		CU246,000

Illustrative disclosures

IG23 The following example illustrates the disclosure requirements in paragraphs 44–52 of the Standard.[10]

Extract from the Notes to the Financial Statements of Company Z for the year ended 31 December 20X5.

Share-based Payment

During the period ended 31 December 20X5, the Company had four share-based payment arrangements, which are described below.

Type of arrangement	Senior management share option plan	General employee share option plan	Executive share plan	Senior management share appreciation cash plan
Date of grant	1 January 20X4	1 January 20X5	1 January 20X5	1 July 20X5
Number granted	50,000	75,000	50,000	25,000
Contractual life	10 years	10 years	N/A	10 years
Vesting conditions	1.5 years' service and achievement of a share price target, which was achieved.	Three years' service.	Three years' service and achievement of a target growth in earnings per share.	Three years' service and achievement of a target increase in market share.

10 Note that the illustrative example is not intended to be a template or model and is therefore not exhaustive. For example, it does not illustrate the disclosure requirements in paragraphs 47(c), 48 and 49 of the Standard.

The estimated fair value of each share option granted in the general employee share option plan is CU23.60. This was calculated by applying a binomial option pricing model. The model inputs were the share price at grant date of CU50, exercise price of CU50, expected volatility of 30 per cent, no expected dividends, contractual life of ten years, and a risk-free interest rate of 5 per cent. To allow for the effects of early exercise, it was assumed that the employees would exercise the options after vesting date when the share price was twice the exercise price. Historical volatility was 40 per cent, which includes the early years of the Company's life; the Company expects the volatility of its share price to reduce as it matures.

The estimated fair value of each share granted in the executive share plan is CU50.00, which is equal to the share price at the date of grant.

Further details of the two share option plans are as follows:

	20X4		20X5	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at start of year	0	–	45,000	CU40
Granted	50,000	CU40	75,000	CU50
Forfeited	(5,000)	CU40	(8,000)	CU46
Exercised	0	–	(4,000)	CU40
Outstanding at end of year	45,000	CU40	108,000	CU46
Exercisable at end of year	0	CU40	38,000	CU40

The weighted average share price at the date of exercise for share options exercised during the period was CU52. The options outstanding at 31 December 20X5 had an exercise price of CU40 or CU50, and a weighted average remaining contractual life of 8.64 years.

	20X4	20X5
	CU	CU
Expense arising from share-based payment transactions	495,000	1,105,867
Expense arising from share and share option plans	495,000	1,007,000
Closing balance of liability for cash share appreciation plan	–	98,867
Expense arising from increase in fair value of liability for cash share appreciation plan	–	9,200

Summary of conditions for a counterparty to receive an equity instrument granted and of accounting treatments

IG24 The table below 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.

Summary of conditions that determine whether a counterparty receives an equity instrument granted						
	VESTING CONDITIONS			**NON-VESTING CONDITIONS**		
	Service conditions	**Performance conditions**				
		Performance conditions that are market conditions	**Other 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**
Example conditions	Requirement to remain in service for three years	Target based on the market price of the entity's equity instruments	Target based on a successful initial public offering with a specified service requirement	Target based on a commodity index	Paying contributions towards the exercise price of a share-based payment	Continuation of the plan by the entity
Include in grant-date fair value?	No	Yes	No	Yes	Yes	Yes[(a)]
Accounting treatment if the condition is not met after the grant date and during the vesting period	Forfeiture. The entity revises the expense to reflect the best available estimate of the number of equity instruments expected to vest.	No change to accounting. The entity continues to recognise the expense over the remainder of the vesting period.	Forfeiture. The entity revises the expense to reflect the best available estimate of the number of equity instruments expected to vest.	No change to accounting. The entity continues to recognise the expense over the remainder of the vesting period.	Cancellation. The entity recognises immediately the amount of the expense that would otherwise have been recognised over the remainder of the vesting period.	Cancellation. The entity recognises immediately the amount of the expense that would otherwise have been recognised over the remainder of the vesting period.
	(paragraph 19)	(paragraph 21)	(paragraph 19)	(paragraph 21A)	(paragraph 28A)	(paragraph 28A)

(a) 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 per cent.

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Compilation details
Accounting Standard AASB 2 *Share-based Payment* (as amended)

Compilation details are not part of AASB 2.

This compiled Standard applies to annual periods beginning on or after 1 January 2020. It takes into account amendments up to and including 21 May 2019 and was prepared on 2 March 2020 by the staff of the Australian Accounting Standards Board (AASB).

This compilation is not a separate Accounting Standard made by the AASB. Instead, it is a representation of AASB 2 (July 2015) as amended by other Accounting Standards, which are listed in the Table below.

Table of Standards

Standard	Date made	FRL identifier	Commence-ment date	Effective date *(annual periods … on or after …)*	Application, saving or transitional provisions
AASB 2	24 Jul 2015	F2015L01603	31 Dec 2017	*(beginning)* 1 Jan 2018	see (a) below
AASB 2016-5	21 Jul 2016	F2016L01237	31 Dec 2017	*(beginning)* 1 Jan 2018	see (b) below
AASB 2017-5	12 Dec 2017	F2018L00067	31 Dec 2017	*(beginning)* 1 Jan 2018	see (b) below
AASB 2018-7	18 Dec 2018	F2019L00021	31 Dec 2019	*(beginning)* 1 Jan 2020	see (c) below
AASB 2019-1	21 May 2019	F2019L00966	31 Dec 2019	*(beginning)* 1 Jan 2020	see (c) below

(a) Entities may elect to apply this Standard to annual periods beginning after 24 July 2014 but before 1 January 2018.

(b) Entities may elect to apply this Standard to annual periods beginning before 1 January 2018.

(c) Entities may elect to apply this Standard to annual periods beginning before 1 January 2020.

Table of amendments to Standard

Paragraph affected	How affected	By … [paragraph/page]
AusCF1	added	AASB 2019-1 [page 8]
19	amended	AASB 2016-5 [page 5]
30-31	amended	AASB 2016-5 [page 6]
33	amended	AASB 2016-5 [page 6]
33A-33H (and headings)	added	AASB 2016-5 [page 6]
52	amended	AASB 2016-5 [page 7]
Aus52.1	amended	AASB 2016-5 [page 7]
59A-59B	added	AASB 2016-5 [page 7]
63D	added	AASB 2016-5 [page 8]
63E	added	AASB 2019-1 [page 9]
Appendix A – equity instrument	amended	AASB 2019-1 [page 9]
B44A-B44C (and heading)	added	AASB 2016-5 [page 8]

Table of amendments to implementation guidance

IG17	amended	AASB 2018-7 [page 7]
IG19	amended amended amended (Example 12A)	AASB 2016-5 [page 9] AASB 2017-5 [16] AASB 2017-5 [17]
IG19A (preceding heading)	amended	AASB 2017-5 [18]
IG19A-1G19B (and headings)	added	AASB 2016-5 [page 10]
IG19A	amended (Example 12B)	AASB 2017-5 [19]
IG19B	amended (Example 12C)	AASB 2017-5 [20]

Deleted IFRS 2 text

Deleted IFRS 2 text is not part of AASB 2.

61 IFRS 3 (as revised in 2008) and *Improvements to IFRSs* issued in April 2009 amended paragraph 5. An entity shall apply those amendments for annual periods beginning on or after 1 July 2009. Earlier application is permitted. If an entity applies IFRS 3 (revised 2008) for an earlier period, the amendments shall also be applied for that earlier period.

62 An entity shall apply the following amendments retrospectively in annual periods beginning on or after 1 January 2009:

(a) the requirements in paragraph 21A in respect of the treatment of non-vesting conditions;

(b) the revised definitions of 'vest' and 'vesting conditions' in Appendix A;

(c) the amendments in paragraphs 28 and 28A in respect of cancellations.

Earlier application is permitted. If an entity applies these amendments for a period beginning before 1 January 2009, it shall disclose that fact.

63 An entity shall apply the following amendments made by *Group Cash-settled Share-based Payment Transactions* issued in June 2009 retrospectively, subject to the transitional provisions in paragraphs 53–59, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for annual periods beginning on or after 1 January 2010:

(a) the amendment of paragraph 2, the deletion of paragraph 3 and the addition of paragraphs 3A and 43A–43D and of paragraphs B45, B47, B50, B54, B56–B58 and B60 in Appendix B in respect of the accounting for transactions among group entities.

(b) the revised definitions in Appendix A of the following terms:

- cash-settled share-based payment transaction,
- equity-settled share-based payment transaction,
- share-based payment arrangement, and
- share-based payment transaction.

If the information necessary for retrospective application is not available, an entity shall reflect in its separate or individual financial statements the amounts previously recognised in the group's consolidated financial statements. Earlier application is permitted. If an entity applies the amendments for a period beginning before 1 January 2010, it shall disclose that fact.

63A IFRS 10 *Consolidated Financial Statements* and IFRS 11, issued in May 2011, amended paragraph 5 and Appendix A. An entity shall apply those amendments when it applies IFRS 10 and IFRS 11.

63B *Annual Improvements to IFRSs 2010–2012 Cycle*, issued in December 2013, amended paragraphs 15 and 19. In Appendix A, the definitions of 'vesting conditions' and 'market condition' were amended and the definitions of 'performance condition' and '*service condition*' were added. An entity shall prospectively apply that amendment to share-based payment transactions for which the grant date is on or after 1 July 2014. Earlier application is permitted. If an entity applies that amendment for an earlier period it shall disclose that fact.

64 *Group Cash-settled Share-based Payment Transactions* issued in June 2009 supersedes IFRIC 8 *Scope of IFRS 2* and IFRIC 11 *IFRS 2—Group and Treasury Share Transactions*. The amendments made by that document incorporated the previous requirements set out in IFRIC 8 and IFRIC 11 as follows:

(a) amended paragraph 2 and added paragraph 13A in respect of the accounting for transactions in which the entity cannot identify specifically some or all of the goods or services received. Those requirements were effective for annual periods beginning on or after 1 May 2006.

(b) added paragraphs B46, B48, B49, B51–B53, B55, B59 and B61 in Appendix B in respect of the accounting for transactions among group entities. Those requirements were effective for annual periods beginning on or after 1 March 2007.

Those requirements were applied retrospectively in accordance with the requirements of IAS 8, subject to the transitional provisions of IFRS 2.

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