

AMENDMENTS TO STATUTORY BOARD FINANCIAL
REPORTING STANDARD

SB-FRS 102 Share-based Payment

Vesting Conditions and Cancellations

Amendments to Statutory Board Financial Reporting Standard
102

Share-based Payment
Vesting Conditions and Cancellations

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AMENDMENTS TO SB-FRS 102

IMPLEMENTATION GUIDANCE

Amendments to SB-FRS 102 *Share-based Payment*

This document sets out amendments to SB-FRS 102 *Share-based Payment*.

Entities shall apply these amendments to all share-based payments within the scope of SB-FRS 102 for annual periods beginning on or after 1 January 2009. Earlier application is permitted.

In the rubric, the first sentence is amended as follows:

Statutory Board Financial Reporting Standard 102 *Share-based Payment* (SB-FRS 102) is set out in paragraphs 1–~~6062~~ and Appendices A–C. All the paragraphs ...

Non-vesting conditions

In the Standard, after paragraph 21, a heading and paragraph 21A are added as follows.

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.

Cancellations

In the Standard, paragraph 28 is amended (new text is underlined and deleted text is struck through) as follows.

- 28 If ~~the entity cancels or settles~~ 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) ...

In the Standard, paragraph 28(b) is amended (new text is underlined) as follows.

- 28 (b) 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.

In the Standard, after paragraph 28, paragraph 28A is added as follows.

- 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.

Effective date

In the Standard, paragraph 61 is added as follows.

- 61 [not in use]

In the Standard, paragraph 62 is added as follows.

- 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.

Definitions

In Appendix A, the definitions of 'vest' and 'vesting conditions' are amended (new text is underlined and deleted text is struck through) as follows.

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 upon satisfaction of any specified ~~vesting conditions~~ when the counterparty's entitlement is no longer conditional on the satisfaction of any **vesting conditions**.

vesting conditions The conditions that ~~must be satisfied~~ determine whether the entity receives the services that entitle for the counterparty to become entitled to receive cash, other assets or **equity instruments** of the entity, under a **share-based payment arrangement**. Vesting conditions ~~include~~ are either service conditions or performance conditions. Service conditions, which require the ~~other counterparty~~ to complete a specified period of service, and performance conditions, which require the counterparty to complete a specified period of service and specified performance targets to be met (such as a specified increase in the entity's profit over a specified period of time). A performance condition might include a **market condition**.

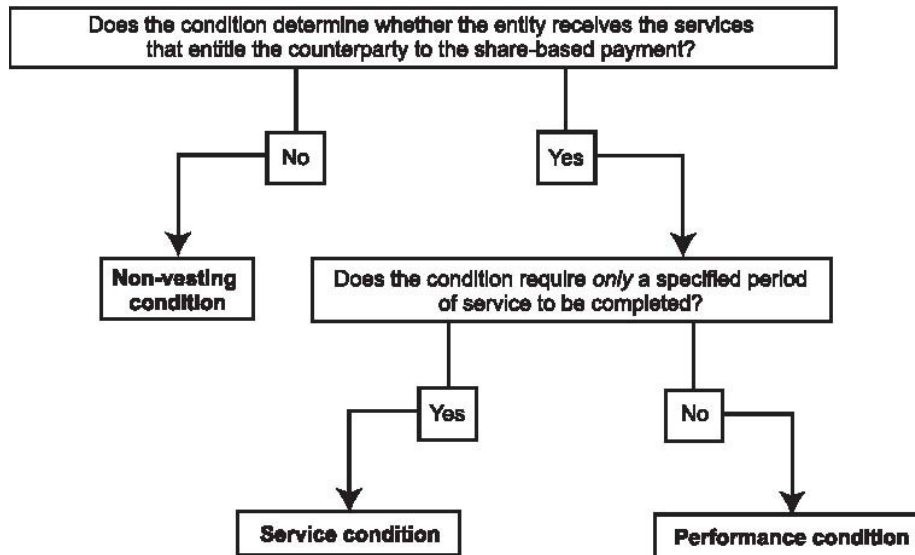
Implementation Guidance

Amendments to Guidance on Implementing SB-FRS 102

After paragraph IG4, a new heading and paragraph IG4A are added as follows.

Definition of vesting conditions

IG4A SB-FRS 102 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.



After IG Example 9, paragraph IG15A and IG Example 9A are added as follows.

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 SB-FRS 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 SB-FRS, the repayment of contributions is treated as an extinguishment of the liability and the cessation of contributions in year 2 is treated as a cancellation.

YEAR 1	Expense CU	Cash CU	Liability CU	Equity 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)

After paragraph IG23, a heading, paragraph IG24 and a table are added as follows.

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		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
		Performance conditions that are market conditions	Other performance conditions			
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. (paragraph 19)	No change to accounting. The entity continues to recognise the expense over the remainder of the vesting period. (paragraph 21)	Forfeiture. The entity revises the expense to reflect the best available estimate of the number of equity instruments expected to vest. (paragraph 19)	No change to accounting. The entity continues to recognise the expense over the remainder of the vesting period. (paragraph 21A)	Cancellation. The entity recognises immediately the amount of the expense that would otherwise have been recognised over the remainder of the vesting period. (paragraph 28A)	Cancellation. The entity recognises immediately the amount of the expense that would otherwise have been recognised over the remainder of the vesting period. (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.