# IFRS 2 SHARE-BASED PAYMENTS

## FACT SHEET

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This fact sheet is based on existing requirements as at 31 December 2015 and does not take into account recent standards and interpretations that have been issued but are not yet effective.

## IMPORTANT NOTE

**This fact sheet is based on the requirements of the International Financial Reporting Standards (IFRSs). In some jurisdictions, the IFRSs are adopted in their entirety; in other jurisdictions the individual IFRSs are amended. In some jurisdictions the requirements of a particular IFRS may not have been adopted. Consequently, users of the fact sheet in various jurisdictions should ascertain for themselves the relevance of the fact sheet to their particular jurisdiction. The application date included below is the effective date of the initial version of the standard.**

## IASB APPLICATION DATE (NON-JURISDICTION SPECIFIC)

IFRS 2 is applicable for annual reporting periods commencing on or after 1 January 2005.

## OBJECTIVE

IFRS 2 specifies the financial reporting by an entity when it undertakes a share-based payment transaction. The entity is required 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.

## SCOPE

IFRS 2 applies to all share-based payment transactions, whether or not the entity can identify specifically some or all of the goods or services, except if the entity:

- Acquires goods as part of the net assets acquired in a business combination to which IFRS 3 *Business Combinations*, in a combination of entities or businesses under common control as described in paragraphs B1-B4 of IFRS 3, or the contribution of a business on the formation of a joint venture as defined by IFRS 11 *Joint Arrangements* applies. However, equity instruments granted to employees of the acquiree in their capacity as employees (e.g. return for service) are within the standard's scope.
- Receives or acquires goods or services under a contract within the scope of paragraphs 8-10 of IAS 32 *Financial Instruments: Presentation* or paragraphs 5 – 7 of IAS 39 *Financial Instruments: Recognition and Measurement.*
- Transactions with an employee (or other party) in his/her capacity as a holder of equity instruments of the entity.

## RECOGNITION AND MEASUREMENT

IFRS 2 stipulates that an entity shall recognise the goods and services received or acquired in a share-based payment transaction when the entity obtains the goods or receives the services. The accounting entry depends on the type of share-based payment. The table below summarises the classification and measurement principles applicable to different share-based payments.

**Recognition and Measurement of Share-based Payments**

| Settlement type | Recognised as | Measurement |
|---|---|---|
| Equity-settled | Equity | Fair value of the goods or services received, unless the fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the transaction is measured indirectly by reference to the fair value of the equity instruments granted. However, IFRS 2 acknowledges it is typically not possible to estimate reliably the fair value of services received. Consequently, the entity shall measure the fair value of the services received by reference to the fair value of the equity instruments granted. The fair value of the equity instruments shall be measured at grant date. |
| Cash-settled | Liability | Fair value of the liability incurred for the goods or services acquired. Where services are received over various reporting periods, the transaction is recognised as the employee renders service. At each reporting date and the settlement date, the fair value of the liability must be remeasured with any changes in fair value recognised in profit or loss for the period. |
| Counterparty has a choice of settlement by cash or equity | Liability and equity. As the counterparty has a right to demand a cash or equity settlement, the instrument granted is a compound financial instrument with a liability and equity component being recognised. | For transactions with non-employees where the fair value of goods or services received is measured directly, the equity component is the difference between the fair value of the goods or services received and the fair value of the debt component at the date the goods or services are received.<br><br>For other transactions, including those with employees, the entity shall measure the fair value of both the debt and equity components with consideration of the terms and conditions on which the rights to cash or equity instruments were granted. To determine the value of both components, the entity shall first measure the fair value of the debt component and then the equity component. Subsequent measurement of the equity and liability components are in accordance with the equity-settled and cash-settled requirements.<br><br>At settlement date, if equity-settled the liability is transferred direct to equity as consideration. If cash-settled, the payment shall be applied in full to settle the liability with any previously recognised equity component remaining in equity. |
| Entity has a choice of settlement by cash or equity | Liability, if the entity determines that it has a present obligation to settle in cash, otherwise the transaction is accounted for as an equity-settled transaction. | If no present obligation exists to settle in cash and if the entity elects to settle in cash the cash payment is deducted from equity. If the entity elects to settle with equity, the only transaction is a transfer from one equity component to another.<br><br>The exception to this is that if the entity elects the settlement alternative with the higher fair value as at settlement date, the entity shall recognise an additional expense for the excess value given, being the difference between the cash paid and the fair value of 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. |

**Indirect measurement of equity-settled share based payment transactions**

***Transactions with parties other than employees***

There is a rebuttable presumption that the fair value of goods or services received can be estimated reliably at the date the entity obtains the goods or the counterparty renders the service. In the rare case that the presumption is rebutted, the goods or services received shall be measured by reference to the fair value of the equity instruments granted with the measurement date being the date the entity obtains the goods or the counterparty renders the service.

***Transactions with employees***

The fair value of the employee services received is measured as the fair value of the equity instruments granted with the measurement date being the grant date.

***Measurement of the fair value of equity instruments granted***

The fair value of equity instruments granted is determined at measurement date based on market prices, if available, taking into account the terms and conditions upon which the equity instruments were granted. In the absence of market prices, the fair value is determined using a valuation technique consistent with generally accepted valuation methodologies for pricing financial instruments. The model (e.g. Black-Scholes-Merton formula, binomial model) must incorporate all factors and assumptions that knowledgeable, willing market participants would consider in setting the price.

***Vesting conditions***

Vesting conditions, other than market conditions, attached to equity instruments granted are not taken into account when estimating the fair value at measurement date. Instead, the number of equity instruments included in the measurement shall be adjusted to reflect the number of equity instruments expected to vest. This is revised based on subsequent information. Accordingly, on a cumulative basis, no amount is recognised for goods and services received if vesting conditions are not satisfied. Market vesting conditions (e.g. target share price upon which vesting is conditioned) shall be taken into account when estimating the fair value of the equity instruments granted and there are no subsequent adjustments. Therefore, for grants of equity instruments with market conditions, the entity shall recognise the goods and services from a counterparty who satisfies all other vesting conditions, regardless of whether that market condition is satisfied.

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 not reverse the amount recognised for goods or services received if the share options are later forfeited or lapsed.

***Reload features***

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. A reload option shall be accounted for as a new option grant, if and when a reload option is subsequently granted.

***After vesting date***

IFRS 2 prohibits any subsequent adjustment to total equity after vesting date irrespective of events such as the forfeiture or non-exercise of the options. However, transfers within equity (e.g. one component to another) can be made after vesting date.

***Modifications***

The entity shall recognise, at 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 a 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 recognises the effects of modifications that increase the total fair value of the share-based payment arrangements or are otherwise beneficial to the employee.

***Share-based payment transactions among group entities***

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 cash-settled share-based payment transaction by assessing:

- the nature of the awards granted
- 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 settling the share-based payment transaction.

## DISCLOSURES

Refer to Appendix 1 for a checklist to assist with IFRS 2 disclosure requirements.

## DEFINITIONS

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|---|---|
| **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 the equity instruments (including shares or share options) of the entity or another group entity. |
| **Equity instruments** | Contracts that evidence a residual interest in the assets of an entity after deducting all of its liabilities. |
| **Equity-settled share-based payment transaction** | A share-based payment transaction in which the entity:<br>• Receives goods or services as consideration for its own equity instruments (including shares or share options).<br>• Receives goods or services but has no obligation to settle the transaction with the supplier. |
| **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. |
| **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 attaining a specified share price or a specified amount of intrinsic value of a share option, or 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.<br>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 IFRS 2. For transactions with employees and others providing similar services, the measurement date is grant date. For transactions with parties other than employees, 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).<br><br>The period of achieving the performance target(s) shall not extend beyond the end of the service period; and may start before the service period on the condition that the commencement date of the performance target is not substantially before the commencement of the service period.<br><br>A performance target is defined by reference to the entity's own operations or the operations or activities of another entity in the same group (ie a non-market condition); or the price (or value) of the entity's equity instruments of the equity instruments of another entity in the same group (including shares and share options) (ie a market condition).<br><br>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 entity or any shareholder of any group entity) and another party (including an employee) that entitles the other party to receive:<br>• 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<br>• equity instruments (including shares or share options) of the entity or another group entity<br><br>provided the specified vesting conditions, if any, are met. |
| **Share-based payment transaction** | A transaction in which the entity:<br>• receives goods or services from the supplier of those goods or services (including an employee) in a share-based payment arrangement, or<br>• 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 conditions** | 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. |

# AUSTRALIAN SPECIFIC REQUIREMENTS

The Australian equivalent standard is AASB 2 *Share-based Payments* and is applicable for annual reporting periods commencing on or a fter 1 January 2005.

## REDUCED DISCLOSURE REQUIREMENTS (RDR)

On 30 June 2010, the Australian Accounting Standards Board published AASB 1053 *Application of Tiers of Australian Accounting Standards* (and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements)* which established a differential reporting framework, consisting of two Tiers of reporting requirements for preparing general purpose financial statements:

a. Tier 1: Australian Accounting Standards; and

b. Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

A Tier 2 entity is a 'reporting entity' as defined in SAC 1 *Definition of the Reporting Entity* that does not have 'public accountability' as defined in AASB 1053 and is not otherwise deemed to be a Tier 1 entity by AASB 1053.

RDR is applicable to annual periods beginning on or after 1 July 2013.

When developing AASB 1053, the AASB concluded that the Australian Government and state, territory and local governments should be subject to Tier 1 requirements. The AASB also decided that General Government Sectors of the Australian Government and state and territory governments should continue to apply AASB 1049 W*hole of Government and General Government Sector Financial Reporting*, without the reduction in disclosures provided by Tier 2. Other public sector entities are able to apply Tier 2 reporting requirements.

The requirements that do not apply to RDR entities are identified in Appendix 1 by shading of the relevant text. Additional disclosure requirements that are applicable to RDR entities only are included in a separate table in Appendix 1.

# APPENDIX 1 – DISCLOSURE CHECKLIST

This checklist can be used to review your financial statements. You should complete the "Yes / No / N/A" column about whether the requirement is included. To ensure the completeness of disclosures, provide an explanation for "No" answers.

| CODE | | YES / NO / N/A | EXPLANATION (*If required*) |
|---|---|---|---|
| IFRS 2.44 | Has the entity disclosed information that enables users of the financial statement to understand the nature and extent of share based payment arrangements that existed during the period? | | |
| IFRS 2.45 | To give effect to the above has the entity disclosed, at a minimum:<br>a. description of each type of share-based payment arrangement that existed at any time during the period, including:<br>• the general terms and conditions of each arrangement, such as vesting requirements<br>• the maximum term of options granted<br>• the method of settlement (e.g. whether in cash or equity)<br>An entity with substantially similar types of share-based payment arrangements may aggregate this information.<br>b. the number and weighted average exercise prices of share options for each of the following groups of options:<br>• outstanding at the beginning of the period<br>• granted during the period<br>• forfeited during the period<br>• exercised during the period<br>• expired during the period<br>• outstanding at the end of the period<br>• exercisable at the end of the period<br>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; and<br>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. | | |
| IFRS 2.46 | Has the entity disclosed information that enables users of the financial statement 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? | | |

| CODE | | YES / NO / N/A | EXPLANATION (*If required*) |
|---|---|---|---|
| IFRS 2.47 | 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, has the entity disclosed at least the following to give effect to IFRS 2.46:<br>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:<br>• 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.<br>• How expected volatility was determined, including an explanation of the extent to which expected volatility was based on historical volatility.<br>• Whether and how any other features of the option grant were incorporated into the measurement of fair value, such as a market condition.<br>b. for other equity instruments granted during the period (i.e. 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:<br>• If fair value was not measured on the basis of an observable market price, how it was determined.<br>• Whether and how expected dividends were incorporated into the measurement of fair value.<br>• Whether and how any other features of the equity instruments granted were incorporated into the measurement of fair value.<br>c. for share-based payment arrangements that were modified during the period:<br>• An explanation of those modifications;<br>• The incremental fair value granted (as a result of those modifications).<br>• Information on how the incremental fair value granted was measured, consistently with the requirements set out in (a) and (b) above, where applicable. | | |

| CODE | | YES / NO / N/A | EXPLANATION (*If required*) |
|---|---|---|---|
| IFRS 2.48 | Where the entity has measured directly the fair value of goods or services received during the period, has the entity disclosed how that fair value was determined? | | |
| IFRS 2.49 | If the entity has stated that the fair value of the goods or services cannot be estimated reliably, has this fact been disclosed along with an explanation of why? | | |
| IFRS 2.50<br><br>IFRS 2.51 | Has the entity disclosed information that enables users of the financial statement to understand the effect of share-based payment transactions on the entity's profit or loss for the period and on its financial position?<br><br>To give effect to the above has the entity disclosed, at a minimum:<br><br>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; and<br><br>b. for liabilities arising from share-based payment transactions:<br><br>• The total carrying amount at the end of the period.<br><br>• 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 (e.g. vested share appreciation rights). | | |
| IFRS 2.52 | Note: If the information required to be disclosed by this Standard does not satisfy the principles in paragraphs 44, 46 and 50, has the entity disclosed such additional information as is necessary to satisfy them. | | |

## ADDITIONAL DISCLOSURE REQUIREMENTS APPLICABLE TO RDR ENTITIES ONLY

| CODE | | YES / NO / N/A | EXPLANATION (*If required*) |
|---|---|---|---|
| AASB 2. RDR46.1 | For equity-settled share-based payment arrangements:<br>• Has the entity disclosed information about how it measured the fair value of goods or services received or the fair value of the equity instruments granted?<br>• Where a valuation methodology was used, has the entity disclosed the method and its reason for choosing it? | | |
| AASB 2. RDR46.2 | For cash-settled share-based payment arrangements, has the entity disclosed information about how the liability was measured? | | |
| AASB 2. RDR50.1 | Has the entity disclosed 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:<br>• The total expense recognised in profit or loss for the period?<br>• The total carrying amount at the end of the period of liabilities arising from share-based payment transactions? | | |

## OTHER MATTERS

### LEGAL NOTICE



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