Share Based Payments Developments

Date:
Feb 2010

Vesting and Non-Vesting Conditions

The decision of the IASB to treat the switch by employees of their SAYE contributions from older awards to newer awards as cancellations of the older options continues to have repercussions. To justify their treatment, the IASB had to amend the Share Based Payment Standard in order to create (for the SAYE savings requirement) a new kind of ñconditionò which was neither a performance condition nor a service condition. Confusingly, this was described as a ñnon-vestingò condition. Had the IASB not made this change, it would have been hard put to resist the argument that the failure to complete the savings contract was a failure to meet a non-market performance condition, with the result that the costs of the older award would have been reversed (ñtrued upò to nil).

The first annual accounts to which the revised IFRS2 applies are now being prepared, and it is perhaps not surprising that practical problems in applying the revised Standard and making the necessary distinctions between performance conditions, service conditions and non-vesting conditions are emerging. In response, the Interpretation Committee of the IASB (known as IFRIC) decided in its January 2010 meeting that it would work towards issuing new guidance in the next few months. The relevant extract of the IFRIC meeting minutes is reproduced below:

ñVesting and non-vesting Conditions

The IFRIC received a request to clarify the basis on which vesting conditions, especially performance conditions, can be distinguished from non-vesting conditions. Specifically, the IFRIC was asked how to distinguish between a service condition, a performance condition and a non-vesting condition. Two application issues were presented to the IFRIC:

- Does there need to be a direct link between a performance target and an individual employeeõs service in order for that target to be a performance condition?
- When determining whether the target qualifies as a performance condition, does it matter whether the specified service period is shorter or longer than the period over which the performance target should be met?

The IFRIC noted that there is a lack of clarity on the definition of vesting conditions and revised guidance included in Vesting Conditions and Cancellations (Amendment to IFRS 2) issued in January 2008. As such, divergent practices may result when distinguishing between vesting conditions and non-vesting conditions. The IFRIC concluded that the consistency of application would be improved by clarifying the distinction between service conditions, performance conditions and non-vesting conditions. Therefore, the IFRIC decided to add the issue to its agenda and directed the staff to develop a paper for discussion at the March 2010 meeting.ò

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Cash Settled or Equity Settled?

The Share Based Payments Standards (IFRS 2 and FRS 20) actually contain the rules for two different accounting regimes. Most of the Standards are concerned with awards that are equity settled but there are also rules for cash settled awards. For the more complex types of equity incentives it can be difficult to distinguish between the two types of award and the distinction can be important as they have very different accounting treatments. At its January 2010 meeting IFRIC decided that so many issues had been raised about this matter that they needed to be ñconsidered collectively as part of a post-implementation review of IFRS 2ò by the IASB itself. The minutes of the meeting are reproduced below:

ñIFRS 2 Share-based Payment – Transactions in which the manner of settlement is contingent on future events

The IFRIC received a request to clarify the classification and measurement of share-based payment transactions for which the manner of settlement is contingent on either:

- a future event that is outside the control of both the entity and the counterparty; or
- a future event that is within the control of the counterparty.

The IFRIC noted that paragraphs 34 ï 43 of IFRS 2 provide guidance only on share-based payment transactions in which the terms of the arrangement provide the counterparty or the entity with a choice of settlement.

The IFRIC noted that IFRS 2 does not provide guidance on share-based payment transactions for which the manner of settlement is contingent on a future event that is outside the control of both the entity and the counterparty. The IFRIC noted that many other issues have been raised concerning the classification and measurement of share-based payments as cash-settled or equity-settled. The IFRIC therefore noted that it would be more appropriate for these issues to be considered collectively as part of a post-implementation review of IFRS 2. The IFRIC decided not to add these issues to its agenda and recommended that those issues be dealt with by the IASB in a post-implementation review of IFRS 2.ò

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