

# **Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions**

**[AASB 2]**



**Australian Government**

---

**Australian Accounting  
Standards Board**

## Obtaining a copy of this Accounting Standard

This Standard is available on the AASB website: [www.aasb.gov.au](http://www.aasb.gov.au).

Australian Accounting Standards Board  
PO Box 204  
Collins Street West  
Victoria 8007  
AUSTRALIA

Phone: (03) 9617 7637  
E-mail: [publications@aaasb.gov.au](mailto:publications@aaasb.gov.au)  
Website: [www.aasb.gov.au](http://www.aasb.gov.au)

## Other enquiries

Phone: (03) 9617 7600  
E-mail: [standard@aaasb.gov.au](mailto:standard@aaasb.gov.au)

## COPYRIGHT

© Commonwealth of Australia 2016

This AASB Standard contains IFRS Foundation copyright material. Reproduction within Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source. Requests and enquiries concerning reproduction and rights for commercial purposes within Australia should be addressed to The Director of Finance and Administration, Australian Accounting Standards Board, PO Box 204, Collins Street West, Victoria 8007.

All existing rights in this material are reserved outside Australia. Reproduction outside Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use only. Further information and requests for authorisation to reproduce for commercial purposes outside Australia should be addressed to the IFRS Foundation at [www.ifrs.org](http://www.ifrs.org).

ISSN 1036-4803

## Contents

PREFACE

### ACCOUNTING STANDARD

#### **AASB 2016-5 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – CLASSIFICATION AND MEASUREMENT OF SHARE-BASED PAYMENT TRANSACTIONS**

	<i>from page</i>
<b>OBJECTIVE</b>	<b>5</b>
<b>APPLICATION</b>	<b>5</b>
<b>AMENDMENTS TO AASB 2</b>	<b>5</b>
<b>AMENDMENTS TO THE GUIDANCE ON IMPLEMENTING AASB 2</b>	<b>9</b>
<b>COMMENCEMENT OF THE LEGISLATIVE INSTRUMENT</b>	<b>13</b>

### AVAILABLE ON THE AASB WEBSITE

#### **Basis for Conclusions on IFRS 2 – Amendments**

Australian Accounting Standard AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions* is set out on pages 5 – 13. All the paragraphs have equal authority.

## Preface

### Standards amended by AASB 2016-5

---

This Standard makes amendments to AASB 2 *Share-based Payment* (July 2015).

These amendments arise from the issuance of International Financial Reporting Standard *Classification and Measurement of Share-based Payment Transactions* (Amendments to IFRS 2) by the International Accounting Standards Board (IASB) in June 2016.

### Main features of this Standard

---

#### Main requirements

This Standard amends AASB 2 *Share-based Payment* to address:

- (a) the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- (b) the classification of share-based payment transactions with a net settlement feature for withholding tax obligations; and
- (c) the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

#### Application date

This Standard applies to annual periods beginning on or after 1 January 2018. Earlier application is permitted.

## Accounting Standard AASB 2016-5

The Australian Accounting Standards Board makes Accounting Standard AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions* under section 334 of the *Corporations Act 2001*.

Dated 21 July 2016

Kris Peach  
Chair – AASB

## Accounting Standard AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*

### Objective

---

This Standard amends AASB 2 *Share-based Payment* (July 2015) as a consequence of the issuance of International Financial Reporting Standard *Classification and Measurement of Share-based Payment Transactions* (Amendments to IFRS 2) by the International Accounting Standards Board in June 2016.

### Application

---

The amendments set out in this Standard apply to entities and financial statements in accordance with the application of the other Standards and Interpretations set out in AASB 1057 *Application of Australian Accounting Standards* (as amended).

This Standard applies to annual periods beginning on or after 1 January 2018.

This Standard may be applied to annual periods beginning before 1 January 2018. When an entity applies this Standard to such an annual period, it shall disclose that fact.

This Standard uses underlining, striking out and other typographical material to identify some of the amendments to a Standard, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material. Ellipses (...) are used to help provide the context within which amendments are made and also to indicate text that is not amended.

### Amendments to AASB 2

---

Paragraphs 19, 30–31, 33, 52 and Aus52.1 are amended, and paragraphs 33A–33H, 59A–59B and 63D are added. Headings before paragraphs 33A and 33E are added. Deleted text is struck through and new text is underlined. Paragraphs 32 and 34 have not been amended, but are included for ease of reference.

### 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, eg the counterparty fails to complete a specified service period, or a performance condition is not satisfied, subject to the requirements of paragraph 21.

...

## **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. ~~Or~~ 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 (~~eg~~ 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.
- 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.**

## **Disclosures**

---

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

...

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.

In Appendix B, paragraphs B44A–B44C and their related heading are added. New text is underlined.

### **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.



## Amendments to the Guidance on implementing AASB 2

Paragraph IG19 is amended and paragraphs IG19A–IG19B are added. IG Examples 12A–12C are added. Deleted text is struck through and new text is underlined.

### Cash-settled share-based payment transactions

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 ~~by applying an option pricing model, and the extent to which the employees have rendered service to date~~ 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 (~~eg 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

...

#### 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).

<u>Year</u>	<u>Fair value of one SAR</u>	<u>Intrinsic value of one SAR</u>
<u>1</u>	<u>CU14.40</u>	<u>=</u>
<u>2</u>	<u>CU15.50</u>	<u>=</u>
<u>3</u>	<u>CU18.20</u>	<u>CU15.00</u>

**IG Example 12A**

<u>Year</u>	<u>Calculation</u>	<u>Expense</u>	<u>Liability</u>
		<u>CU</u>	<u>CU</u>
4		CU21.40	CU20.00
5		CU25.00	CU25.00
<b>Application of requirements</b>			
		<u>Number of employees expected to satisfy the service condition</u>	<u>Best estimate of whether the revenue target will be met</u>
<u>Year 1</u>		500	No
<u>Year 2</u>		500	Yes
<u>Year 3</u>		500	Yes
1	<u>SARs are not expected to vest: no expense is recognised</u>	=	=
2	<u>SARs are expected to vest: 500 employees × 100 SARs × CU15.50 × 2/3</u>	=	516,667
3	<u>(500–150) employees × 100 SARs × CU18.20 × 3/3–CU516,667</u>	120,333	637,000
	<u>+ 150 employees × 100 SARs × CU15.00</u>	225,000	=
	<u>Total</u>	=	345,333
4	<u>(350–150) employees × 100 SARs × CU21.40–CU637,000</u>	(209,000)	428,000
	<u>+ 150 employees × 100 SARs × CU20.00</u>	300,000	=
	<u>Total</u>	=	91,000
5	<u>(200–200) employees × 100 SARs × CU25.00–CU428,000</u>	(428,000)	=
	<u>+ 200 employees × 100 SARs × CU25.00</u>	500,000	=
	<u>Total</u>	=	72,000
	<u>Total</u>	=	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.

## **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 CU1000 (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**

<b><u>Year</u></b>	<b><u>Calculation</u></b>	<b><u>Dr.</u></b>	<b><u>Cr.</u></b>	<b><u>Cr.</u></b>
		<b><u>Expense</u></b>	<b><u>Equity</u></b>	<b><u>Liability</u></b>
		<b><u>CU</u></b>	<b><u>CU</u></b>	<b><u>CU</u></b>
1	<u>100 shares × CU2 × 1/4</u>	<u>50</u>	<u>(50)</u>	=
2	<u>100 shares × CU2 × 2/4 – CU50</u>	<u>50</u>	<u>(50)</u>	=
3	<u>100 shares × CU2 × 3/4 – (CU50 + CU50)</u>	<u>50</u>	<u>(50)</u>	=
4	<u>100 shares × CU2 × 4/4 – (CU50 + CU50 + CU50)</u>	<u>50</u>	<u>(50)</u>	=
	<u>Total</u>	<u>200</u>	<u>(200)</u>	=

### **The journal entries recorded by the entity are as follows:**

#### **During the vesting period**

Accumulated compensation expense recognised over the vesting period

<u>Dr Expense</u>	<u>200</u>	
	<u>Cr Equity</u>	<u>200</u>

#### **Recognition of the tax liability<sup>(a)</sup>**

<u>Dr Equity</u>	<u>400</u>	
	<u>Cr Liability</u>	<u>400</u>

#### **Settlement of tax obligation**

Cash paid to the tax authority on the employee's behalf at the date of settlement

<u>Dr Liability</u>	<u>400</u>	
	<u>Cr Cash</u>	<u>400</u>

- (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.

<b>Year</b>	<b>Calculation</b>	<b>Dr. Expense CU</b>	<b>Cumulative expense CU</b>	<b>Cr. Equity CU</b>	<b>Cr. Liability CU</b>
1	<u>100 employees × 100 SARs × CU10 × 1/4</u>	<u>25,000</u>	=	=	<u>25,000</u>
2	<u>Remeasurement before the modification 100 employees × 100 SARs × CU12.00 × 2/4 – 25,000</u>	<u>35,000</u>	<u>60,000</u>	=	<u>35,000</u>
	<u>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 × 100 share options × CU13.20 × 2/4) – (100 employees × 100 SARs × CU12.00 × 2/4)</u>	<u>6,000</u>	<u>66,000</u>	<u>66,000</u>	<u>(60,000)</u>

<b>IG Example 12C</b>					
<u>3</u>	<u>100 employees × 100 share options</u> <u>× CU13.20 × 34—CU66,000</u>	<u>33,000</u>	<u>99,000</u>	<u>33,000</u>	<u>=</u>
<u>4</u>	<u>100 employees × 100 share options</u> <u>× CU13.20 × 44—CU99,000</u>	<u>33,000</u>	<u>132,000</u>	<u>33,000</u>	<u>=</u>
	<u>Total</u>			<u>132,000</u>	<u>=</u>

## **Commencement of the legislative instrument**

---

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