# *Ihre Ansprechpartner*

***Sehr geehrte Damen und Herren,***

für Rückfragen zu der beigefügten Publikation „In brief“ zur Thematik
“IASB issues amendment to IFRS 2“ stehen Ihnen folgende Ansprechpartner gerne zur Verfügung:

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# *In brief*
# A look at current financial reporting issues

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## *IASB issues amendment to IFRS 2*

### *Issue*

On 20 June 2016, the IASB issued an amendment to IFRS 2, 'Share-based Payment', addressing three classification and measurement issues.

The amendment addresses the accounting for cash-settled, share-based payments and equity-settled awards that include a 'net settlement' feature in respect of withholding taxes.

### *Impact*

The amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

### *Insight*

#### *Measurement of cash-settled awards*

Under IFRS 2, the measurement basis for an equity-settled, share-based payment should not be 'fair value' in accordance with IFRS 13. However, 'fair value' was not defined in connection with a cash-settled, share-based payment, and there has been diversity in practice. The amendment clarifies that the fair value of a cash-settled award is determined on a basis consistent with that used for equity-settled awards. Market-based performance conditions and non-vesting conditions are reflected in the 'fair value', but non-market performance conditions and service conditions are reflected in the estimate of the number of awards expected to vest.

This change has most impact where an award vests (or does not vest) based on a non-market condition. Previously, some argued that the fair value of a cash-settled award was determined using the guidance in IFRS 13 and reflected the probability that non-market and service vesting conditions would be met. The amendment clarifies that non-market and service vesting conditions are ignored in the measurement of fair value.

#### *Modification of cash-settled awards*

IFRS 2 includes guidance on how to account for a modification that adds a cash alternative to an equity-settled award, but it did not include guidance on how to account for a modification from cash-settled to equity-settled.

A modification to a cash-settled award is reflected immediately in the measurement of fair value. Any incremental value added to an equity-settled award is recognised over any remaining vesting period, and any reduction in value is ignored. The amendment addresses the accounting for a modification that changes both the value and the classification of a cash-settled award and, in particular, clarifies the order in which the changes are applied.

The amendment requires any change in value to be dealt with before the change in classification. The cash-settled award is remeasured, with any difference recognised in the income statement before the remeasured liability is reclassified into equity.

## *Awards with net settlement features*

Tax laws or regulations may require the employer to withhold some of the shares to which an employee is entitled under a share-based payment award, and to remit the tax payable on the award to the tax authority. The Basis for Conclusions paragraphs added to IFRS 2 by the amendment note that IFRS 2 would require such an award to be split into a cash settled component for the tax payment and an equity settled component for the net shares issued to the employee. However the amendment adds an exception that requires the award to be treated as equity-settled in its entirety. The cash payment to the tax authority is treated as if it was part of an equity settlement. The exception would not apply to any equity instruments that the entity withholds in excess of the employee’s tax obligation associated with the share-based payment.

The cash payment to the tax authority might be much greater than the expense that has been recognised for the share-based payment. The amendment says that the entity should disclose an estimate of the amount that it expects to pay to the tax authority in respect of the withholding tax obligation where that is necessary to inform users about the future cash flows.

## *Who is affected?*

Entities that have employee share-based payments will need to consider whether or not these changes will affect their accounting. In particular entities with the following arrangements are likely to be effected:

- Cash-settled share-based payments that include performance conditions
- Equity-settled awards that include net settlement features relating to tax obligations
- Cash-settled arrangements that are modified to equity-settled share-based payments

The changes are effective from 1 January 2018, with early adoption permitted; and, for entities reporting under IFRS as endorsed by the EU, they are subject to EU endorsement. The transition provisions, in effect, specify that the amendments apply to awards that are not settled as at the date of first application or to modifications that happen after the date of first application, without restatement of prior periods. There is no income statement impact as a result of any reclassification from liability to equity in respect of ‘net settled awards’; the recognised liability is reclassified to equity without any adjustment.

The amendments can be applied retrospectively, provided that this is possible without hindsight and that the retrospective treatment is applied to all of the amendments.