

# Amendments to HKFRS 2 - Classification and Measurement of Share-based Payment Transactions

## Introduction

The Amendments to HKFRS 2 “Share-based Payment” provide accounting requirements for the followings:

- ▶ Effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments
- ▶ Share-based payment transactions with net settlement feature for withholding tax obligations
- ▶ Modifications to the terms and conditions of share-based payments that change their classification from cash-settled to equity-settled



## Effective Date

An entity shall apply the Amendments for annual periods beginning on or after 1 January 2018 subject to certain transitional provisions. Earlier application is permitted.

## Summary of Amendments

### Effects of vesting and non-vesting conditions on measurement of cash-settled share-based payments

HKFRS 2 did not previously provide guidance on the accounting treatment of vesting and non-vesting conditions on the measurement of the liability of a cash-settled share-based payment. The Amendments clarify that the accounting for the effects of vesting and non-vesting conditions on cash-settled share-based payments should follow the same approach as for equity-settled share-based payments.

Market conditions, such as target share price, as well as non-vesting conditions, shall be taken into account when estimating the fair value of the cash-settled share-based payment.



# Summary of Amendments

Vesting conditions, other than market conditions, shall not be taken into account when estimating the fair value of the cash-settled share-based payment. Instead, they shall be taken into account by adjusting the number of awards included in the measurement of the liability arising from the transaction, based on the best available estimate of the number of awards that are expected to vest. On the vesting date, the entity shall revise the estimate to equal the number of awards that ultimately vested. Therefore, 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 net settlement feature for withholding tax obligations

Tax laws or regulations may oblige an entity to withhold an amount for an employee's tax obligation associated with an equity-settled share-based payment and transfer that amount, normally in cash, to the tax authority on the employee's behalf. This leads to a question whether the amount withheld and paid to the tax authority constitutes a cash-settled share-based payment.

The Amendments specify that the transaction 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. The payment made shall be accounted for as a deduction from equity for the equity instruments withheld, except to the extent that the payment exceeds the fair value at the net settlement date of the equity instruments withheld. Such excess shall be recognised as an expense.



The Amendments do not apply to:

- ▶ 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 the tax amount for the employee; or
- ▶ any equity instruments that the entity withholds in excess of the employee's tax obligation associated with the share-based payment. Such excess equity instruments withheld shall be accounted for as a cash-settled share-based payment when the amount is paid in cash to the employee.



## Modification of share-based payments that change their classification from cash-settled to equity-settled

If the terms and conditions of a cash-settled share-based payment transaction are modified and becomes an equity-settled share-based payment transaction, the transaction is accounted for from the date of the modification as follows:

- (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 and 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 is recognised immediately in profit or loss.

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