KPMG

IFRS Briefing Sheet

Exposure Draft of *Proposed Amendments to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations*

February 2006, **Issue 45**

This IFRS Briefing Sheet summarises the International Accounting Standards Board's (IASB) Exposure Draft (ED) of *Proposed Amendments to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations*, which was published on 2 February 2006.

This ED proposes that:

- vesting conditions be limited to service and performance conditions
- cancellations by parties other than the entity be accounted for in the same way as cancellations by the entity.

Background and Issue

IFRS 2 requires the cancellation of a share-based payment arrangement by an entity to be accounted for by recognising any remaining expense immediately. However, the standard does not prescribe the accounting for cancellations by other parties.

Furthermore, IFRS 2 is unclear as to whether the cessation of a share-based payment arrangement due to events other than a failure by the counterparty to fulfil the underlying service or performance conditions should be considered a failure to satisfy a vesting condition, which would lead to the expense recognised to date being reversed ("forfeiture" accounting).

In December 2004 the International Financial Reporting Interpretations Committee (IFRIC) published Draft Interpretation D11 *Changes in Contributions to Employee Share Purchase Plans*. In this draft interpretation the IFRIC considered the above issues in the context of the termination of an employee's participation in an employee stock purchase plan (ESPP) due to the employee's failure to make the required contributions to the plan.

The IFRIC was unable to reach consensus and referred the issue to the Board, which led to the development of this ED.

Definition of Vesting Conditions

This ED proposes that the definition of vesting conditions be restricted to service and performance conditions. As a consequence fewer events would be accounted for as forfeitures. For example, in the scenario considered by the IFRIC in Draft Interpretation D11, the requirement of the employee to make contributions to the ESPP would not be a vesting condition.

A supplement to KPMG's publication IFRS in Brief

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Cancellations by Parties other than the Entity

This ED proposes that the current accounting model for cancellations by an entity be extended to all cancellations. Therefore all cancellations would be accounted for in the same way regardless of which party initiated the cancellation. For example, in the scenario considered by the IFRIC in Draft Interpretation D11, the cancellation caused by the employee's failure to make the required contributions would result in the entity recognising any remaining expense immediately.

Transition Requirements

The ED proposes an effective date of annual periods beginning on or after 1 January 2007, with retrospective application required. Earlier application will be encouraged.

Response to the IASB

The IASB has invited comments on this ED by 2 June 2006.

If you would like further information on any of the matters discussed in this issue of *IFRS Briefing Sheet*, please talk to your usual local KPMG contact or call any of KPMG firms' offices.

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