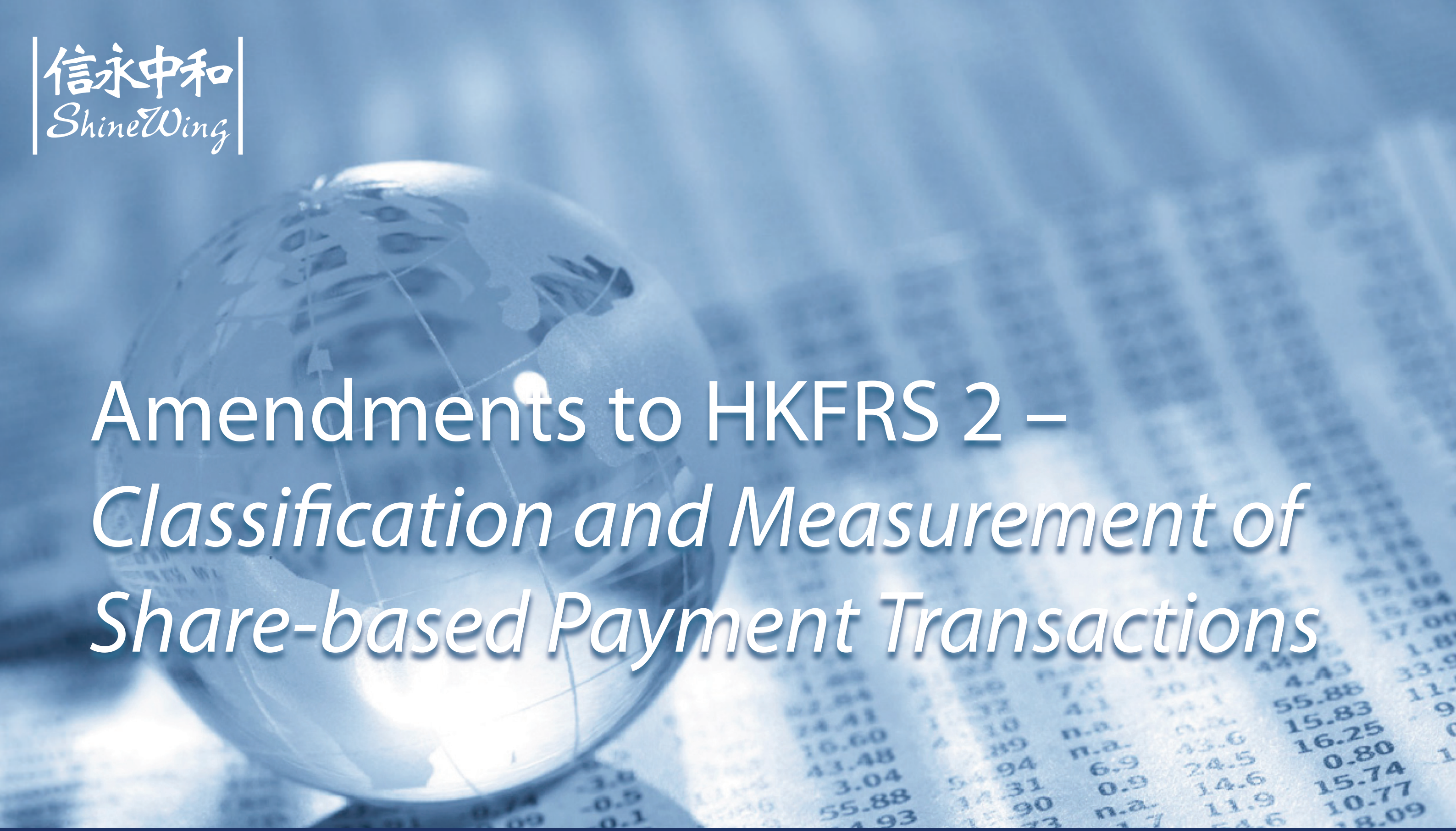

Amendments to HKFRS 2 – *Classification and Measurement of Share-based Payment Transactions*

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Background

In June 2016, the International Accounting Standards Board ("IASB") has issued amendments to International Financial Reporting Standard ("IFRS") 2 to provide requirements on the accounting for:

(a) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;

(b) share-based payment transactions with a net settlement feature for withholding tax obligations; and

(c) 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.

Subsequently in August 2016, the Hong Kong Institute of Certified Public Accountants also issued the same amendments, Amendments to Hong Kong Financial Reporting Standard ("HKFRS") 2 – *Classification and Measurement of Share-based Payment Transactions*, so as to maintain the convergence with IFRSs.

What are the major content of the amendments?

The following summarised the major amendments in Amendments to HKFRS 2:

Effects of vesting conditions on the measurement of a cash-settled share-based payment
• The amendments specifically clarified how market and non-market vesting conditions and non-vesting conditions should be reflected in the measurement of a cash-settled share-based payment transaction by adding paragraphs 33A-33D of HKFRS 2. Those conditions should be reflected in the measurement of cash-settled share-based payments in a manner consistent with how they are reflected in the measurement of an equity-settled share-based payment transaction.
• The amendments have clarified that: • Vesting conditions, other than market conditions, should 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, should be taken into account by adjusting the number of awards included in the measurement of the liability arising from the transaction. • An entity should recognise an amount for the goods or services received during the vesting period based on the best available estimate of the number of awards that are expected to vest. If subsequent information indicates that the number of awards that are expected to vest differs from previous estimates, an entity should revise that estimate. • On the vesting date, an entity should revise the estimate to equal the number of awards that ultimately vested. • Market conditions and non-vesting conditions should 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. • 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.
• These amendments should be applied 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 should remeasure the liability at that date and recognise the effect of measurement in opening retained earnings (or other component of equity, as appropriate) of the reporting period in which the amendments are first applied.
• Prior periods should not be restated.

Share-based payment transactions with a net settlement feature for withholding tax obligations

- The amendments explicitly stated that if an entity is obliged by tax laws or regulations to withhold an amount for an employee's tax obligation associated with a share-based payment and transfer that amount to the tax authority on the employee's behalf, that transaction should be classified in its entirety as an equity settled share-based payment transaction provided that 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 share-based payment (i.e. the share based payment arrangement has a "net settlement feature").

- The above exception does 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 an amount for an employee's tax obligation associated with that share-based payment; or
  - any equity instrument that the entity withholds in excess of the employee's tax obligation associated with the share-based payment (i.e. the entity withheld an amount of shares that exceeds the monetary value of the employee's tax obligation). Such excess shares withheld should be accounted for as a cash-settled share-based payment when this amount is paid in cash (or other assets) to the employee.

- If an entity withhold shares to fund the payment to the tax authority in respect of the employee's tax obligation associated with the share-based payment, the payment made should 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.

- The amendments requires additional disclosures, such as disclosure about the 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.

- These amendments 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 should reclassify the carrying value of the share-based payment liability to equity at the date that it first applies the amendments.

- Prior periods should not be restated.

Accounting for modification of a share-based payment transaction that changes its classification from cash-settled to equity-settled.

- Paragraph B44A of HKFRS 2 specifically stated that 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:
    - 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.
    - The liability for the cash settled share-based payment transaction as at the modification date is derecognised on that date.
    - 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.

- Paragraph B44A of HKFRS 2 also applies to situation in which:
    (a) the vesting period is extended or shorted as a result of the modification; or
    (b) modification occurs after the vesting period; or
    (c) equity instruments are granted and, on that grant date, the entity identifies them as a replacement for the cancelled cash-settled share-based payment.

- These amendments only apply to modifications that occur on or after the date that an entity first applies the amendments.

When will these amendments become effective?

The Amendments to HKFRS 2 will become effective for financial statements with annual periods beginning on or after 1 January 2018. Earlier application is permitted. If an entity applies these amendments for an earlier period, it should disclose that fact.

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