HKFRS 2 *Shared-based Payment – Vesting Conditions and Cancellations*

HKICPA Standard Setting Department Staff Summary (April 2008)

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The HKICPA Standard Setting Department welcomes your comments and feedback, which should be sent to commentletters@hkicpa.org.hk.

Introduction

1. Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* shall be applied retrospectively in annual periods beginning on or after 1 January 2009, the same effective date as amendments to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*. Earlier application is permitted.

Reasons for amendments to HKFRS 2

2. The objective of the Hong Kong Institute of Certified Public Accountants (HKICPA) in issuing amendments to HKFRS 2 is to maintain international convergence arising from the revision of IFRS 2 *Share-based Payment* by the International Accounting Standards Board (IASB).

   The issues addressed in the amendment were first published in an exposure draft of proposed amendments to IFRS 2 – *Vesting Conditions and Cancellations* in February 2006. In response to comments received during the consultation process the IASB decided to add to the Guidance on Implementing IFRS 2 guidance on the determination of whether a condition is a vesting condition and on the accounting treatment for conditions that are not vesting conditions.

Changes from previous requirements

3. Amendments to HKFRS 2 clarify the definition of "vesting conditions" and specify the accounting treatment of "cancellations" by the counterparty to a share-based arrangement.

Vesting conditions

4. Vesting conditions are either service conditions (which require the counterparty to complete a specified period of service) or performance conditions (which require a specified performance targets to be met). Other features of a share-based payment are not vesting conditions. All non-vesting conditions and vesting conditions that are market conditions shall be taken into account when estimating the fair value of equity instruments granted.

Cancellations

5. All cancellations, whether by the entity or by the counterparty, should receive the same accounting treatment. The cancellation is accounted for as an acceleration of the vesting and the amount that would otherwise have been recognised over the remainder of the vesting period is recognised immediately. If the share-based arrangement included liability components, the liability should be remeasured at fair value at the date of cancellation and any payment made to settle the liability should be accounted for as an extinguishment of the liability.

Other references on Amendments to IFRS 2

1. Deloitte IAS Plus on Amendments to IFRS 2 – vesting conditions and cancellations

   http://www.iasplus.com/iasplus/0801ifrs2vesting.pdf

2. Ernst & Young IFRS Alert on Amendments to IFRS 2 *Share-based Payment* – Vesting Conditions and Cancellations

   http://www.ey.com/Global/assets.nsf/International/IFRSAlert_25/$file/EY_IFRSAlert_Issue25.pdf

3. KPMG IFRS Briefing Sheet on Amended standard IFRS 2 *Share-based Payment (2008)*

   http://www.kpmg.com.hk/en/virtual_library/Audit/IFRS_briefingsheet/IFRSBS0884.pdf

4. PricewaterhouseCoopers IFRS News on Amendments to IFRS 2 dealing with vesting conditions and cancellations

   http://www.pwc.com/extweb/pwcpublications.nsf/docid/64a7c2c9534454e8852573f5006f5f2f#Amendment_to_IFRS

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