

**Statement of
Financial Accounting Standards
No. 39**

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Statement of Financial Accounting Standards No.39

Share-based payment

I Introduction

- (1) This Statement establishes the accounting standards for share based payment transactions.
- (2) An entity shall apply this statement in accounting for all share-based payment transactions including:
 - (a) equity-settled share-based payment transactions, in which the entity receives goods or services as consideration for equity instruments of the entity (including share options),
 - (b) cash-settled share-based payment transactions, in which the entity acquires goods or services by incurring liabilities to the supplier of those goods or services for amounts that are based on the price (or value) of the entity's shares or other equity instruments of the entity, and
 - (c) transactions in which the entity receives or acquires goods or services and the terms of the arrangement provide either the entity or the supplier of those goods or services with a choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments, except as noted in paragraphs 5 and 6.

- (3) Transfers of an entity's equity instruments by its shareholders to parties that have supplied goods or services to the entity (including employees) are share-based payment transactions, unless the transfer is clearly for a purpose other than payment for goods or services supplied to the entity. This also applies to transfers of equity instruments of the entity's parent, or equity instruments of another entity in the same group as the entity, to parties that have supplied goods or services to the entity.
- (4) A transaction with an employee (or other party) in his/her capacity as a holder of equity instruments of the entity is not a share-based payment transaction. For example, if an entity grants all holders of a particular class of its equity instruments the right to acquire additional equity instruments of the entity at a price that is less than the fair value of those equity instruments, and an employee receives such a right because he/she is a holder of equity instruments of that particular class, the granting or exercise of that right is not subject to the requirements of this statement.
- (5) This statement applies to share-based payment transactions in which an entity acquires or receives goods or services. Goods includes inventories, consumables, property, plant and equipment, intangible assets and other non-financial assets. However, an entity shall not apply this statement to transactions in which the entity acquires goods as part of the net assets acquired in a business combination to which applies Statement of Financial Accounting Standards No.25 Business Combination-Accounting Treatment under Purchase Method. Hence, equity instruments issued in a business combination in exchange for control of the acquiree are not within the scope of this statement. However, equity instruments granted to employees of the acquiree in their capacity as employees (e.g. in return for continued service) are within the scope of this statement. Similarly, the cancellation, replacement or other modification of share-based payment arrangements because of a business combination or other equity restructuring shall be accounted for in accordance with this statement.
- (6) This statement does not apply to share-based payment transactions in

which the entity receives or acquires goods or services under a contract within the scope of paragraphs 2 and 3 of Statement of Financial accounting standard No.34 "Financial instruments: Recognition and Measurement" or paragraphs 7 and 8 of Statement of Financial accounting standard No.36 "Financial instruments: Disclosure and Presentation".

II Definition

- (7) The definitions of terms used in this statement are as follows:
- (a) *Share-based payment transaction*: A transaction in which the entity receives goods or services as consideration for equity instruments of the entity (including shares or share options), or acquires goods or services by incurring liabilities to the supplier of those goods or services for amounts that are based on the price (or value) of the entity's shares or other equity instruments of the entity.
- (b) *Share-based payment arrangement*: An agreement between the entity and another party (including an employee) to enter into a share-based payment transaction, which thereby entitles the other party to receive cash or other assets of the entity for amounts that are based on the price of the entity's shares or other equity instruments of the entity, or to receive equity instruments of the entity, provided the specified vesting conditions, if any, are met.
- (c) *Equity-settled share-based payment transaction*: A share-based payment transaction in which the entity receives goods or services as consideration for equity instruments of the entity (including shares or share options).
- (d) *Cash-settled share-based payment transaction*: A share-based payment transaction in which the entity acquires goods or

services by incurring a liability to transfer cash or other assets to the supplier of those goods or services for amounts that are based on the price (or value) of the entity's shares or other equity instruments of the entity.

- (e) *Share option*: A contract that gives the holder the right, but not the obligation, to subscribe to the entity's shares at a fixed or determinable price for a specified period of time.
- (f) *Employees and others providing similar services* (abbreviated as *Employees*): Individuals who render personal services to the entity and either (a) the individuals are regarded as employees for legal or tax purposes, (b) the individuals work for the entity under its direction in the same way as individuals who are regarded as employees for legal or tax purposes, or (c) the services rendered are similar to those rendered by employees.
Those persons having authority and responsibility for planning, directing and controlling the activities of the entity, such as directors, supervisors and management personnel are considered as those who render the services similar to those rendered by employees.
- (g) *Intrinsic value*: The difference between the fair value of the shares to which the counterparty has the (conditional or unconditional) right to subscribe or which it has the right to receive, and the price (if any) the counterparty is (or will be) required to pay for those shares. For example, a share option with an exercise price of CU15, on a share with a fair value of CU20, has an intrinsic value of CU5.
- (h) *Grant date*: The date at which the entity and another party (including an employee) agree to a share-based payment arrangement, being when the entity and the counterparty have a shared understanding of the terms and conditions of the arrangement. At grant date the entity confers on the counterparty the right to cash, other assets, or equity instruments of the entity, provided the specified vesting conditions, if any, are met. If that

agreement is subject to an approval process (for example, by shareholders), grant date is the date when that approval is obtained.

- (i) *Measurement date*: The date at which the fair value of the equity instruments granted is measured for the purposes of this Statement. For transactions with employees, the measurement date is grant date. For transactions with parties other than employees, the measurement date is the date the entity obtains the goods or the counterparty renders service.
- (j) *Vest*: To become an entitlement. Under a share-based payment arrangement, a counterparty's right to receive cash, other assets or equity instruments of the entity vests upon satisfaction of any specified vesting conditions.
- (k) *Vesting conditions*: The conditions that must be satisfied for the counterparty to become entitled to receive cash, other assets or equity instruments of the entity, under a share-based payment arrangement. Vesting conditions include service conditions, which require the other party to complete a specified period of service, and performance conditions, which require specified performance targets to be met (such as a specified increase in the entity's profit over a specified period of time).
- (l) *Vesting period*: The period during which all the specified vesting conditions of a share-based payment arrangement are to be satisfied.
- (m) *Market condition*: A condition upon which the exercise price, vesting or exercisability of an equity instrument depends that is related to the market price of the entity's equity instruments, such as attaining a specified share price or a

specified amount of intrinsic value of a share option, or achieving a specified target that is based on the market price (or the change of the market price) of the entity's equity instruments relative to an index of market prices (or the change of the market prices) of equity instruments of other entities.

- (n) *Reload feature*: A feature that provides for an automatic grant of additional share options whenever the option holder exercises previously granted options using the entity's shares, rather than cash, to satisfy the exercise price.
- (o) *Reload option*: A new share option granted when a share is used to satisfy the exercise price of a previous share option.

III Explanation

The definition of grant date

- (8) Grant date is when both parties agree to a share-based payment arrangement. The word 'agree' means that there must be both an offer and acceptance of that offer. Hence, the date at which one party makes an offer to another party is not grant date. The date of grant is when that other party accepts the offer. In some instances, the counterparty explicitly agrees to the arrangement, e.g. by signing a contract. In other instances, agreement might be implicit, e.g. for many share-based payment arrangements with employees, the employees' agreement is evidenced by their commencing to render services.
- (9) For both parties to have agreed to the share-based payment arrangement, both parties must have a shared understanding of the terms and conditions of the arrangement. Therefore, if some of the terms and conditions of the arrangement are agreed on one date, with the remainder of the terms and conditions agreed on a later date, then

grant date is on that later date, when all of the terms and conditions have been agreed. For example, if an entity agrees to issue share options to an employee, but the exercise price of the options will be set by a compensation committee that meets in three months' time, grant date is when the exercise price is set by the compensation committee.

- (10) In some cases, grant date might occur after the employees to whom the equity instruments were granted have begun rendering services. For example, if a grant of equity instruments is subject to the board of directors' approval, grant date might occur some months after the employees have begun rendering services in respect of that grant. This statement requires the entity to recognise the services when received. In this situation, the entity should estimate the grant date fair value of the equity instruments (e.g. by estimating the fair value of the equity instruments at the end of the reporting period), for the purposes of recognising the services received during the period between service commencement date and grant date. Once the date of grant has been established, the entity should revise the earlier estimate so that the amounts recognized for services received in respect of the grant are ultimately based on the grant date fair value of the equity instruments.

Recognition

- (11) The entity shall recognise the goods or services received or acquired in a share based payment transaction when it obtains the goods or as the services are received and recognise an expense when the goods or services are consumed or sold. However, sometimes it is necessary to recognise an expense before the goods or services are consumed or sold, because they do not qualify for recognition as assets. For example, an entity might acquire goods as part of the research phase of a project to develop a new product. Although those goods have not been

consumed, they might not qualify for recognition as assets under the applicable SFAS and shall be recognised as expenses immediately.

Equity-settled share based payment transactions

Overview

- (12) For equity-settled share-based payment transactions, the entity shall measure the goods or services received, and the corresponding increase in owner's equity (abbreviated as equity), directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.
- (13) When the entity makes transactions with employees, it shall measure the fair value of the services received by reference to the fair value of the equity instruments granted, because typically it is not possible to estimate reliably the fair value of the services received. The fair value of those equity instruments shall be measured at grant date.
- (14) Typically, shares, share options or other equity instruments are granted to employees as part of their remuneration package, in addition to a cash salary and other employment benefits. Usually, it is not possible to measure directly the services received for particular components of the employee's remuneration package. It might also not be possible to measure the fair value of the total remuneration package independently, without measuring directly the fair value of the equity instruments granted. Furthermore, shares or share options are sometimes granted as an incentive to the employees to remain in the entity's employ or to reward them for their efforts in improving the entity's performance. By granting shares or share options, in addition to other remuneration, the entity is paying additional remuneration to obtain additional benefits. Estimating the fair value of those additional benefits is likely to be difficult. Because of the difficulty of

measuring directly the fair value of the services received, the entity shall measure the fair value of the employee services received by reference to the fair value of the equity instruments granted.

- (15) When the entity makes transactions with parties other than employees, there shall be a rebuttable presumption that the fair value of the goods or services received can be estimated reliably. That fair value shall be measured at the date the entity obtains the goods or the counterparty renders service. In rare cases, if the entity rebuts this presumption because it cannot estimate reliably the fair value of the goods or services received, the entity shall measure the goods or services received, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

Transactions in which services are received

- (16) If the equity instruments granted do not vest until the counterparty completes a specified period of service, it shall account for those services as they are rendered by the counterparty during the vesting period, with a corresponding increase in equity. For example:
- (a) if an employee is granted share options conditional upon completing three years' service, then the entity shall presume that the services to be rendered by the employee as consideration for the share options will be received in the future, over that three-year vesting period.
 - (b) if an employee is granted share options conditional upon the achievement of a performance condition and remaining in the entity's employ until that performance condition is satisfied, and the length of the vesting period varies depending on when that performance condition is satisfied,

the entity shall presume that the services to be rendered by the employee as consideration for the share options will be received in the future, over the expected vesting period. The entity shall estimate the length of the expected vesting period at grant date, based on the most likely outcome of the performance condition. If the performance condition is a market condition, the estimate of the length of the expected vesting period shall be consistent with the assumptions used in estimating the fair value of the options granted, and shall not be subsequently revised. However, if the market condition is satisfied prior to the end of the expected vesting period, the entity shall recognise the remains of services acquired at the time the market condition is satisfied. If the performance condition is not a market condition, the entity shall revise its estimate of the length of the vesting period, if necessary, if subsequent information indicates that the length of the vesting period differs from previous estimates.

Transactions measured by reference to the fair value of the equity instruments granted

Determining the fair value of equity instruments granted

- (17) For transactions measured by reference to the fair value of the equity instruments granted, an entity shall measure the fair value of equity instruments granted at the measurement date, based on market prices if available, taking into account the terms and conditions upon which those equity instruments were granted. If market prices are not available, the entity shall use an applicable valuation technique to estimate the fair value of the equity instruments granted. The valuation technique shall be consistent with generally accepted valuation methodologies for pricing financial instruments, and shall incorporate all factors and assumptions that knowledgeable, willing market participants would consider in setting the price.

Treatment of vesting conditions

- (18) A grant of equity instruments might be conditional upon satisfying specified vesting conditions. For example, a grant of shares or share options to an employee is typically conditional on the employee remaining in the entity's employ for a specified period of time. There might be performance conditions that must be satisfied, such as the entity achieving a specified growth in profit or a specified increase in the entity's share price. Vesting conditions, other than market conditions, shall not be taken into account when estimating the fair value of the shares or share options at the measurement date. Instead, vesting conditions shall be taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognised for goods or services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest, subject to the requirements of paragraph 47. Hence, on a cumulative basis, no amount is recognised for goods or services received if the equity instruments granted do not vest because of failure to satisfy a vesting condition, e.g. the counterparty fails to complete a specified service period, or a performance condition is not satisfied, subject to the requirements of paragraph 47.
- (19) The entity shall recognise an amount for the goods or services received during the vesting period based on the best available estimate of the number of equity instruments expected to vest and shall revise that estimate, if necessary, if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates. On vesting date, the entity shall revise the estimate to equal the number of equity instruments that ultimately vested, subject to the requirements of paragraph 47.

- (20) Market conditions, such as a target share price upon which vesting (or exercisability) is conditioned, shall be taken into account when estimating the fair value of the equity instruments granted. Therefore, for grants of equity instruments with market conditions, as the possibility that the market condition may not be satisfied is taken into account when estimating the fair value of the equity instruments, the entity shall recognise the goods or services received from a counterparty who satisfies all other vesting conditions (e.g. services received from an employee who remains in service for the specified period of service), irrespective of whether that market condition is satisfied.

Treatment of a reload feature

- (21) For options with a reload feature, the reload feature shall not be taken into account when estimating the fair value of options granted at the measurement date. Instead, a reload option shall be accounted for as a new option grant, if and when a reload option is subsequently granted.

After vesting date

- (22) Having recognised the goods or services received in accordance with paragraphs 12–21 and 38–48, and a corresponding increase in equity, the entity shall make no subsequent adjustment to total equity after vesting date. For example, the entity shall not subsequently reverse the amount recognised for services received from an employee if the vested equity instruments are later forfeited or, in the case of share options, the options are not exercised. However, this requirement does not preclude the entity from recognising a transfer within equity, i.e. a transfer from one component of equity to another.

If the fair value of the equity instruments cannot be estimated reliably

- (23) The requirements in paragraphs 17–22 and 43–49 apply when the entity is required to measure a share-based payment transaction by reference to the fair value of the equity instruments granted. If the entity is unable to estimate reliably the fair value of the equity instruments granted at the measurement date, the entity shall instead:
- (a) measure the equity instruments at their intrinsic value, initially at the date the entity obtains the goods or the counterparty renders service and subsequently at the end of each reporting period and at the date of final settlement, with any change in intrinsic value recognised in profit or loss. For a grant of share options, the share-based payment arrangement is finally settled when the options are exercised, are forfeited (e.g. upon cessation of employment) or lapse (e.g. at the end of the option's life).
 - (b) recognise the goods or services received based on the number of equity instruments that ultimately vest or (where applicable) are ultimately exercised. To apply this requirement to share options, for example, the entity shall recognise the goods or services received during the vesting period, if any, in accordance with paragraphs 41 and 42, except that the requirements in paragraph 16(b) concerning a market condition do not apply. The amount recognised for goods or services received during the vesting period shall be based on the number of share options expected to vest. The entity shall revise that estimate, if necessary, if subsequent information indicates that the number of share options expected to vest differs from previous estimates. On vesting date, the entity shall revise the estimate to equal the number of equity instruments that ultimately vested. After vesting date, the entity shall reverse the amount recognised for goods or services received if the share options are later forfeited, or lapse at the end of the share option's life.

- (24) If an entity applies paragraph 50, it is not necessary to apply paragraphs 25–27 and 53–58, because any modifications to the terms and conditions on which the equity instruments were granted will be taken into account when calculating the intrinsic value. However, if an entity settles a grant of equity instruments to which paragraph 50 has been applied:
- (a) if the settlement occurs during the vesting period, the entity shall account for the settlement as an acceleration of vesting, and shall therefore recognise immediately the amount that would otherwise have been recognised for services received over the remainder of the vesting period.
 - (b) any payment made on settlement shall be accounted for as the repurchase of equity instruments, i.e. as a deduction from equity, except to the extent that the payment exceeds the intrinsic value of the equity instruments, measured at the repurchase date. Any such excess shall be recognised as an expense.

Modifications to the terms and conditions on which equity instruments were granted, including cancellations and settlements

- (25) An entity might modify the terms and conditions on which the equity instruments were granted. For example, it might reduce the exercise price of options granted to employees (i.e. reprice the options), which increases the fair value of those options.
- (26) The entity shall recognise, as a minimum, the services received measured at the grant date fair value of the equity instruments granted when it receives the services. In addition, the entity shall recognise the effects of modifications that increase the total fair value of the share-based payment arrangement or are otherwise beneficial to the

employee, unless those equity instruments do not vest because of failure to satisfy a vesting condition (other than a market condition) that was specified at grant date.

- (27) If the entity modifies the terms or conditions of the equity instruments granted in a manner that reduces the total fair value of the share-based payment arrangement, or is not otherwise beneficial to the employee, the entity shall nevertheless continue to account for the services received as consideration for the equity instruments granted as if that modification had not occurred (other than a cancellation of some or all the equity instruments granted, which shall be accounted for in accordance with paragraph 56). For example:
- (a) if the modification reduces the fair value of the equity instruments granted, measured immediately before and after the modification, the entity shall not take into account that decrease in fair value and shall continue to measure the amount recognised for services received as consideration for the equity instruments based on the grant date fair value of the equity instruments granted.
 - (b) if the modification reduces the number of equity instruments granted to an employee, that reduction shall be accounted for as a cancellation of that portion of the grant, in accordance with the requirements of paragraph 56.
 - (c) if the entity modifies the vesting conditions in a manner that is not beneficial to the employee, for example, by increasing the vesting period or by modifying or adding a performance condition other than a market condition, the entity shall not take the modified vesting conditions into account when applying the requirements of paragraphs 45–47.

Cash-settled share-based payment transactions

- (28) An entity might grant share appreciation rights to employees as part of their remuneration package, whereby the employees will become entitled to a future cash payment (rather than an equity instrument), based on the increase in the entity's share price from a specified level over a specified period of time. Or an entity might grant to its employees a right to receive a future cash payment by granting to them a right to shares (including shares to be issued upon the exercise of share options) that shall be redeemed (e.g. upon cessation of employment or for the employee's requirement) by the entity finally.
- (29) The entity shall recognise the services received, and a liability to pay for those services, as the employees render service. If the share appreciation rights do not vest until the employees have completed a specified period of service, the entity shall recognise the services received, and a liability to pay for them, as the employees render service during that period. If share appreciation rights vest immediately, and the employees are therefore not required to complete a specified period of service to become entitled to the cash payment. In the absence of evidence to the contrary, the entity shall presume that the services rendered by the employees in exchange for the share appreciation rights have been received. Thus, the entity shall recognise immediately the services received and a liability to pay for them.
- (30) The liability shall be measured, initially and at the end of each reporting period until settled, at the fair value of the share appreciation rights, by applying an option pricing model, taking into account the terms and conditions on which the share appreciation rights were granted, and shall be recognised to the extent that the employees have rendered service to date.

Share-based payment transactions with cash alternatives

Share-based payment transactions in which the terms of the arrangement provide the counterparty with a choice of settlement

- (31) If an entity has granted the counterparty the right to choose whether a share-based payment transaction is settled in cash or by issuing equity instruments, the entity has granted a compound financial instrument, which includes a debt component (i.e. the counterparty's right to demand payment in cash) and an equity component (i.e. the counterparty's right to demand settlement in equity instruments rather than in cash). For transactions with parties other than employees, in which the fair value of the goods or services received is measured directly, the entity shall measure the equity component of the compound financial instrument as the difference between the fair value of the goods or services received and the fair value of the debt component, at the date when the goods or services are received.
- (32) To apply paragraph 63, the entity shall first measure the fair value of the debt component, and then measure the fair value of the equity component—taking into account that the counterparty must forfeit the right to receive cash in order to receive the equity instrument. The fair value of the compound financial instrument is the sum of the fair values of the two components.
- Share-based payment transactions in which the counterparty has the choice of settlement are often structured so that the fair value of one settlement alternative is the same as the other. For example, the counterparty might have the choice of receiving share options or cash-settled share appreciation rights and the fair value of the share options is equal to the fair value of the share appreciation rights. In such cases, the fair value of the

equity component is zero, and hence the fair value of the compound financial instrument is the same as the fair value of the debt component. Conversely, if the fair values of the settlement alternatives differ, the fair value of the equity component usually will be greater than zero, in which case the fair value of the compound financial instrument will be greater than the fair value of the debt component.

Share-based payment transactions in which the terms of the arrangement provide the entity with a choice of settlement

- (33) For a share-based payment transaction in which the terms of the arrangement provide an entity with the choice of whether to settle in cash or by issuing equity instruments, the entity shall determine whether it has a present obligation to settle in cash and account for the share-based payment transaction accordingly.
- The entity has a present obligation to settle in cash if the choice of settlement in equity instruments is impractical (e.g. because the entity is legally prohibited from issuing shares), or the entity has a past practice or a stated policy of settling in cash, or generally settles in cash whenever the counterparty asks for cash settlement, or there are other situations in which the entity has an obligation to settle in cash.

Disclosures

- (34) To enable users of the financial statements to understand the nature and extent of share-based payment arrangements that existed during the period, an entity shall disclose the general terms and conditions of each arrangement, such as vesting requirements, the contractual life, and the method of settlement (e.g. whether in cash or equity).
- (35) As an entity discloses the range of exercise prices and weighted average remaining contractual life for share options outstanding at the end of the period, if the range of exercise prices is wide, the outstanding options shall be divided into ranges that are meaningful for assessing the number and timing of additional shares that may be issued and the cash that may

be received upon exercise of those options

IV Accounting standards

Recognition

- (36) An entity shall recognise the goods or services received or acquired in a share-based payment transaction when it obtains the goods or as the services are received. The entity shall recognise a corresponding increase in equity if the goods or services were received in an equity-settled share-based payment transaction or a liability if the goods or services were acquired in a cash-settled share-based payment transaction.
- (37) When the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets, they shall be recognised as expenses.

Equity-settled share based payment transactions

Overview

- (38) For equity-settled share-based payment transactions, the entity shall measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.
- (39) When the entity makes transactions with employees, it shall measure the fair value of the services received based on the fair value of the equity instruments granted.

- (40) When the entity makes transactions with parties other than employees, the fair value of the goods or services received shall be measured at the date the entity obtains the goods or the counterparty renders service. If the entity cannot estimate reliably the fair value of the goods or services received, it shall measure the goods or services received, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders service.

Transactions in which services are received

- (41) If the equity instruments granted vest immediately, the counterparty is not required to complete a specified period of service before becoming unconditionally entitled to those equity instruments. In the absence of evidence to the contrary, the entity shall presume that services rendered by the counterparty as consideration for the equity instruments have been received. In this case, on grant date the entity shall recognise the services received in full, with a corresponding increase in equity.
- (42) If the equity instruments granted do not vest until the counterparty completes a specified period of service, it shall account for those services as they are rendered by the counterparty during the vesting period, with a corresponding increase in equity.

Transactions measured by reference to the fair value of the equity instruments granted

Determining the fair value of equity instruments granted

- (43) For transactions measured by reference to the fair value of the equity instruments granted, an entity shall measure the fair value of equity instruments granted at the measurement date, based on market prices if available, taking into account the terms and conditions upon which those equity instruments were granted. If market prices are not available, the entity shall use an applicable valuation technique to estimate the fair value of the equity instruments granted.

- (44) When the entity estimates the fair value of the equity instruments granted, the applied option pricing models shall take into account, as a minimum, the following factors:
- (a) the exercise price of the option;
 - (b) the life of the option;
 - (c) the current price of the underlying shares;
 - (d) the expected volatility of the share price;
 - (e) the dividends expected on the underlying shares; and
 - (f) the risk-free interest rate for the life of the option.

Treatment of vesting conditions

- (45) A grant of equity instruments might be conditional upon satisfying specified vesting conditions. Vesting conditions, other than market conditions, shall not be taken into account when estimating the fair value of the shares or share options at the measurement date. Instead, vesting conditions shall be taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognised for goods or services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest, subject to the requirements of paragraph 47.
- (46) The entity shall recognise an amount for the goods or services received during the vesting period based on the best available estimate of the number of equity instruments expected to vest and shall revise that estimate, if necessary, if subsequent information indicates that the number of equity instruments

expected to vest differs from previous estimates. On vesting date, the entity shall revise the estimate to equal the number of equity instruments that ultimately vested, subject to the requirements of paragraph 47.

- (47) Market conditions shall be taken into account when estimating the fair value of the equity instruments granted. The entity shall recognise the goods or services received from a counterparty who satisfies all other vesting conditions (e.g. services received from an employee who remains in service for the specified period of service), irrespective of whether that market condition is satisfied.

Treatment of a reload feature

- (48) For options with a reload feature, the reload feature shall not be taken into account when estimating the fair value of options granted at the measurement date. Instead, a reload option shall be accounted for as a new option grant, if and when a reload option is subsequently granted.

After vesting date

- (49) Having recognised the goods or services received at fair value and a corresponding increase in equity, the entity shall make no subsequent adjustment to total equity after vesting date. However, this requirement does not preclude the entity from recognising a transfer within equity, i.e. a transfer from one component of equity to another.

If the fair value of the equity instruments cannot be estimated reliably

- (50) If the entity is unable to estimate reliably the fair value of the equity instruments granted at the measurement date, the entity shall instead:
- (a) measure the equity instruments at their intrinsic value, initially at the date the entity obtains the goods or the counterparty renders service and subsequently at the end of each reporting period and at the date of final settlement, with any change in intrinsic value recognised in profit or loss.

- (b) recognise the goods or services received based on the number of equity instruments that ultimately vest or (where applicable) are ultimately exercised. The entity shall recognise the goods or services received during the vesting period, if any, in accordance with paragraphs 41 and 42, except that the requirements in paragraph 16(b) concerning a market condition do not apply. The amount recognised for goods or services received during the vesting period shall be based on the number of share options expected to vest. The entity shall revise that estimate, if necessary, if subsequent information indicates that the number of share options expected to vest differs from previous estimates. On vesting date, the entity shall revise the estimate to equal the number of equity instruments that ultimately vested. After vesting date, the entity shall reverse the amount recognised for goods or services received if the share options are later forfeited, or lapse at the end of the share option's life.

- (51) If an entity applies paragraph 50, it is not necessary to apply paragraphs 53–58, because any modifications to the terms and conditions on which the equity instruments were granted will be taken into account when calculating the intrinsic value. However, if an entity settles a grant of equity instruments to which paragraph 48 has been applied:

- (a) if the settlement occurs during the vesting period, the entity shall account for the settlement as an acceleration of vesting, and shall therefore recognise immediately the amount that would otherwise have been recognised for services received over the remainder of the vesting period.
- (b) any payment made on settlement shall be accounted for as the repurchase of equity instruments, i.e. as a deduction from equity, except to the extent that the payment exceeds the

intrinsic value of the equity instruments, measured at the repurchase date. Any such excess shall be recognised as an expense.

- (52) The entity shall continue to apply the intrinsic value method set out in paragraph 50 for the equity instruments granted even if it subsequently concludes that it is possible to reasonably estimate their fair value.

Modifications to the terms and conditions on which equity instruments were granted, including cancellations and settlements

- (53) When an entity modifies the terms and conditions on which the equity instruments were granted, the requirements in paragraphs 54–58 to account for the effects of modifications are expressed in the context of share-based payment transactions with employees.

However, the requirements shall also be applied to share-based payment transactions with parties other than employees that are measured by reference to the fair value of the equity instruments granted. In the latter case, any references in paragraphs 54–58 to grant date shall instead refer to the date the entity obtains the goods or the counterparty renders service.

- (54) The entity shall recognise, as a minimum, the services received measured at the grant date fair value of the equity instruments granted when it receives the services. In addition, the entity shall recognise the effects of modifications that increase the total fair value of the share-based payment arrangement or are otherwise beneficial to the employee, unless those equity instruments do not vest because of failure to satisfy a vesting condition (other than a market condition) that was specified at grant date.

- (55) If the entity modifies the share based arrangement and the modification increases the fair value of the equity instruments granted (e.g. by reducing the exercise price), measured immediately before and after the modification, the entity shall include the incremental fair value granted in the measurement of the amount recognised for services received as consideration for the equity instruments granted. The incremental fair

value granted is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. If the modification occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognised for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognised over the remainder of the original vesting period. If the modification occurs after vesting date, the incremental fair value granted is recognised immediately, or over the vesting period if the employee is required to complete an additional period of service before becoming unconditionally entitled to those modified equity instruments.

If the modification increases the number of equity instruments granted, the entity shall include the fair value of the additional equity instruments granted, measured at the date of the modification, in the measurement of the amount recognised for services received as consideration for the equity instruments granted. If the modification occurs during the vesting period, the fair value of the additional equity instruments granted is included in the measurement of the amount recognised for services received over the period from the modification date until the date when the additional equity instruments vest, in addition to the amount based on the grant date fair value of the equity instruments originally granted, which is recognised over the remainder of the original vesting period.

If the entity modifies the vesting conditions in a manner that is beneficial to the employee, for example, by reducing the vesting period or by modifying or eliminating a performance condition other than a market condition, the entity shall take the modified vesting conditions into account when applying the requirements of paragraphs 45–47. If the entity modifies the market condition, it shall apply the requirement of (a) above.

- (56) If a grant of equity instruments is cancelled or settled during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied):
- (a) the entity shall account for the cancellation or settlement as an acceleration of vesting, and shall therefore recognise immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period.
 - (b) any payment made to the employee on the cancellation or settlement of the grant shall be accounted for as the repurchase of an equity interest, ie as a deduction from equity, except to the extent that the payment exceeds the fair value of the equity instruments granted, measured at the repurchase date. Any such excess shall be recognised as an expense.
 - (c) if new equity instruments are granted to the employee as replacement equity instruments for the cancelled equity instruments, the entity shall account for the granting of replacement equity instruments in the same way as a modification of the original grant of equity instruments, in accordance with paragraph 54, 55 and 57. The incremental fair value granted is the difference between the fair value of the replacement equity instruments and the net fair value of the cancelled equity instruments, at the date the replacement equity instruments are granted. The net fair value of the cancelled equity instruments is their fair value, immediately before the cancellation, less the amount of any payment made to the employee on cancellation of the equity instruments that is accounted for as a deduction from equity in accordance with (b) above. If the entity does not identify new equity instruments granted as replacement equity instruments for the cancelled equity instruments, the entity shall account for those new equity instruments as a new grant of equity instruments.
- (57) If the entity modifies the terms or conditions of the equity instruments granted in a manner that reduces the total fair value of the share-based payment arrangement, or is not otherwise beneficial to the employee:
- (a) if the modification reduces the fair value of the equity instruments granted, measured immediately before and after the modification, the entity shall continue to measure the amount recognised for services received as consideration for the equity instruments based on the grant date fair value of the equity instruments granted.
 - (b) if the modification reduces the number of equity instruments granted to an employee, the entity shall apply the requirements of paragraph 56 to the modification.
 - (c) if the entity modifies the vesting conditions in a manner that is not beneficial to the employee, the entity shall not take the modified vesting conditions into account when applying the requirements of paragraphs 45–47.
- (58) If an entity repurchases vested equity instruments, the payment made to the employee shall be accounted for as a deduction from equity, except to the extent that the payment exceeds the fair value of the equity instruments repurchased, measured at the repurchase date. Any such excess shall be recognised as an expense.

Cash-settled share-based payment transactions

- (59) For cash-settled share-based payment transactions, the entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the entity shall remeasure the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

- (60) For the cash-settled share based payment transaction, the entity shall recognise the services received, and a liability to pay for those services during the vesting period in which the employees render service.

Share-based payment transactions with cash alternatives

- (61) For share-based payment transactions in which the terms of the arrangement provide either the entity or the counterparty with the choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments, the entity shall account for the components of that transaction in accordance with the requirements applying to cash-settled share-based payment transactions, if, and to the extent that, the entity has incurred a liability to settle in cash or other assets, and account for the remainder components of that transaction in accordance with the requirements applying to equity-settled share-based payment transactions.

Share-based payment transactions in which the terms of the arrangement provide the counterparty with a choice of settlement

- (62) If an entity has granted the counterparty the right to choose whether a share-based payment transaction is settled in cash or by issuing equity instruments, the entity has granted a compound financial instrument, which includes a debt component (i.e. the counterparty's right to demand payment in cash) and an equity component (i.e. the counterparty's right to demand settlement in equity instruments rather than in cash). For transactions with parties other than employees, in which the fair value of the goods or services received is measured directly, the entity shall measure the equity component of the compound financial instrument as the difference between the fair value of the goods or services received and the fair value of the debt component, at the date when the goods or services are received.

- (63) For other transactions which are not mentioned in paragraph 62, including transactions with employees, the entity shall measure the fair value of the compound financial instrument at the measurement date, taking into account the terms and conditions on which the rights to cash or equity instruments were granted.
- (64) To apply paragraph 36, the entity shall first measure the fair value of the debt component, and then measure the fair value of the equity component—taking into account that the counterparty must forfeit the right to receive cash in order to receive the equity instrument. The fair value of the compound financial instrument is the sum of the fair values of the two components.
- (65) The entity shall account separately for the goods or services received or acquired in respect of each component of the compound financial instrument. For the debt component, the entity shall recognise the goods or services acquired, and a liability to pay for those goods or services, as the counterparty supplies goods or renders service, in accordance with the requirements applying to cash-settled share-based payment transactions in paragraphs 59 and 60. For the equity component (if any), the entity shall recognise the goods or services received, and an increase in equity, as the counterparty supplies goods or renders service, in accordance with the requirements applying to equity-settled share-based payment transactions in paragraphs 38–58.
- (66) At the date of settlement, the entity shall remeasure the liability to its fair value. If the entity issues equity instruments on settlement rather than paying cash, the liability shall be transferred direct to equity, as the consideration for the equity instruments issued.
- (67) By electing to receive cash on settlement, the counterparty forfeited the right to receive equity instruments. Hence the entity pays in cash on settlement rather than issuing equity instruments, that payment shall be applied to settle the liability in full. Any equity component previously recognised shall remain within equity. However, this

requirement does not preclude the entity from recognising a transfer within equity, i.e. a transfer from one component of equity to another.

Share-based payment transactions in which the terms of the arrangement provide the entity with a choice of settlement

(68) For a share-based payment transaction in which the terms of the arrangement provide an entity with the choice of whether to settle in cash or by issuing equity instruments, the entity shall determine whether it has a present obligation to settle in cash and account for the share-based payment transaction accordingly.

The entity has a present obligation to settle in cash if:

- (a) the choice of settlement in equity instruments is impractical.
 - (b) the entity has a past practice of settling in cash.
 - (c) the entity has a stated policy of settling in cash.
 - (d) the entity generally settles in cash whenever the counterparty asks for cash settlement.
 - (e) there are other situations in which the entity has an obligation to settle in cash.
- (69) If the entity has a present obligation to settle in cash, it shall account for the transaction in accordance with the requirements applying to cash-settled share-based payment transactions, in paragraphs 59 and 60.
- (70) If no such obligation exists, the entity shall account for the transaction in accordance with the requirements in paragraphs 38–58. Upon settlement:
- (a) if the entity elects to settle in cash, the cash payment shall be accounted for as the repurchase of an equity interest, i.e. as a deduction from equity, except as noted in (c) below.

- (b) if the entity elects to settle by issuing equity instruments, no further accounting is required (other than a transfer from one component of equity to another, if necessary), except as noted in (c) below.
- (c) if the entity elects the settlement alternative with the higher fair value, as at the date of settlement, the entity shall recognise an additional expense for the excess value given, i.e. the difference between the cash paid and the fair value of the equity instruments that would otherwise have been issued, or the difference between the fair value of the equity instruments issued and the amount of cash that would otherwise have been paid, whichever is applicable.

Disclosures

- (71) An entity shall disclose information that enables users of the financial statements to understand:
- (a) the nature and extent of share-based payment arrangements that existed during the period.
 - (b) how the fair value of the goods or services received, or the fair value of the equity instruments granted, during the period was determined.
 - (c) the effect of share-based payment transactions on the entity's profit or loss for the period and on its financial position.

The nature and extent of share-based payment arrangements that existed during the period

- (72) For the nature and extent of share-based payment arrangements, the entity shall disclose at least the following:

- (a) a description of each type of share-based payment arrangement that existed at any time during the period, including the general terms and conditions of each arrangement. An entity with substantially similar types of share-based payment arrangements may aggregate this information.
- (b) the number and weighted average exercise prices of share options for each of the following groups of options:
 - (i) outstanding at the beginning of the period;
 - (ii) granted during the period;
 - (iii) forfeited during the period;
 - (iv) exercised during the period;
 - (v) expired during the period;
 - (vi) outstanding at the end of the period; and
 - (vii) exercisable at the end of the period.
- (c) for share options exercised during the period, the weighted average share price at the date of exercise. If options were exercised on a regular basis throughout the period, the entity may instead disclose the weighted average share price during the period.
- (d) for share options outstanding at the end of the period, the range of exercise prices and weighted average remaining contractual life. If the range of exercise prices is wide, the outstanding options shall be divided into ranges by exercise prices.

The determination of the fair value of the goods or services received, or the fair value of the equity instruments granted

- (73) If the entity has measured the fair value of goods or services received as consideration for equity instruments of the entity indirectly, by reference to the fair value of the equity instruments granted, the entity shall disclose at least the following:
 - (a) for share options granted during the period, the weighted average fair value of those options at the measurement date and information on how that fair value was measured, including:
 - (i) the option pricing model used and the inputs to that model, including the weighted average share price, exercise price, expected volatility, option life, expected dividends, the risk-free interest rate and any other inputs to the model, including the method used and the assumptions made to incorporate the effects of expected early exercise;
 - (ii) how expected volatility was determined, including an explanation of the extent to which expected volatility was based on historical volatility; and
 - (iii) whether and how any other features of the option grant were incorporated into the measurement of fair value, such as a market condition.
 - (b) for other equity instruments granted during the period (ie other than share options), the number and weighted average fair value of those equity instruments at the measurement date, and information on how that fair value was measured, including:
 - (i) how the fair value of the equity instruments was measured;

- (ii) whether and how expected dividends were incorporated into the measurement of fair value; and
 - (iii) whether and how any other features of the equity instruments granted were incorporated into the measurement of fair value.
- (c) for share-based payment arrangements that were modified during the period:
- (i) an explanation of those modifications;
 - (ii) the incremental fair value granted (as a result of those modifications); and
 - (iii) information on how the incremental fair value granted was measured, consistently with the requirements set out in (a) and (b) above, where applicable.
- (74) If the entity has measured directly the fair value of goods or services received during the period, the entity shall disclose how that fair value was determined, e.g. whether fair value was measured at a market price for those goods or services.
- (75) When the entity makes transactions with parties other than employees, if evidence suggests that the fair value of the goods or services received cannot be measured reliably, it shall disclose that fact, and give an explanation of why the fair value of the goods or services received cannot be measured reliably.

The effect of share-based payment transactions on the entity's profit or loss for the period and on its financial position

- (76) An entity shall disclose information on the effect of share-based payment transactions on the entity's profit or loss for the period and on its financial position at least the following:

- (a) the total expense recognised for the period arising from share-based payment transactions in which the goods or services received did not qualify for recognition as assets and hence were recognised immediately as an expense, including separate disclosure of that portion of the total expense that arises from transactions accounted for as equity-settled share-based payment transactions;
- (b) for liabilities arising from share-based payment transactions:
 - (i) the total carrying amount at the end of the period; and
 - (ii) the total intrinsic value at the end of the period of liabilities for which the counterparty's right to cash or other assets had vested by the end of the period (e.g. vested share appreciation rights).
 - (iii) the actual turnover rates for the period and estimated future turnover rates of employees with whom the entity makes share based payment transactions for each share based payment transaction.

V Notes

- (77) This Statement was issued on August 23, 2007 and shall be effective for financial statements with fiscal years beginning on or after January 1, 2008. Earlier adoption is permitted.
- (78) The entity may not apply this statement except for the requirements of paragraph 80 to the share based payment arrangements the grant date of which is before or on December 31, 2007. If the entity modifies the terms or conditions of the share based payment arrangements to which this statement has not been applied after or on January 1, 2008, it shall apply the requirements of paragraph 53-58 to account for any such

modification.

If the entity has not recognized the services received applying this statement before this statement becomes effective, it is not necessary to adjust the amount as if this statement had been applied to the services received. However the entity shall disclose information on net income and earning per share on a pro forma basis as if this statement had been applied to these share based payment transactions.

- (79) For all grants of equity instruments to which this statement has not been applied, the entity shall nevertheless disclose the information required by paragraphs 71(1) and 72.
- (80) For liabilities arising from share-based payment transactions existing at the effective date of this statement, the entity shall measure the fair value of those outstanding liabilities at the effective date and recognize the difference between the fair value of the outstanding liabilities at the effective date and the carrying amount of the outstanding liabilities previously recognized before this statement becomes effective as the cumulative effect of a change in accounting principle.

The provisions of this Statement need not be applied to immaterial items.