

IFRS 2 SHARE BASED PAYMENTS

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IFRS 2 Share Based Payments

Scope

IFRS 2 encompasses the issuance of shares, or rights to shares, in return for services and goods. It applies to all entities i.e. no exemption for private or smaller entities

Some exemptions:

- ❖ Transaction in business combination where entity acquires all the assets and liabilities. (IFRS 3)
- ❖ Share based payments within the scope of (IAS 32 and IAS 39)

Definition

A **share-based payment** is a transaction in which the entity receives goods or services either as consideration for its equity instruments or by incurring liabilities for amounts based on the price of the entity's shares or other equity instruments of the entity. The accounting requirements for the share-based payment depend on how the transaction will be settled, that is, by the issuance of

- equity,
- cash, or
- equity or cash.

Recognition

- ❖ When the goods and services are received or acquired in share based payments recognition is done.
- ❖ Increase in equity share is recognised in case of equity settled shares
- ❖ Liability is recognised for cash settled shares
- ❖ Recognize as an expense when goods or services received are not eligible for recognition

Measurement Principles

- ❖ In case of transaction settled in goods and service. as the consideration for equity , should be measured at fair value of goods and services received and such value shall be taken on date of goods or service received.
- ❖ If fair value for goods and services not known, Fair value of equity instrument is considered.
- ❖ In case of employee share options: Measurement is based on fair value of equity instruments granted, in such case fair value should be estimated at grant date.
- ❖ Fair value of equity instruments granted to be based on market prices, if available, and to take into account the terms and conditions upon which those equity instruments were granted.
- ❖ IF fair value not reliably measured then use intrinsic value.
- ❖ In case of market based performance conditions i.e. conditions related to market price of equity of an entity e.g. achieving a targeted share price recognised at fair value at grant date
- ❖ In case of non-market based performance features - these are instead taken into account by adjusting the number of equity instruments included in the measurement of the share-based payment transaction, and are adjusted each period until such time as the equity instruments vest.

Modifications, cancellations, and settlements

Modifications of contract:

In case fair value of the new instruments is more than the fair value of the old instruments by reason of reduction of the exercise price or issuance of additional instruments, the incremental amount is recognised over the remaining vesting period in the same manner as the original amount.

If the modification occurs after the vesting period, the incremental amount is recognised immediately.

If the fair value of the new instruments is less than the fair value of the old instruments, the original fair value of the equity instruments granted should be expensed as if the modification never occurred.

Cancellation of contract

The cancellation or settlement of equity instruments is accounted for as an acceleration of the vesting that would otherwise have been charged should be recognised immediately.

New equity instruments granted may be identified as a replacement of cancelled equity instruments.

Disclosures

- ❖ the nature and extent of share-based payment arrangements that existed during the period
- ❖ Fair value of the goods or services received, or the fair value of the equity instruments granted, during the period was determined
- ❖ the effect of share-based payment transactions on the entity's profit or loss for the period and on its financial position.

| Type of arrangement | Senior management share option plan | General employee share option plan | Executive share plan | Senior management share appreciation cash plan |
|---------------------------|---------------------------------------------------------------------------------|------------------------------------|--------------------------------------------------------------------------------|----------------------------------------------------------------------------|
| Date of grant | 1 January 2004 | 1 January 2005 | 1 January 2005 | 1 July 2005 |
| Number granted | 50,000 | 75,000 | 50,000 | 25,000 |
| Contractual life | 10 years | 10 years | N/A | 10 years |
| Vesting conditions | 1.5 years' service and achievement of a share price target, which was achieved. | Three years' service. | Three years' service and achievement of a target growth in earnings per share. | Three years' service and achievement of a target increase in market share. |

The estimated fair value of each share option granted in the general employee share option plan is CU 23.60. This was calculated by applying a binomial option pricing model. The model inputs were the share price at grant date of CU 50, exercise price of CU 50, expected volatility of 30 per cent, no expected dividends, contractual life of 10 years, and a risk-free interest rate of 5 per cent. To allow for the effects of early exercise, it was assumed that the employees would exercise the options after vesting date when the share price was twice the exercise price. Historical volatility was 40 per cent, which includes the early years of the Company's life; the Company expects the volatility of its share price to reduce as it matures. The estimated fair value of each share granted in the executive share plan is CU 50.00, which is equal to the share price at the date of grant.

Further details of the two share option plans are as follows:

| Particulars | 20X4 | 20X4 | 20X5 | 20X5 |
|-------------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Outstanding at start of year | 0 | – | 45,000 | CU 40 |
| Granted | 50,000 | CU 40 | 75,000 | CU 50 |
| Forfeited | (5,000) | CU 40 | (8,000) | CU 46 |
| Exercised | 0 | – | (4,000) | CU 40 |
| Outstanding at end of year | 45,000 | CU 40 | 108,000 | CU 46 |
| Exercisable at end of year | 0 | CU 40 | 38,000 | CU 40 |

The weighted average share price at the date of exercise for share options exercised during the period was CU 52. The options outstanding at 31 December 20X5 had an exercise price of CU 40 or CU 50, and a weighted average remaining contractual life of 8.64years.

| Particulars | 20X4 | 20X5 |
|--------------------------------------------------------------------------------------------------|---------|-----------|
| | CU | CU |
| Expense arising from share-based payment transactions | 495,000 | 1,105,867 |
| Expense arising from share and share option plans | 495,000 | 1,007,000 |
| Closing balance of liability for cash share appreciation plan | – | 98,867 |
| Expense arising from increase in fair value of liability for cash share appreciation plan | – | 9,200 |