ACTIVE STANDARD

INTERNATIONAL FINANCIAL REPORTING STANDARDS

IFRS 2

Share-Based Payments

Recognition and measurement of equity-settled, cash-settled and cash-alternative share-based payment transactions — vesting conditions, modifications, cancellations and group arrangements — illustrated with worked USD case studies for a global audience.

BD

B D CHATTERJEE

FCA, ACMA, ACS, DipIFR (ACCA UK)

BDCHATTERJEE.COM

ROADMAP

What We Will Cover

Foundations & Core Principles

Objective, scope, and the key definitions behind a share-based payment

Recognition & Vesting

When a share-based payment is recognised, and how vesting conditions work

Measurement

Equity-settled, cash-settled, and cash-alternative transactions

Modifications & Cancellations

What happens when the terms of a grant change, or it is cancelled early

Worked Illustrations

USD case studies applying recognition and measurement step by step

Presentation & Disclosure

How share-based payments appear across the financial statements

Group Arrangements

Share-based payments settled by another entity within the group

Key Takeaways

A concise summary of what matters most

PART I — FOUNDATIONS

Foundations & Core Principles

The objective and scope of IFRS 2, and the definitions that separate a share-based payment from an ordinary cash transaction.

FOUNDATIONS

Objective & Scope

- IFRS 2 Share-based Payment prescribes the financial reporting by an entity when it undertakes a share-based payment transaction, including the expense recognised when goods or services are received in exchange for equity instruments or cash linked to share price.
- The core measurement principle: a share-based payment transaction is measured at fair value — of the goods or services received, or, if that cannot be measured reliably, of the equity instruments granted.
- Scope: applies to all share-based payment transactions other than those within a business combination under IFRS 3. It also applies retrospectively to liabilities existing at the effective date arising from share-based payment transactions, and to unvested equity instruments granted before the effective date.
- It specifically covers the criteria for defining a share-based payment, and the distinct accounting for equity-settled, cash-settled, and transactions with cash alternatives.

FOUNDATIONS

Key Definitions I

IFRS 2 Appendix A defines a share-based payment transaction broadly enough to capture both direct equity issuance and share-price-linked liabilities.

Share-Based Payment Transaction

A transaction in which the entity receives goods or services as consideration for its own equity instruments, or by incurring a liability based on its share price.

Equity-Settled Transaction

The entity receives goods or services and issues equity instruments — shares or share options — in exchange.

Cash-Settled Transaction

The entity acquires goods or services by incurring a liability, the amount of which is based on the price (or value) of its shares or other equity instruments.

Grant Date

The date the entity and the counterparty have a shared understanding of the terms and conditions — the reference point for measuring fair value.

Key Definitions II

Vesting terminology drives both the timing and the amount of the expense recognised over the life of a grant.

Vesting Conditions

Conditions that determine whether the entity receives the services entitling the counterparty to the share-based payment — service conditions and performance conditions only.

Vesting Period

The period during which all specified vesting conditions must be satisfied before the counterparty becomes unconditionally entitled to the award.

Fair Value

The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Intrinsic Value

The difference between the fair value of the shares a counterparty has the right to subscribe for and the price it is required to pay for those shares.

FOUNDATIONS

Three Types of Share-Based Payment Transaction

Equity-Settled

Equity instruments — shares or share options — are actually issued in return for goods or services received.

Cash-Settled

The amount of the liability recognised is based on the price of the entity's shares, but settlement is in cash or other assets.

Cash Alternatives

The terms of the arrangement give either the entity or the counterparty a choice between cash settlement and equity settlement.

PART II — RECOGNITION

Recognition & Vesting

The general recognition principle, and how service and performance conditions determine when — and over what period — the expense is recognised.

The General Recognition Principle

- An entity recognises the goods or services received or acquired in a share-based payment transaction when it obtains the goods or as the services are received.
- It recognises a corresponding increase in equity if the goods or services were received in an equity-settled share-based payment transaction, or a liability if they were received in a cash-settled transaction.
- The double entry, in either case, is a debit to an expense (or an asset, such as inventory, where the goods or services qualify for recognition as an asset) with a credit to equity, a liability, or a combination of both, depending on how the transaction is settled.
- Where the goods or services do not qualify for recognition as an asset, they are recognised as an expense — most commonly, employee services are expensed as they are rendered rather than capitalised.

Dr. Expense / Asset

Cr. Equity / Liability (depending on settlement method)

RECOGNITION

Vesting Conditions: Service vs Performance

Only two categories of condition are vesting conditions under IFRS 2 — everything else is treated differently in the fair value calculation.

Service Conditions

The counterparty is required to complete a specified period of service — for example, remaining employed for three years — before the award vests.

Performance Conditions

A service condition plus a specified performance target — market-based (e.g. a share price target) or non-market-based (e.g. an EPS or revenue target).

Non-Vesting Conditions

Any other feature — such as a requirement that the employee contribute to a savings plan — is not a vesting condition and does not affect the number of instruments expected to vest.

Effect on the Fair Value Calculation

Market conditions and non-vesting conditions are built into the grant-date fair value itself; non-market performance and service conditions instead adjust the number of instruments expected to vest.

Recognition Timing

When the expense is recognised depends entirely on whether there is a vesting period — and whether the counterparty is an employee.

1

No Vesting Conditions

Recognised in full on grant date, or when the goods or services have already been received.

2

Non-Employee Services

Recognised as the services are rendered over the period in which they are received.

3

Employee Awards with Vesting

Recognised over the vesting period, updated each period for the latest estimate of instruments expected to vest.

- On the vesting date itself, the amount recognised is trued up to the actual number of instruments that vested — always measured using the fair value fixed at grant date, never remeasured for equity-settled awards.

PART III — MEASUREMENT

Measurement

How fair value is determined for equity-settled and cash-settled transactions, and what happens when a cash alternative is offered.

Measuring Equity-Settled Transactions: The Decision Sequence

The measurement basis depends first on the counterparty, then on whether fair value can be reliably determined.

1. Is the counterparty an employee (or providing services similar to an employee)?
2. If not an employee: can the fair value of the goods or services received be reliably measured?
3. If not reliably measurable (or for employees): measure at the fair value of the equity instruments granted
4. If the fair value of equity instruments cannot be reliably measured either: fall back to intrinsic value, remeasured at each reporting date

- In practice, the intrinsic value fallback is rare — an option pricing model can almost always produce a reliable fair value for shares and share options.

Equity-Settled Transactions: Measurement Principles

- The transaction is measured at the fair value of the equity instruments granted, determined at grant date — the valuation focuses on the specific terms and conditions of the grant of shares or share options.
- An option should be measured on the basis of the market price of any equivalent traded options where available; using an option pricing model (such as Black-Scholes or a binomial model) in the absence of a market price; or, only where neither is reliable, at intrinsic value.
- The entity recognises an asset (for example inventory, where the goods qualify for capitalisation) or an expense, together with a corresponding increase in equity, once the goods or services are received.
- Once fixed, the grant-date fair value is never subsequently remeasured for changes in the entity’s share price — all of the volatility of the underlying shares is absorbed by equity holders, not by profit or loss.

Equity-Settled: Recognition Over the Vesting Period

- Where there is a vesting period, the entity presumes the services will be received over that period and recognises the corresponding expense as those services are rendered by the counterparty.
- At each reporting date before vesting, the entity revises its estimate of the number of instruments expected to vest, if necessary, and recognises the impact in profit or loss, with a corresponding adjustment to equity.
- On the vesting date, the entity revises the estimate to equal the number of instruments that actually vested — no further adjustment is made to equity after vesting, even if instruments are later forfeited or exercised, or the option expires unexercised.
- Features of an award that are not vesting conditions — such as a requirement to save through a specific savings scheme — are instead built into the grant-date fair value itself, and are not revisited when estimating the number of instruments expected to vest.

Cash-Settled Transactions: Measurement & Remeasurement

Recognise a Liability

The entity recognises an asset or expense, and a corresponding liability, as goods or services are received in a cash-settled transaction.

Remeasure Every Period

Unlike equity-settled awards, the liability is remeasured to fair value at every reporting date and again at the date of settlement.

Changes Hit Profit or Loss

Any change in the fair value of the liability between reporting dates is recognised in profit or loss for the period — volatility is not absorbed by equity.

Typical Example

Cash-settled share appreciation rights (SARs), where employees receive a cash payment based on the increase in the entity's share price.

Share-Based Payment Transactions with Cash Alternatives

- Some arrangements give either the entity or the counterparty a choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments.
- Where the entity has incurred a liability to settle in cash or other assets — for example, because the counterparty has the right to demand cash settlement — the entity accounts for the transaction as cash-settled.
- Where no such liability has been incurred — typically, where the choice rests entirely with the entity and it has no present obligation to pay cash — the transaction is accounted for as equity-settled.
- The classification is reassessed if facts and circumstances change; a transaction can move from equity-settled to cash-settled accounting (or vice versa) if the substance of the settlement choice changes during the vesting period.

Group Cash-Settled Share-Based Payment Arrangements

- In many group arrangements, a subsidiary receives goods or services from its own employees or suppliers, but its parent — or another entity within the group — is obliged to settle the transaction.
- IFRS 2 clarifies that the entity receiving the goods or services must account for them regardless of which entity in the group settles the transaction, and regardless of whether settlement is in cash or in shares.
- In IFRS 2, “group” carries the same meaning as under IFRS 10 (previously IAS 27) Consolidated and Separate Financial Statements — it comprises only a parent and its subsidiaries.
- The subsidiary generally accounts for the arrangement as equity-settled if it has no obligation to settle, even though the group as a whole ultimately settles in cash — the classification is assessed from the perspective of the entity receiving the goods or services, not the group.

PART IV — MODIFICATIONS & CANCELLATIONS

Modifications, Cancellations & Complexities

What happens to the accounting when the terms of an award change, or when it is cancelled or settled before it would otherwise have vested.

Modifications of Terms and Conditions

- A modification is any change to the terms or conditions of an equity-settled award — for example, repricing options that are underwater, or extending a vesting period.
- The entity continues to recognise, as a minimum, the grant-date fair value of the original award over the remainder of the original vesting period, as if the modification had never occurred.
- If a modification increases the total fair value of the award (a beneficial modification), the incremental fair value — measured at the date of modification — is recognised in addition, generally over the remaining vesting period.
- If a modification decreases the total fair value of the award, the entity ignores the decrease and continues to recognise the original grant-date fair value in full — the standard does not permit a reduction in cumulative expense from a modification alone.

Cancellations and Settlements

- A cancellation or settlement during the vesting period (other than a cancellation by forfeiture when a vesting condition is not satisfied) is accounted for as an acceleration of vesting.
- The entity immediately recognises the amount that would otherwise have been recognised for services received over the remainder of the vesting period — there is no deferral of the remaining expense.
- Any payment made to the employee on cancellation or settlement is accounted for as a repurchase of an equity interest, deducted from equity, except to the extent the payment exceeds the fair value of the equity instruments granted, measured at the repurchase date — any such excess is expensed.
- If new equity instruments are granted to the employee, and the entity identifies the new grant as a replacement for the cancelled one, the replacement award is accounted for as a modification of the original award rather than as a fresh grant.

COMPLEXITIES

Graded Vesting & Multiple Vesting Dates

- Many awards vest in tranches over time — for example, one third of the options granted vest at the end of each of three years — rather than all at once at a single date.
- IFRS 2 requires each tranche with a different vesting date to be treated as a separate share-based payment arrangement, since each has its own vesting period and, potentially, its own grant-date fair value considerations.
- This matters because it accelerates the recognition pattern relative to treating the whole grant as a single arrangement vesting on the final date — earlier tranches are expensed faster, over their own shorter vesting periods.
- Where the fair value differs by tranche — for instance because expected volatility or expected life differs — each tranche is valued separately using an appropriate option pricing model before the expense is aggregated.

PART V — WORKED ILLUSTRATIONS

Worked Illustrations

Three USD case studies applying the classification and measurement principles covered so far.

WORKED ILLUSTRATION I

Case Study: Classifying an Employee Bonus Scheme

FACT PATTERN

Alpha Corp offers a bonus scheme to its employees. Subject to the employees meeting fixed performance targets, the employees will be issued shares of the entity.

Required: Does this transaction qualify as an equity-settled share-based payment transaction?

SOLUTION

- The transaction involves an exchange of employee services for the entity’s own equity instruments — shares issued directly to the employees on meeting the targets.
- Because settlement is in shares of Alpha Corp, and not in cash or another asset, the transaction qualifies as an equity-settled share-based payment transaction.
- The performance targets are performance conditions (specifically, a service condition combined with a non-market performance condition), which affect the number of shares expected to vest rather than the grant-date fair value itself.

WORKED ILLUSTRATION II

Case Study: Cash-Settled Share Appreciation Rights

FACT PATTERN

Beta Corp grants 50 cash-settled share appreciation rights (SARs) to each of its 100 employees, conditional on the employees remaining in service for the next three years. Fair value per SAR is USD 4.00 at grant date and USD 5.00 at the first reporting date. All 5,000 SARs are expected to vest.

Required: Does this qualify as a cash-settled share-based payment transaction, and what liability is recognised at the first reporting date?

SOLUTION

- The transaction involves an exchange of employee services, and the amount ultimately payable is based on the value of Beta Corp's shares — this is a cash-settled share-based payment transaction under IFRS 2.
- Liability at the first reporting date (Year 1 of 3) = 5,000 SARs × USD 5.00 × 1/3 = USD 8,333, based on the remeasured fair value at that date, not the grant-date fair value used for equity-settled awards.
- Every subsequent reporting date — and the final settlement date — requires a fresh remeasurement of fair value, with the change recognised in profit or loss for the period.

WORKED ILLUSTRATION III

Case Study: Graded Estimates Over a Vesting Period

FACT PATTERN

Gamma Corp offers 200 shares to each of its 1,000 staff, conditional on the employees remaining in service for three years. Fair value of each share at grant date is USD 3.00. All figures are illustrative and expressed in USD.

At the end of Year 1, 15 employees have left and the entity estimates 25% will have left by vesting date. During Year 2, a further 15 employees leave and

SOLUTION

- Required: calculate the cumulative charge and the annual expense to be recognised in profit or loss for each of the three years.
- Step 1 — total fair value at grant date = 200 shares × 1,000 employees × USD 3.00 = USD 600,000, fixed for the life of the award.
- The solution on the following slide walks through the cumulative charge and annual expense year by year.

WORKED ILLUSTRATION III

Case Study: Solution

Year	Calculation	Cumulative Charge (USD)	Annual Expense (USD)
Year 1	200 × USD 3.00 × (1,000 × 75%) × 1/3	150,000	150,000
Year 2	200 × USD 3.00 × (1,000 × 73%) × 2/3	292,000	142,000
Year 3	200 × USD 3.00 × 955 × 3/3	573,000	281,000

- V31 (Year 3 headcount) = 1,000 opening employees − 45 total leavers over three years (15 + 15 + 15) = 955 employees actually vesting.
- Note how the Year 2 revision of the total-departure estimate from 25% to 27% flows only through that year's cumulative charge — IFRS 2 requires a true-up to current estimates at each reporting date, not a restatement of prior years.

PART VI — PRESENTATION & DISCLOSURE

Presentation & Disclosure

How share-based payment expenses and the corresponding equity or liability flow through the financial statements.

Presentation in the Statement of Financial Position and SOCI

- Equity-settled transactions increase equity directly — typically presented within a separate share-based payment reserve, rather than mixed into retained earnings, until the underlying instruments vest or expire.
- Cash-settled transactions build a liability, presented within current or non-current liabilities depending on the expected timing of settlement, remeasured to fair value at every reporting date.
- The related expense (or, where capitalised, the asset such as inventory) is recognised through the statement of comprehensive income, typically within operating expenses, consistent with where the related employee or supplier costs are presented.
- On exercise of vested equity-settled options, any proceeds received from the counterparty are added to share capital and share premium along with the amount already recognised in the share-based payment reserve; on expiry unexercised, many jurisdictions permit a transfer within equity, but the standard does not require the original expense to be reversed.

DISCLOSURE

Disclosure Requirements

IFRS 2’s disclosures are designed to let users understand both the nature and the financial effect of an entity’s share-based payment arrangements.

Nature & Extent of Arrangements

A description of each type of arrangement, including general terms and conditions, vesting requirements, and maximum term of options granted.

Fair Value Determination

The option pricing model used, inputs applied (expected volatility, expected life, risk-free rate, dividend yield), and how expected volatility was determined.

Movements During the Period

A reconciliation of the number and weighted-average exercise price of options outstanding at the start and end of the period, granted, forfeited, exercised, and expired.

Effect on Profit or Loss & Financial Position

Total expense recognised for the period, and the carrying amount at the reporting date of liabilities arising from cash-settled arrangements.

IMPLEMENTATION

Key Implementation Challenges

Valuation Complexity

Option pricing models require specialist inputs — volatility, expected life, forfeiture rates — that demand actuarial or valuation expertise.

Ongoing Estimate Revisions

Forfeiture and performance-condition estimates must be revisited every reporting period, not set once at grant date.

Modifications & Cancellations

Repricing, extensions and early cancellations each carry distinct, non-intuitive accounting consequences.

Group Allocation

Identifying which group entity bears the expense, and which settles the award, requires careful analysis of group arrangements.

Disclosure Volume

Detailed reconciliations of option movements and fair value inputs demand robust equity-plan administration systems.

Tax & Legal Interaction

Local tax deductibility rules and securities law requirements often diverge from the IFRS 2 accounting outcome.

IMPLEMENTATION

Benefits of Applying IFRS 2 Consistently

Transparent Compensation Cost

The true economic cost of equity and cash incentive schemes is reflected in profit or loss, not hidden off the income statement.

Comparability Across Entities

A single global measurement basis allows investors to compare compensation practices across entities and jurisdictions.

Aligns Incentives with Reporting

Recognising expense over the vesting period mirrors the period over which the entity actually benefits from employee service.

Stronger Investor Confidence

Explicit disclosure of dilution and cost gives shareholders a clearer view of the true cost of equity-based remuneration.

Consistency Across the Group

Group cash-settled guidance ensures the same economic arrangement is accounted for consistently, wherever it is settled.

Better Governance Insight

Detailed disclosures support remuneration committees and auditors in scrutinising the design and cost of incentive plans.

SUMMARY

Key Takeaways

Fair Value Is the Anchor

Every share-based payment is measured at fair value — of goods/services received, or of the equity instruments granted.

Equity-Settled Never Remeasures

Grant-date fair value is fixed for equity-settled awards; only the number of instruments expected to vest is revised.

Cash-Settled Always Remeasures

Cash-settled liabilities are remeasured to fair value at every reporting date, with changes running through profit or loss.

Only Two Vesting Conditions

Service and performance conditions are vesting conditions; everything else adjusts the fair value calculation instead.

Modifications Rarely Reduce Expense

A beneficial modification adds expense; an adverse one is simply ignored — the original grant-date charge is a floor.

Group Settlement Doesn't Change Recognition

The entity receiving services accounts for them regardless of which group entity ultimately settles the award.

ABOUT THE AUTHOR

A Career Built on Making IFRS Understandable

BD

B D Chatterjee

Teacher and Mentor to finance professionals worldwide

FCA · ACMA · ACS · DipIFR (ACCA UK)

B D Chatterjee is a Chartered Accountant and financial thought leader with over 35 years of global experience spanning corporate finance, accounting standards, financial reporting, business valuation and financial due diligence. As a seasoned CFO, he has led finance functions across major corporations and now heads Digital CFO Solutions, a platform delivering institutional-grade IFRS, US GAAP and valuation workbooks alongside fractional CFO services.

Published Author

Author of the Pocketbook of IFRS series and other finance titles.

Guided Thousands

Through IFRS, US GAAP and valuation transitions worldwide.

Institutional-Grade Platforms

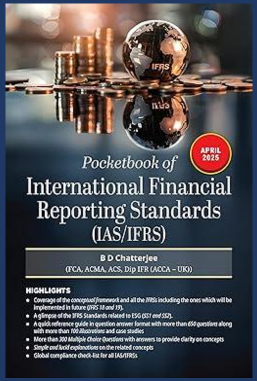
Excel-based CFO workbooks used by finance teams globally.

Digital CFO Solutions

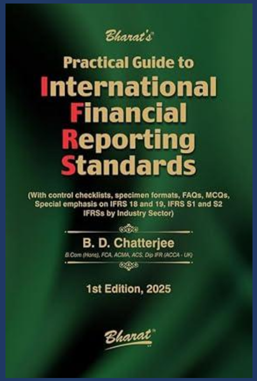
Institutional-grade workbooks, fractional CFO advisory, and published finance literature.

ABOUT THE AUTHOR

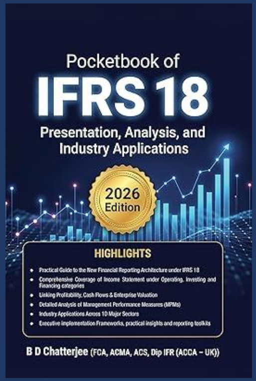
Books by B D Chatterjee — IFRS Library



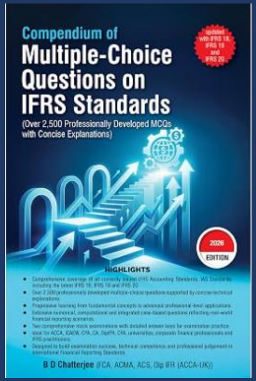
Pocketbook of International Financial Reporting Standards (IAS/IFRS)



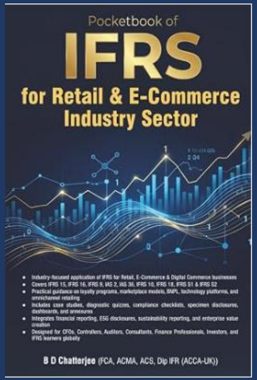
Practical Guide to International Financial Reporting Standards



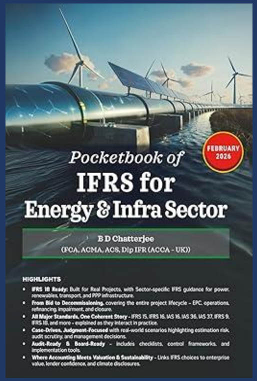
Pocketbook of IFRS 18 — Presentation, Analysis & Industry Applications



Compendium of Multiple-Choice Questions on IFRS Standards



Pocketbook of IFRS for Retail & E-Commerce Industry Sector



Pocketbook of IFRS for Energy & Infra Sector

International Financial Reporting Standards by Industry Sector

Pocketbook of IFRS for FMCG Industry

All titles available on Amazon (print & Kindle) • bdchatterjee.com/books