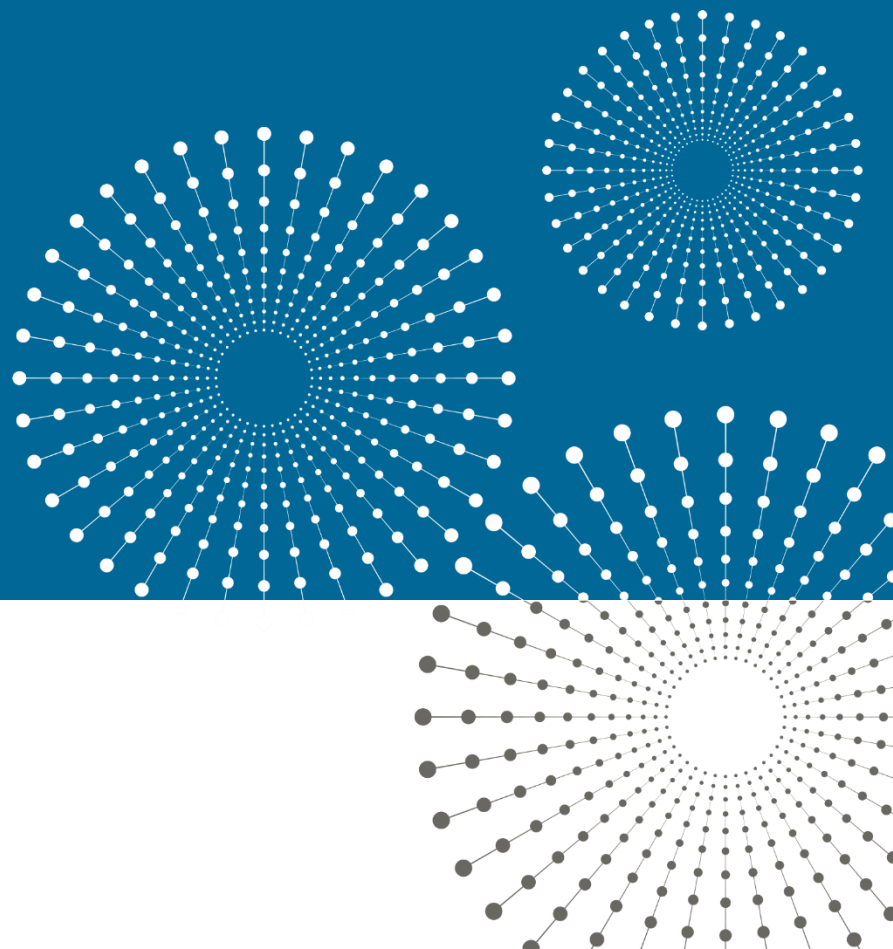


# Share-based Payments

Determining when to apply NZ IFRS 2

Staff Guidance



February 2023

# Purpose

## Why have we issued this guidance?

In the current economic environment, which includes tight labour market conditions, companies may be more likely to pay employees and suppliers with equity instruments (such as shares or share options) rather than cash. This will often be considered a share-based payment arrangement.

Transactions arising from most share-based payment arrangements are accounted for under NZ IFRS 2 *Share-based Payment*. There is a common misconception that NZ IFRS 2 only applies to share-based employee schemes. The scope of NZ IFRS 2 is much wider than this. This guidance will help you explore the less commonly understood arrangements which may fall within the scope of NZ IFRS 2.

## What is a share-based payment arrangement under NZ IFRS 2?

Arrangements where equity instruments or assets (whose value is based on the price or value of equity instruments) are exchanged for goods or services (including an arrangement where one party has a choice over the manner of settlement).

### Examples of share-based payment arrangements

- ✓ Non-recourse loans to purchase shares
- ✓ Employee share purchase plans
- ✓ Payments for services made to external consultants based on the company's equity price
- ✓ Share appreciation rights

## Before you read further

NZ IFRS 2 does NOT apply to transactions involving:



counterparties acting as shareholders rather than as employees or suppliers of goods or services



obtaining control of a business, combination of entities or businesses under common control or the contribution of a business on the formation of a joint venture

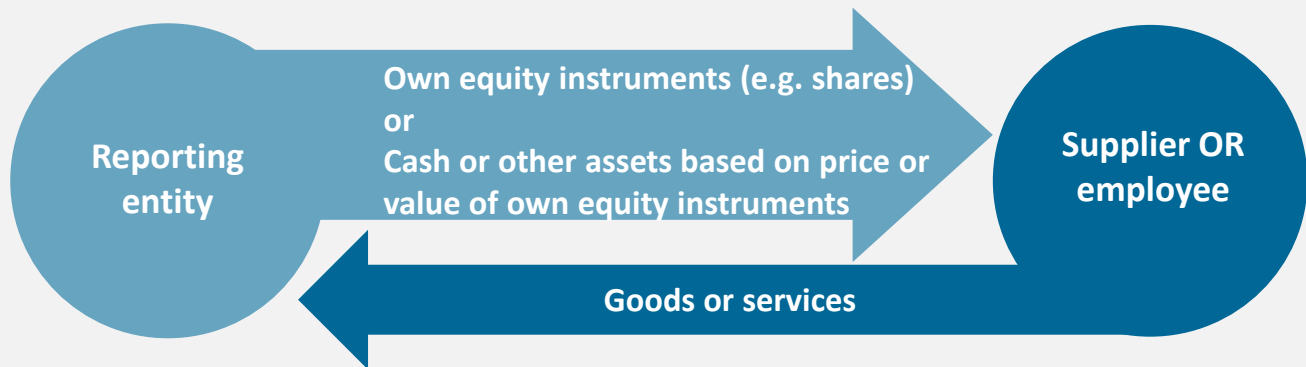


receiving or acquiring goods or services under a contract within the scope of financial instruments standards



## Key elements of transactions in the scope of NZ IFRS 2

Consideration of the substance of the arrangement (rather than legal form) is critical to identifying the appropriate accounting treatment.



### Entity receives goods or services from a counterparty

- Goods includes inventories, consumables, property, plant and equipment, intangible assets and other non-financial assets.
- Goods or services may be either received when a share-based payment is granted or expected to be received in the future.

### Who is the counterparty?

The most common and well understood counterparty is an employee rendering services. However, **any supplier of goods or services** can be the counterparty.

### What if some (or all) of the goods or services cannot be identified?

NZ IFRS 2 is still applicable. It is assumed that an entity would expect to receive some goods or services in return for equity instruments issued and so, where the value of the equity instruments exceeds the value of the consideration this typically indicates unidentified goods or services. An example is the sale of shares in a state-owned enterprise at a discount for the domestic public compared to the share price, at fair value, for overseas investors. The discount from fair value may be a share-based payment arrangement involving unidentified goods or services.

### Entity settles by providing equity instruments OR an amount based on its own equity instruments

Shares (including redeemable shares) and share options are examples of equity instruments used for share-based payment transactions.

The share-based payment transaction does not need to involve the direct transfer of equity instruments. Instead, the transaction may involve the transfer of cash or other assets for amounts that are based on the price (or value) of the entity's equity instruments.

The terms of the share-based payment arrangement may allow either the entity or the counterparty the choice of whether settlement is in cash (or other assets) or equity instruments.



## Arrangements to look out for

**A company provides a loan to an employee (or other supplier of goods / services) – the employee uses the loan to acquire shares in the company**



### Consider

If the employee does not repay the loan, is the company's only recourse to the shares issued? (sometimes referred to as a limited-recourse loan)



### Note

Where the loan is "limited-recourse", in substance the employee has the choice to settle in cash or return the shares. This means the employee has an option to acquire the shares, which is within the scope of NZ IFRS 2.

**A company acquires a business and issues shares to the business's employees**



### Consider

Are the shares granted to the employees in their capacity as employees, in return for continued service?



### Note

Equity instruments granted to employees of the acquiree in their capacity as employees are within the scope of NZ IFRS 2. Cancellation, replacement, or other modifications to existing share-based payment arrangements as a result of the business combination are also within the scope of NZ IFRS 2, to the extent that the employees' continued service is required.

**A company grants cash-settled share options to employees – the cash payment is based on a measure that approximates the change in price or value of the company's shares**



### Consider

How does the cash payment relate to the company's shares?



### Note

It can be difficult to assess whether a cash payment is based on the price or value of an entity's equity instruments, as required by NZ IFRS 2. Judgement will be required to determine whether the mechanism by which the cash payment relates to the equity instrument is sufficiently linked to its price or value.



## Arrangements to look out for

**A company chooses to settle a share-based payment transaction in cash rather than shares. The amount of the cash settlement does not vary with changes in the company's share price.**



### Consider

Does the arrangement provide the company with a choice of settling the transaction in cash or shares?



### Note

This type of arrangement is within the scope of NZ IFRS 2 because settlement of the transaction may occur in the company's shares. This is the case even if the amount of the cash settlement is unrelated to the price or value of the shares.

**A company transfers shares as a gift to a family member (who is also an employee) of one of the directors**



### Consider

Is there a genuine expectation not to receive goods or services in return for the transfer of the shares?



### Note

If the substance of the arrangement is that the company will receive no goods or services, then NZ IFRS 2 will not apply. This is not expected to be a common arrangement, as entities would usually expect to receive something in return for the transfer of shares, even if the goods or services are unidentifiable.

**A company purchases a commodity and settles the transaction at an amount based on its share price**



### Consider

Is the commodity for use in the company's own business?  
Has the company designated the contract at fair value through profit or loss?



### Note

The scope exception in NZ IFRS 2 for contracts to acquire non-financial items that are within the scope of the financial instruments standards applies to contracts that fall directly in the scope of NZ IFRS 9 *Financial Instruments* and those that meet the own-use exemption but are designated as at fair value through profit or loss.

## A note on groups

In some share-based payment transactions, another entity within the same group as the reporting entity will be involved, either by receiving the goods or services or settling the transaction. NZ IFRS 2 applies to these transactions within the separate financial statements of each group entity involved in the share-based payment transaction, as well as the consolidated financial statements.

## Further reading

This publication is not a substitute for reading NZ IFRS 2 *Share-based Payment*. You can find NZ IFRS 2 on the XRB website [here](#). The following IFRS Interpretations Committee agenda decisions relate to the scope of NZ IFRS 2:

- [Scope of IFRS 2: Share plans with cash alternatives at the discretion of the entity](#) (May 2006)
- [Accounting for reverse acquisitions that do not constitute a business](#) (March 2013)
- [Special Purpose Acquisition Companies: accounting for warrants at acquisition](#) (October 2022)

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