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ASSURANCE AND ACCOUNTING

ASPE - IFRS: A Comparison

Share-Based Payments

In this publication we will examine the key differences between Accounting Standards for Private Enterprises (ASPE) and International Financial Reporting Standards (IFRS) related to share based payments with a focus on:

- Recognition and measurement of share-based transactions with employees;
- Recognition and measurement of share-based transactions with non-employees; and
- Presentation.

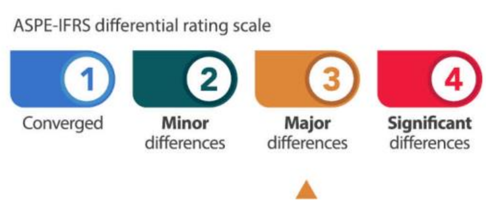
References

ASPE	IFRS
• Section 3870 – *Stock-based Compensation and Other Stock-based Payments*	• IFRS 2 – *Share-based Payment*

Overview of Major Differences

While IFRS and ASPE are similar in some areas in the treatment of share – based payments, there are major differences such as:

- Based on the scope of the standards, more transactions would be accounted for as share-based payments under IFRS than under ASPE.
- For transactions with non-employees, IFRS includes a rebuttable presumption that the fair value of the goods or services received can be estimated reliability. ASPE does not include such a rebuttable presumption.
- The definition of an employee is broader under IFRS than it is under ASPE.
- ASPE includes an option to use the calculated value method for determining expected volatility, while IFRS does not include such an option.
- IFRS provides more specific guidance on accounting for modifications and settlements than ASPE does.



Background & Scope

A share-based payment is a transaction in which the entity receives or acquires 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 under ASPE and IFRS depend on how the transaction will be settled, that is, by the issuance of either: equity; cash; or a choice of equity or cash.

Both ASPE and IFRS apply to share-based payment transaction for the acquisition of goods and services and both have similar exclusions from the scope of their respective standards. However, there are some differences in the exclusions between the standards, which may result in more transactions being accounted for as share-based payment transactions under IFRS.

ASPE	IFRS
Section 3870 does not apply to related party transactions, other than stock-based compensation plans with a principal shareholder. Related party transactions are accounted for in accordance with Section 3840 *Related Party Transactions*, however, management compensation arrangements are excluded from the scope of Section 3840 and therefore are included in this Section.	There is no scope exemption for related party transactions in IFRS 2, other than for shareholders acting in their capacity as shareholders.
Section 3870 does not apply to equity instruments granted by an acquiring entity as part of the purchase consideration in a business combination, which are accounted for in accordance with Section 1582, *Business Combinations*.	IFRS 2 does not apply to transactions in which the entity acquires goods: • As part of the net assets acquired in a business combination to which IFRS 3, *Business Combinations*, applies; • In a combination of entities or business under common control as described in paragraphs IFRS 3.B1-B4; or • The contribution of a business on the formation of a joint venture as defined in IFRS 11, *Joint Arrangements*. IFRS 2 is more explicit than ASPE in that it contains specific guidance on equity instruments granted to employees of the acquiree in their capacity as employees (e.g. in return for continued service). These instruments are within the scope of IFRS 2. The cancellation, replacement or other modification of share-based payment arrangements because of a business combination or other equity restructuring are also explicitly included within the scope of IFRS 2.
Section 3870 does not apply to contracts and obligations for stock-based payments where the entity receives or acquires goods or services under a contract that falls within the scope of Section 3856, *Financial Instruments*.	IFRS 2 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 8-10 of IAS 32, *Financial Instruments: Presentation*, or paragraphs 2.4-.2.7 of IFRS 9, *Financial Instruments*.
An employee stock purchase plan that meets all the following criteria is not a compensation expense: • Incorporates no option features other than those set out in subparagraph 3870.28(a);	An employee stock purchase plan that allows employees to purchase shares at a discount would result in a compensation expense under IFRS 2.

• Provides a discount to employees that does not exceed the greater of a) a per share discount that would be reasonable in a recurring offer of stock to shareholders or others; or b) the per share amount of share issuance costs that would have been incurred to raise a significant amount of capital by a public offering; and • Substantially all full-time employees that meet limited employment qualifications can participant on an equitable basis. Instead the discount from market price reduces the proceeds from issuing the related shares of stock.	

Transactions with Non-employees

The recognition and measurement of share-based payment transactions with non-employees is similar under ASPE and IFRS. Generally, measurement is by way of fair value as defined in Section 3870 and IFRS 2[1]. However, there are differences, which may be significant for some entities, in how the fair value of the transaction are measured depending on whether ASPE or IFRS is followed.

ASPE	IFRS
Under ASPE, the guidance on accounting for transactions with non-employees is based on whether the transaction is reciprocal or non-reciprocal. Reciprocal transactions in which an entity acquires goods and services by granting equity instruments or by incurring liabilities to the supplier (other than an employee) in amounts based on the price of the entity's stock should be accounted for based on the more reliably measurable of: • The fair value of the consideration received; • The fair value of the equity instruments; or • Liabilities incurred. Non-reciprocal transfers in which an entity grants equity instruments or incurs liabilities to non-employees based on the price of the entity's stock are accounted for using: • The fair value of the equity instruments issued; or • Liabilities incurred. In a reciprocal transaction, the fair value of the equity instruments issued in exchange for the receipt of goods and services from non-employees is measured by using the stock price and other measurement assumptions as of the earliest of the following: • The date at which a commitment for performance by the non-employee to earn the equity instruments is reached (a performance commitment);	Under IFRS, the guidance on accounting for transactions with non-employees is based on how the transaction is settled. **Equity Settled Transactions with Non-employees** Equity-settled transactions with non-employees are measured at the fair value of the goods and services received unless that fair value cannot be estimated reliably. Only in rare cases where the entity cannot estimate reliably the fair value of the goods or services received, is the entity permitted to measure the goods or services received indirectly, by reference to the fair value of the equity instruments granted. For transactions with non-employees, the measurement date is the date the entity obtains the goods or the counterparty renders service. **Cash Settled Transactions with Non-employees** For cash-settled transactions, the entity measures the goods or services acquired and the liability incurred at the fair value of the liability at the grant date, subject to the requirements of IFRS 2.31-.33D. Until the liability is settled, the fair value of the liability is required to be remeasured at the end of each reporting period and at the date of settlement. The remeasurement is performed by applying an option

[1] The term 'fair value' under IFRS 2 differs in some respects from the definition of fair value in IFRS 13, *Fair Value Measurement*. As a result, when an entity is applying IFRS 2 it measures fair value in accordance with IFRS 2, not IFRS 13.

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The date at which the equity instruments are granted, if they are fully vested and non-forfeitable at that date; or
The date at which the non-employee’s performance is complete.

The measurement date for non-reciprocal transfers, is the <u>later of</u>:

The date on which the detailed terms of the transfer are set; and
The date at which the entity is committed to the transfer.

In addition, Section 3870 has specific guidance on how such transactions are to be measured if market and performance conditions exist.
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pricing model, taking into account the terms and conditions on which the share appreciation rights were granted and the extent to which the employees have rendered service to date.
Any changes in fair value are recognized in profit or loss for the period.
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<tr>
<td>Choice of Cash or Equity Settled Transactions with Non-employees</td>
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For share-based payments where the counterparty has a choice of settlement, in cash or equity instruments, the entity has granted a compound financial instrument, which includes a debt component and an equity component. The debt component represents the counterparty’s right to demand settlement in cash; whereas, the equity component represents the counterparty’s right to demand settlement in equity instruments rather than cash.
For transactions with non-employees, in which the fair value of the goods or services received is measured directly, the entity measures the equity component 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.
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Transactions with Employees

ASPE and IFRS have similar requirements for accounting for transactions with employees. However, the definition of an employee is different between the frameworks. ASPE requirements for transactions with employees are only applied to those that are considered employees under law, whereas the definition of employees under IFRS is broader. Other differences in accounting for transactions with employees are:

ASPE	IFRS
Definition of an Employee	
An employee of an entity is an individual over whom the entity exercises or has the right to exercise sufficient control to establish an employer-employee relationship as determined by law.	Employees are defined as individuals who render personal services to the entity and either: • Are regarded as employees for legal or tax purposes; • Work for the entity under its direction in the same way as individuals who are regarded as employees for legal or tax purposes; or • Render services similar to those rendered by employees. For example, the term encompasses all management personnel (i.e. those persons having authority and responsibility for planning, directing and controlling the activities of the entity, including non-executive directors).
Equity Settled Transactions with Employees	

Equity instruments awarded to employees and the costs of the services received as consideration are measured and recognized at the grant date based on the fair value of the equity instrument. The fair value of a share of non-vested stock awarded to an employee is measured at the market price of a share of the same stock as if it were vested and issued on the grant date. The fair value of a share of restricted stock awarded to an employee is measured at its fair value, which is the same amount as a share of similarly restricted stock granted to non-employees. The fair value of a stock option (or its equivalent) is estimated using an option pricing model (e.g. Black-Scholes or a binomial model) that takes into account as of the grant date: • The exercise price; • The expected life of the option; • The current price of the underlying stock; • Its expected volatility; • Expected dividends on the stock; and • The risk-free interest rate for the expected term of the option. Under ASPE, it may be difficult for an entity to determine expected volatility. In this situation, ASPE provides some relief by giving the entity an option to substitute the historical volatility of an appropriate industry sector index for the expected volatility of the entity's own share price in an option pricing model. This is known as the calculated value method.	Equity settled transactions with employees are measured at the grant date at the fair value of the equity instruments granted since it is typically not possible to estimate reliably the fair value of the series received. Fair value of the equity instruments granted are based on market prices, if available, and take into account the terms and conditions upon which the equity instruments were granted. If market prices are not available, a valuation technique is used. All non-vesting conditions and all market related vesting conditions are taken into account in the estimate of the fair value of the equity instruments. However, all other vesting conditions are not taken into account. Under IFRS 2, expected volatility is also required to be included in the valuation of options granted to employees, however the calculated value method is not an option for estimating the expected volatility.
Cash Settled Transactions with Employees	
Cash-settled share-based payment transactions with employees are measured at their intrinsic value at the grant date (i.e. the amount by which the quoted market value of the shares of the entity's stock covered by the grant exceeds the option price or value specified, by reference to a market price or otherwise, subject to any appreciation limitations under the plan). Such a transaction is an indexed liability and until settled it is required to be remeasured at the end of each reporting period and at the date of settlement. Increases or decreases, in the quoted market value of the shares between the date of grant and the measurement date result in a change in the measure of compensation for the right or award. Compensation cost accrued during the service period should not be adjusted below zero.	For cash-settled share-based payment transactions with employees, the entity measures the goods or services acquired and the liability incurred at the fair value of the liability at the grant date, subject to the requirements of IFRS 2.31-.33D. Until the liability is settled, the fair value of the liability is required to be remeasured at the end of each reporting period and at the date of settlement. The remeasurement is performed by applying an option pricing model, taking into account the terms and conditions on which the share appreciation rights were granted and the extent to which the employees have rendered service to date. All non-vesting conditions and all market related vesting conditions are taken into account in the estimate of the fair value of the liability. However, all other vesting conditions are not taken into account.

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<tr><td>Changes in the amount of the liability due to stock price changes after the service period are recognized as compensation cost of the period in which the changes occur.</td><td>Any changes in fair value are recognized in profit or loss for the period.</td></tr>
<tr><td colspan="2">Choice of Cash or Equity Settled Transactions with Employees</td></tr>
<tr><td>In general, ASPE requires transactions settled in equity instruments to be classified and accounted for as equity settled awards and other transactions to be classified and accounted for as cash or liability settled awards.

If the holder can choose the method of settlement (cash or equity) the award is treated as if it were cash settled.</td><td>Different accounting requirements exist 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.

If the counterparty has a choice whether to settle in cash or equity instruments, the entity has granted a compound financial instrument, which includes a debt component and an equity component. For transactions with employees, the entity measures the fair value of the compound instrument at the measurement date, taking into account the terms and conditions on which the rights to cash or equity instruments were granted (e.g. the entity first measures the fair value of the debt component, and then measures 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).

If the entity has a choice whether to settle in cash or equity instruments, the entity needs to determine whether it has a present obligation to settle in cash. A present obligation to settle in cash arises where:
• The choice of settlement in equity instruments has no commercial substance (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.

If the entity does have a present obligation to settle in cash, the entity accounts for the transaction in accordance with the requirements that apply to cash-settled share-based payment transactions.

If no such obligation exists, the entity accounts for the transaction in accordance with the requirements that apply to equity-settled share-based payment transactions.</td></tr>
<tr><td colspan="2">Vesting</td></tr>
<tr><td>The total amount of compensation cost recognized for an award of stock-based employee compensation is based on the number of instruments that eventually vest.

The compensation cost for a stock-based award to employees is recognized over the period in which the</td><td>Similarly, under IFRS the total amount of compensation cost recognized for an award of stock-based employee compensation is based on the number of instruments that eventually vest.

If the awards granted to employees do not vest until a specified period of service is completed, the entity</td></tr>
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related employee services are rendered, by a charge to compensation cost if the award is for future service. If the service period is not defined as an earlier or shorter period, the service period should be presumed to be the period from the grant date to the date that the award is vested and its exercisability does not depend on continued employee service. If an award is for past services, the related compensation cost should be recognized in the period in which it is granted. Where the award consists of equity instruments, the offsetting entry is to shareholders' equity.	presumes that the services will be received in the future, during the vesting period. The entity accounts for those services as they are rendered during the vesting period. If the awards granted to employees vest immediately, the entity presumes that the services have been received and the entity recognizes the services received in full on the grant date.
At the grant date an entity may choose when / how to accrue the compensation cost. An entity may choose at the grant date to base accruals of compensation cost on the best available estimate of the number of options or other equity instruments that are expected to vest and to revise that estimate, if necessary, if subsequent information indicates that actual forfeitures are likely to differ from initial estimates. Alternatively, an entity may begin accruing compensation cost as if all instruments granted that are subject only to a service requirement are expected to vest. The effect of actual forfeitures would then be recognized as they occur.	An entity is required to recognize an expense over the vesting period based on the best available estimate of the number of equity instruments / awards expected to vest. The estimate is revised, if necessary and if subsequent information indicates that the number of equity instruments / awards expected to vest differs from previous estimates. On the vesting date, the entity revises the estimate to equal the number of equity instruments / awards that ultimately vested.
A choice exists when accounting with respect to graded vesting. An entity can: • Treat each installment as separate awards; or • Treat as one award and determine fair value using the average life of the instrument. Compensation cost is recognized on a straight-line basis over the life of the instrument.	IFRS does not include any option with respect to graded vesting. The entity must treat each installment as its own award. Therefore, each installment is measured and recognized separately.
Modifications	

A modification of the terms of an award that makes it more valuable should be treated as if it were an exchange of the original award for a new award. The incremental value should be recorded as additional cost and measured by the difference between:
• The fair value of the modified option determined in accordance with the provisions of Section 3870; and
• The value of the old option immediately before its terms are modified, determined based on the shorter of:
  ◦ Its remaining expected life; or
  ◦ The expected life of the modified option.
	The guidance on dealing with modifications under IFRS is similar to ASPE. However, IFRS 2 provides more specific guidance on how to deal with the modification of an award.
	
	An entity must recognize the effects of modifications that increase the total fair value of the share-based payment arrangement or are otherwise beneficial to the employee. However, where the additional compensation cost is recorded depends on when the modification occurs.
	• If the modification occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognized for services received over the period from the modification date

	until the date when the modified equity instruments vest. • If the modification occurs after vesting date, the incremental fair value granted is recognized 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 entity modifies the terms or conditions of the equity instrument granted in a manner that reduces the total fair value of the share-based payment arrangement or is otherwise not beneficial to the employee, the entity continues to account for the services received as consideration for the equity instruments granted as if that modification had not occurred.
Settlements & Cancellations	
When an entity repurchases equity instruments that have vested, the amount of cash or other assets paid / liabilities incurred to repurchase the instrument is charged to equity, as long as the amount paid does not exceed the value of the instruments repurchased. If it does exceed the value of the instruments repurchased, the excess is recognized as an expense. When an entity settles a non-vested award for cash it has effectively vested the award. As a result, the amount of cost measured at the grant date but not yet recognized is recognized at the date of repurchase.	If a grant of equity instruments is cancelled or settled during the vesting period, the entity accounts for the cancellation or settlement as an acceleration of vesting and immediately recognizes the remaining amount for services received. Any payment made to the employee on the cancellation or settlement of the grant is accounted for as the repurchase of an equity interest, except to the extent that the payment exceeds the fair value of the equity instruments granted, measured at the repurchase date. Any excess is recognized as an expense. However, if the arrangement includes liability components, the entity remeasures the fair value of the liability at the date of cancellation or settlement and any payment made to settle the liability component is accounted for as an extinguishment of the liability. If the entity grants new equity instruments to the employee and identifies them as replacements for the cancelled equity instruments, the replacement equity instruments are accounted for in the same way as a modification of the original grant of equity instruments as described in the Modifications section of this publication. If an entity or counterparty can choose whether to meet a non-vesting condition, the entity must treat the entity's or counterparty's failure to meet that non-vesting condition during the vesting period as a cancellation. If an entity repurchases vested equity instruments, the payment made to the employee is 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. In that situation, any such excess is recognized as an expense.

Conclusion

In general, the principles relating to accounting for share-based payment transactions under ASPE and IFRS have a lot of similarities. However, when looking at the details of each standard there are some major differences. In general, more transactions would be accounted for as share-based payment transactions under IFRS than under ASPE.

If you require further guidance on accounting for share-based payments under IFRS or ASPE, please contact your local BDO Canada LLP office. If you are considering the adoption of a new standard, learn how our BDO Accounting Advisory Services Team can help you with the transition.

To learn more about the differences between standards, view our ASPE-IFRS: A Comparison Series.