APPENDIX H: COMPARATIVE ILLUSTRATIONS

H1. This appendix presents the examples included in Appendix A of the Proposed IFRS. It also presents the results of the examples if the provisions of Statement 123 had been used, as well as a brief description of the differences, if any, that arise by using the different standards. The examples from the Proposed IFRS are presented as they are in the document but reformatted in tabular form for ease of illustration alongside the corresponding results from applying Statement 123.

Example 1—Standard Award

Attribute	Assumptions Relevant to Proposed IFRS	Assumptions Relevant to Statement 123
Value of Award	An entity grants 100 options to each of its 500 employees. Each grant is conditional upon the employee working for the entity over the next three years. The entity estimates that the fair value of each option is CU15, before adjusting for the possibility of forfeiture due to failure of the employee to complete the required three-year period of service. On the basis of a weighted-average probability, the entity estimates that 20 per cent of employees will leave during the three-year period and therefore forfeit their rights to the options. Therefore, the total fair value of the options granted = 500 employees × 100 options × CU15 × 80% = CU600,000.[1]	An entity grants 100 options to each of its 500 employees. Each grant is conditional upon the employee working for the entity over the next three years. The entity estimates that the fair value of each option is CU15. On the basis of a weighted-average probability, the entity estimates that 20 per cent of employees will leave during the 3-year period and therefore forfeit their rights to the options. The possibility of forfeiture does not affect the "fair value" of each option under Statement 123.
Attribution	The entity also estimates, on the basis of a weighted-average probability, that the employee departures will be spread evenly over the three years. Therefore, the entity expects to receive three years' service from 400 employees (500 × 80%), and it also expects to receive services from the other 20 per cent of employees before they leave. Because their departures are expected to occur evenly over the three years, the entity expects to receive, on average, 1.5 years of service from each of the 100 employees who are expected to leave before vesting date. Therefore, the entity expects to receive in total (3 years' service × 400 employees) + (1.5 years' service × 100 employees) = 1,350 'years' (units) of service from the employees.	**123(a)—**Expense is recognized assuming all awards will vest; forfeitures are accounted for as they occur. **123(e)—**Expense is recognized by estimating the total number of awards that will ultimately vest; the estimate is adjusted as necessary when evidence becomes available that a different number of awards is expected to vest.

[1]It should be noted that the use of a weighted-average probability to adjust the fair value of each option for the possibility of forfeiture is not the only method that could be used. Paragraph 24 of the Proposed IFRS does not specify a particular method to apply when taking vesting conditions into account in the estimate of the fair value of the shares or options granted.

Attribute	Assumptions Relevant to Proposed IFRS	Assumptions Relevant to Statement 123
	To determine the fair value of each unit of service expected to be received, the fair value of the options granted (CU600,000) is divided by the number of units of service expected to be received during the vesting period (1,350), which gives a deemed fair value of CU444.44 per unit of employee service.	Under Statement 123, the "units of service" method is not used. Instead, the awards would be accounted for on the basis of a CU1,500 award (100 options × CU15 fair value) granted to 500 employees, vesting ratably over 3 years.
Rationale	This value (CU444.44 per unit of employee service) is based on the presumption that the agreement between the entity and its employees at grant date is fairly bargained: the entity granted options valued at CU600,000 at grant date, and it is presumed that the entity expects to receive services valued at CU600,000 in return. This accounting method is designed to achieve the accounting objective, which is to account for the services received during the vesting period. The fair value of the options granted is used as a surrogate measure, to determine the fair value of the services received during the vesting period.	The CU1,500 award is a conditional award, the issuance of which ultimately depends on the employee rendering service in the future to earn that award. The value of the award is fairly bargained at grant date but is not issued until the employee renders the requisite service. As such, no compensation cost is recognized for awards that are not earned by the employee. This accounting method is designed to achieve the accounting objective, which is to account for the value of the equity instruments issued to employees over the period that the employees perform the related services. No cost is recognized for awards that do not vest.
Scenario Comparison	If everything turns out as expected (Scenario 1 below), the entity will recognise a total of CU600,000 for services receives and consumed. If the entity receives more services than originally expected (Scenario 2 below), it will recognise more than CU600,000. For example, suppose that only 50 employees leave, and they all leave at the end of year 2. If the entity receives fewer services than expected (Scenario 3 below), it will recognise less than CU600,000. Suppose 75 employees leave halfway through year 1, another 75 leave 3 months from the start of year 2, and 40 leave halfway through year 3, so there are 310 employees at the end of year 3.	If everything turns out as expected (Scenario 1 below), the entity will recognize a total of CU600,000 in compensation cost. If fewer employees leave prior to vesting than originally expected (Scenario 2 below), the entity will recognize more than CU600,000. For example, suppose that only 50 employees leave, and they all leave at the end of year 2. If more employees leave than expected (Scenario 3 below), the entity will recognize less than CU600,000. Suppose 75 employees leave halfway through year 1, another 75 leave 3 months from the start of year 2, and 40 leave halfway through year 3, so there are 310 employees at the end of year 3.

Scenario 1—Everything turns out exactly as expected

Year	Calculation Details	IASB ED	Stmt 123 (a)	Stmt 123 (e)
1	**ED:** (467 + (33 × 0.5)) units of service × CU444.44 **123(a):** 467 × CU1,500 × 1/3 **123(e):** 400 × CU1,500 × 1/3	CU214,889	CU233,500	CU200,000
2	**ED:** (433 + (34 × 0.5)) units of service × CU444.44 **123(a):** (433 × CU1,500 × 2/3) – (expense in year 1) **123(e):** 400 × CU1,500 × 1/3	200,000	199,500	200,000
3	**ED:** (400 + (33 × 0.5)) units of service × CU444.44 **123(a):** (400 × CU1,500 × 3/3) – (exp. in yrs 1 & 2) **123(e):** 400 × CU1,500 × 1/3	185,111	167,000	200,000
	Total over three years	CU600,000	CU600,000	CU600,000

Scenario 2—Fewer employees leave or they leave later than originally estimated

Year	Calculation Details	IASB ED	Stmt 123 (a)	Stmt 123 (e)
1	**ED:** 500 units of service × CU444.44 **123(a):** 500 × CU1,500 × 1/3 **123(e):** 400 × CU1,500 × 1/3	CU222,222	CU250,000	CU200,000
2	**ED:** 500 units of service × CU444.44 **123(a):** (450 × CU1,500 × 2/3) – (expense in year 1) **123(e):** 400 × CU1,500 × 1/3	222,222	200,000	200,000
3	**ED:** 450 units of service × CU444.44 **123(a):** (450 × CU1,500 × 3/3) – (exp. in yrs 1 & 2) **123(e):** (450 × CU1,500 × 3/3) – (exp. in yrs 1 & 2)[2]	200,000	225,000	275,000
	Total over three years	CU644,444	CU675,000	CU675,000

Scenario 3—More employees leave or they leave earlier than originally estimated

Year	Calculation Details	IASB ED	Stmt 123 (a)	Stmt 123 (e)
1	**ED:** (425 + (75 × 0.5)) units of service × CU444.44 **123(a):** 425 × CU1,500 × 1/3 **123(e):** 400 × CU1,500 × 1/3	CU205,554	CU212,500	CU200,000
2	**ED:** (350 + (75 × 0.25)) units of service × CU444.44 **123(a):** (350 × CU1,500 × 2/3) – (expense in year 1) **123(e):** (275 × CU1,500 × 2/3) – (expense in year 1)[3]	163,887	137,500	75,000
3	**ED:** (310 + (40 × 0.5)) units of service × CU444.44 **123(a):** (310 × CU1,500 × 3/3) – (exp. in yrs 1 & 2)	146,667	115,000	

[2]No evidence was available until year 3 to suggest that the estimated number of awards expected to vest should be revised.

[3]Based on the experience in years 1–2, the estimated number of awards expected to vest was revised from 400 to 275 (500 – (75 × 3)) at the end of year 2. Management would make its best estimate at the end of each year, and that estimate would not necessarily assume that the same number of employees would depart in subsequent years, as had left in prior years.

	123(e): (310 × CU1,500 × 3/3) – (exp. in yrs 1 & 2)			190,000
	Total over three years	CU516,108	CU465,000	CU465,000

Example 2—Performance Award

Attribute	Assumptions Relevant to Proposed IFRS	Assumptions Relevant to Statement 123
Value of Award	An entity grants 100 options to each of its 500 employees. Each grant is conditional upon the employee working for the entity over the next three years and upon the entity achieving an 18 per cent increase in its share price by the end of the three-year service period. The entity estimates that the fair value of each option is CU15, before adjusting for the possibility of forfeiture due to failure of the employee to complete the required three-year period of service. On the basis of a weighted-average probability, the entity estimates that 20 per cent of employees will leave during the three-year period and therefore forfeit their rights to the options. Also on the basis of a weighted-average probability, the entity estimates that the possibility of forfeiture due to failure to achieve the performance target is 15 per cent.[4] Therefore, the total fair value of the options granted = 500 employees × 100 options × CU15 × 80% × 85% = CU510,000.	An entity grants 100 options to each of its 500 employees. Each grant is conditional upon the employee working for the entity over the next 3 years and upon the entity achieving an 18 per cent increase in its share price by the end of the 3-year service period. Using a path-dependent option-pricing model (refer to footnote 10 to Statement 123), the entity estimates that the fair value of each option is CU13. On the basis of a weighted-average probability, the entity estimates that 20 per cent of employees will leave during the 3-year period and therefore forfeit their rights to the options. The possibility of forfeiture does not affect the "fair value" of each option under Statement 123. However, the presence of a term of the award which limits its exercisability to only certain stock price ranges does affect the value of the award but is not considered a "performance condition" under Statement 123.
Attribution	The entity also estimates, on the basis of a weighted-average probability, that the employee departures will be spread evenly over the three years. Therefore, the entity expects to receive three years' service from 400 employees (500 × 80%), and it also expects to receive services from the other 20 per cent of employees before they leave. Because their departures are expected to occur evenly over the three years, the entity expects to receive, on average, 1.5 years of service from each of the 100 employees who are expected to leave before vesting date. Therefore, the entity	**123(a)—**Expense is recognized assuming all awards will vest; forfeitures are accounted for as they occur. **123(e)—**Expense is recognized by estimating the total number of awards that will ultimately vest; the estimate is adjusted as necessary when evidence becomes available that a different number of awards is expected to vest.

[4]It should be noted that the use of a weighted-average probability to adjust the fair value of each option for the possibility of forfeiture is not the only method that could be used. Paragraph 24 of the Proposed IFRS does not specify a particular method to apply when taking vesting conditions into account in the estimate of the fair value of the shares or options granted.

Attribute	Assumptions Relevant to Proposed IFRS	Assumptions Relevant to Statement 123
	expects to receive in total (3 years' service × 400 employees) + (1.5 years' service × 100 employees) = 1,350 'years' (units) of service from the employees. To determine the fair value of each unit of service expected to be received, the fair value of the options granted (CU510,000) is divided by the number of units of service expected to be received during the vesting period (1,350), which gives a deemed fair value of CU377.77 per unit of employee service.	Under Statement 123, the "units of service" method is not used. Instead, the awards would be accounted for on the basis of a CU1,300 award (100 options × CU13 fair value) granted to 500 employees, vesting ratably over 3 years.
Rationale	This value (CU377.77 per unit of employee service) is based on the presumption that the agreement between the entity and its employees at grant date is fairly bargained: the entity granted options valued at CU510,000 at grant date, and it is presumed that the entity expects to receive services valued at CU510,000 in return. This accounting method is designed to achieve the accounting objective, which is to account for the services received during the vesting period. The fair value of the options granted is used as a surrogate measure, to determine the fair value of the services received during the vesting period.	The CU1,300 award is a conditional award, the issuance of which ultimately depends on the employee rendering service in the future to earn that award. The value of the award is fairly bargained at grant date but is not issued until the employee renders the requisite service. As such, no compensation cost is recognized for awards that are not earned by the employee. This accounting method is designed to achieve the accounting objective, which is to account for the value of the equity instruments issued to employees over the period that the employees perform the related services. No cost is recognized for awards that do not vest. However, pursuant to paragraph 26 of Statement 123, ". . . compensation cost shall be recognized for awards to employees who remain in service for the requisite period regardless of whether the target stock price . . . is reached."
Scenario Comparison	Suppose the entity receives 430 units of service in year 1, 400 units of service in year 2, and 375 units of service in year 3, for a total of 1,205 units of service.	For purposes of this example, assume that 400 employees remained at the end of year 1, and 375 employees remained at the end of years 2 and 3. Statement 123 and the Proposed IFRS view the type of condition present in this award differently. Thus, not only do the two standards differ in the attribution of expense to accounting periods, the awards also have a different "fair value."

Year	Calculation Details	IASB ED	Stmt 123 (a)	Stmt 123 (e)
1	**ED:** 430 units of service × CU377.77 **123(a):** 400 × CU1,300 × 1/3	CU162,441	CU173,333	

	123(e): 400 × CU1,300 × 1/3			CU173,333
2	**ED:** 400 units of service × CU377.77 **123(a):** (375 × CU1,300 × 2/3) – (expense in year 1) **123(e):** (350 × CU1,300 × 2/3) – (expense in year 1)[5]	151,108	151,667	130,000
3	**ED:** 375 units of service × CU377.77 **123(a):** (375 × CU1,300 × 3/3) – (exp. in yrs 1 & 2) **123(e):** (375 × CU1,300 × 3/3) – (exp. in yrs 1 & 2)	141,664	162,500	184,167
	Total over three years	CU455,213	CU487,500	CU487,500

Example 3(a)—Modification (IASB Alternative 1)

Attribute	Assumptions Relevant to Proposed IFRS	Assumptions Relevant to Statement 123
Value of Award	An entity grants 100 options to each of its 500 employees. Each grant is conditional upon the employee working for the entity over the next three years. The entity estimates that the fair value of each option is CU15, before adjusting for the possibility of forfeiture due to failure of the employee to complete the required three-year period of service. On the basis of a weighted-average probability, the entity estimates that 20 per cent of employees will leave during the three-year period and therefore forfeit their rights to the options. Therefore, the total fair value of the options granted = 500 employees × 100 options × CU15 × 80% = CU600,000.[6] 40 employees leave during year 1, a further 50 employees leave during year 2, and on average all those employees complete six months' service in the year of their departure. At the end of year 2, the entity reprices its options, and the repriced options vest at the end of year 4. The entity expects a further 10 employees to leave during each of years 3 and 4, with the departing employees completing on average six months' service in the year of their departure.	An entity grants 100 options to each of its 500 employees. Each grant is conditional upon the employee working for the entity over the next three years. The entity estimates that the fair value of each option is CU15. On the basis of a weighted-average probability, the entity estimates that 20 per cent of employees will leave during the 3-year period and therefore forfeit their rights to the options. The possibility of forfeiture does not affect the "fair value" of each option under Statement 123. 40 employees leave during year 1, another 50 employees leave during year 2. At the end of year 2, the entity reprices its options, and the repriced options vest at the end of year 4. The entity expects a further 10 employees to leave during each of years 3 and 4.

[5]Based on the experience in years 1–2, the estimated number of awards expected to vest was revised from 400 to 350 at the end of year 2. Management would make its best estimate at the end of each year, and that estimate would not necessarily assume that the same number of employees would depart in subsequent years as had left in prior years.

[6]It should be noted that the use of a weighted-average probability to adjust the fair value of each option for the possibility of forfeiture is not the only method that could be used. Paragraph 24 of the Proposed IFRS does not specify a particular method to apply when taking vesting conditions into account in the estimate of the fair value of the shares or options granted.

Attribute	Assumptions Relevant to Proposed IFRS	Assumptions Relevant to Statement 123
	The entity estimates that, at the date of repricing, the fair value of each of the original options granted (before taking into account the repricing) is CU5 and that the fair value of each repriced option is CU8.	The entity estimates that, at the date of repricing, the fair value of each of the original options granted (before taking into account the repricing) is CU5. The entity estimates at the date of repricing that the fair value of each repriced option is CU8.
Attribution	The incremental value is calculated as follows: (CU8 – CU5) × 410 employees × 100 options per employee = CU123,000. The entity expects to receive (390 × 2) + (10 × 0.5) + (10 × 1.5) = 800 units of service during years 3 and 4. Therefore, the amount to attribute to each unit of service received in respect of the incremental value granted is CU123,000 / 800 = CU153.75 per year (unit) of employee service.	Under Statement 123, the "units of service" method is not used. Instead, the modification would be accounted for on the basis of a CU300 incremental fair value per award (100 options × CU3 fair value) granted to 500 employees, added to any remaining measured but unrecognized compensation from the original award (CU500) vesting ratably over 2 years.
Rationale	This accounting method is designed to achieve the accounting objective, which is to account for the services received during the vesting period. The fair value of the modification is used as a surrogate measure, to determine the incremental fair value of the services received during the vesting period. The total is made up of 1,320 units of service at CU444.44 per year = CU586,660 in respect of the original option grant, plus 800 units of service at CU153.75 per year = CU123,000 in respect of the new option grant on repricing. There is a larger expense in year 3, because that year includes both the final year of the original option grant and the first year of the incremental value granted on repricing. This is consistent with the requirements of paragraph 30 of the [Proposed] IFRS, which treats the incremental value granted on repricing as a new option grant, in addition to the original option grant.	This accounting method is designed to achieve the accounting objective, which is to account for the value of the equity instruments issued to employees over the period that the employees perform the related services.

Year	Calculation Details	IASB ED	Stmt 123 (a)	Stmt 123 (e)
1	**ED:** (460 + (40 × 0.5)) units of service × CU444.44 **123(a):** 460 × CU1,500 × 1/3 **123(e):** 400 × CU1,500 × 1/3	CU213,331	CU230,000	CU200,000
2	**ED:** (410 + (50 × 0.5)) units of service × CU444.44 **123(a):** (410 × CU1,500 × 2/3) – (expense in year 1) **123(e):** (390 × CU1,500 × 2/3) – (expense in year 1)[7]	193,331	180,000	190,000

[7]The estimate of the number of awards expected to vest is revised from 400 to 390 at the end of year 2.

3	**ED:** (400 + (10 × 0.5)) units of service × CU444.44 (400 + (10 × 0.5)) units of service × CU153.75 **123(a):** (400 × ((CU1,500 × 1/3) + CU300) × 1/2) less: 10 × CU1,500 × 2/3 (years 1 & 2 expense for current-year forfeitures) **123(e):** (390 × ((CU1,500 × 1/3) + CU300) × 1/2)	179,998 62,268	160,000 (10,000)	156,000
4	**ED:** (390 + (10 × 0.5)) units of service × CU153.75 **123(a):** (390 × (CU1,500 + CU300)) – (prior expense) **123(e):** (390 × (CU1,500 + CU300)) – (prior expense)	60,732	142,000	156,000
	Total	CU709,660	CU702,000	CU702,000

Example 3(b)—Modification (IASB Alternative 2)

Attribute	Assumptions Relevant to Proposed IFRS	Assumptions Relevant to Statement 123
Value of Award	An entity grants 100 options to each of its 500 employees. Each grant is conditional upon the employee working for the entity over the next three years. The entity estimates that the fair value of each option is CU15, before adjusting for the possibility of forfeiture due to failure of the employee to complete the required three-year period of service. On the basis of a weighted-average probability, the entity estimates that 20 per cent of employees will leave during the three-year period and therefore forfeit their rights to the options. Therefore, the total fair value of the options granted = 500 employees × 100 options × CU15 × 80% = CU600,000.[8] 40 employees leave during year 1, a further 50 employees leave during year 2, and on average those employees complete six months' service in the year of their departure. At the end of year 2, the entity reprices its options, and the repriced options vest at the end of year 4. The entity expects a further 10 employees to leave during each of years 3 and 4, with the departing employees completing on average 6 months' service in the year of their departure.	An entity grants 100 options to each of its 500 employees. Each grant is conditional upon the employee working for the entity over the next three years. The entity estimates that the fair value of each option is CU15. On the basis of a weighted-average probability, the entity estimates that 20 per cent of employees will leave during the 3-year period and therefore forfeit their rights to the options. The possibility of forfeiture does not affect the "fair value" of each option under Statement 123. 40 employees leave during year 1, another 50 employees leave during year 2. At the end of year 2, the entity reprices its options, and the repriced options vest at the end of year 4. The entity expects a further 10 employees to leave during each of years 3 and 4.

[8]It should be noted that the use of a weighted-average probability to adjust the fair value of each option for the possibility of forfeiture is not the only method that could be used. Paragraph 24 of the Proposed IFRS does not specify a particular method to apply when taking vesting conditions into account in the estimate of the fair value of the shares or options granted.

Attribute	Assumptions Relevant to Proposed IFRS	Assumptions Relevant to Statement 123
	The entity estimates that, at the date of repricing, the fair value of each of the original options granted (before taking into account the repricing) is CU5. The entity estimates at the date of repricing that the fair value of each repriced option is CU8.	The entity estimates that, at the date of repricing, the fair value of each of the original options granted (before taking into account the repricing) is CU5. The entity estimates at the date of repricing that the fair value of each repriced option is CU8.
Attribution	The incremental value is calculated as follows: (CU8 – CU5) × 410 employees × 100 options per employee = CU123,000. The entity expects to receive (390 × 2) + (10 × 0.5) + (10 × 1.5) = 800 units of service during years 3 and 4. Therefore, the amount to attribute to each unit of service received in respect of the incremental value granted is CU123,000 / 800 = CU153.75 per year (unit) of employee service. Original grant = CU444.44 per year of service, with one year to vest at date of repricing, during which the entity expects to receive 405 units of service. New grant = CU153.75 per year of service, with two years to vest, during which the entity expects to receive 800 units of service. Spread over two year vesting period of new grant: ((CU444.44 × 405) + (CU153.75 × 800)) / 800 = CU378.75 per employee per year of service.	Under Statement 123, the "units of service" method is not used. Instead, the modification would be accounted for on the basis of a CU300 incremental fair value per award (100 options × CU3 fair value) granted to 500 employees, added to any remaining measured but unrecognized compensation from the original award (CU500) vesting ratably over 2 years.
Rationale	This accounting method is designed to achieve the accounting objective, which is to account for the services received during the vesting period. The fair value of the modification is used as a surrogate measure, to determine the incremental fair value of the services received during the vesting period.	This accounting method is designed to achieve the accounting objective, which is to account for the value of the equity instruments issued to employees over the period that the employees perform the related services.

Year	Calculation Details	IASB ED	Stmt 123 (a)	Stmt 123 (e)
1	**ED:** (460 + (40 × 0.5)) units of service × CU444.44 **123(a):** 460 × CU1,500 × 1/3 **123(e):** 400 × CU1,500 × 1/3	CU213,331	CU230,000	CU200,000
2	**ED:** (410 + (50 × 0.5)) units of service × CU444.44 **123(a):** (410 × CU1,500 × 2/3) – (expense in year 1) **123(e):** (390 × CU1,500 × 2/3) – (expense in year 1) [9]	193,331	180,000	190,000
3	**ED:** (400 + (10 × 0.5)) units of service × CU378.75 **123(a):** (400 × ((CU1,500 × 1/3) + CU300) × 1/2)	153,393	160,000	

[9] The estimate of the number of awards expected to vest is revised from 400 to 390 at the end of year 2.

	less: 10 × CU1,500 × 2/3 (years 1 & 2 expense for current-year forfeitures) **123(e):** (390 × ((CU1,500 × 1/3) + CU300) × ½)		(10,000)	156,000
4	**ED:** (390 + (10 × 0.5)) units of service × CU378.75 **123(a):** (390 × (CU1,500 + CU300)) – prior expense **123(e):** (390 × (CU1,500 + CU300)) – prior expense	149,605	142,000	156,000
	Total	CU709,660	CU702,000	CU702,000

Example 4(a)—Cancellation (with replacement options)

Attribute	Assumptions Relevant to Proposed IFRS	Assumptions Relevant to Statement 123
Value of Award	An entity grants 100 options to each of its 500 employees. Each grant is conditional upon the employee working for the entity over the next three years. The entity estimates that the fair value of each option is CU15, before adjusting for the possibility of forfeiture due to failure of the employee to complete the required three-year period of service. On the basis of a weighted-average probability, the entity estimates that 20 per cent of employees will leave during the three-year period and therefore forfeit their rights to the options. Therefore, the total fair value of the options granted = 500 employees × 100 options × CU15 × 80% = CU600,000.[10] 40 employees leave during year 1, another 50 employees leave during year 2, and on average those employees complete six months' service in the year of their departure. At the end of year 2, the entity cancels the options, and grants each of the remaining 410 employees 100 options each, conditional upon the employee remaining in the entity's employ for two years. The entity estimates that the fair value of the new options granted is CU8 each, and it identifies the new option as replacement options for the cancelled options. The entity estimates that the fair value of the	An entity grants 100 options to each of its 500 employees. Each grant is conditional upon the employee working for the entity over the next three years. The entity estimates that the fair value of each option is CU15. On the basis of a weighted-average probability, the entity estimates that 20 per cent of employees will leave during the 3-year period and therefore forfeit their rights to the options. The possibility of forfeiture does not affect the "fair value" of the award under Statement 123. 40 employees leave during year 1, another 50 employees leave during year 2. At the end of year 2, the entity cancels the options, and grants each of the remaining 410 employees 100 options each, conditional upon the employee remaining in the entity's employ for 2 years. The entity estimates that the fair value of the new options granted is CU8 each. The fair value of each of the cancelled options is CU5 at the date the new options were granted. Statement 123 does not distinguish

[10]It should be noted that the use of a weighted-average probability to adjust the fair value of each option for the possibility of forfeiture is not the only method that could be used. Paragraph 24 of the Proposed IFRS does not specify a particular method to apply when taking vesting conditions into account in the estimate of the fair value of the shares or options granted.

Attribute	Assumptions Relevant to Proposed IFRS	Assumptions Relevant to Statement 123
	cancelled options is CU5 each (measured as if the options had not been cancelled) at the date the replacement options were granted. The entity expects a further 10 employees to leave during each of years 3 and 4, with the departing employees completing on average six months' service in the year of their departure.	between a cancellation and new grant and a repricing. The entity expects a further 10 employees to leave during each of years 3 and 4.
Attribution	The incremental fair value of the replacement options is calculated as: (CU8 fair value of new options – CU5 fair value of cancelled options) × 410 employees × 100 options per employee = CU123,000. The entity expects to receive (390 × 2) + (10 × 0.5) + (10 × 1.5) = 800 units of service during years 3 and 4. Therefore, the amount to attribute to each unit of service rendered in respect of the incremental value granted of CU123,000 = CU153.75 per employee per year of service. As required by paragraph 29(a), the entity continues to account for the services received in respect of the original option grant as if that option grant had not been cancelled. The entity also accounts for the services received in respect of the incremental value granted on replacement of those options.	Under Statement 123, the "units of service" method is not used. Instead, the modification would be accounted for on the basis of a CU300 incremental fair value per award (100 options × CU3 fair value) granted to 500 employees, added to any remaining measured but unrecognized compensation from the original award (CU500) vesting ratably over 2 years.
Rationale	This accounting method is designed to achieve the accounting objective, which is to account for the services received during the vesting period. The fair value of the modification is used as a surrogate measure, to determine the incremental fair value of the services received during the vesting period. The total is made up of 1,320 units of service at CU444.44 per year = CU586,660 in respect of the original option grant, plus 800 units of service at CU153.75 per year = CU123,000 in respect of the new option grant on repricing. There is a larger expense in year 3, because that year includes both the final year of the original option grant and the first year of the incremental value granted on repricing. This is consistent with the requirements of paragraph 29(a) of the Proposed IFRS, which treats the incremental value granted on repricing as a new option grant, in addition to the original option grant.	This accounting method is designed to achieve the accounting objective, which is to account for the value of the equity instruments issued to employees over the period that the employees perform the related services.

Scenario Comparison	If everything turns out as expected, the amounts recognised in years 1–4 are the same as in Example 3(a).	The total expense recognized is the same as in Example 3(a).

Example 4(b)—Cancellation (new options not identified as replacements)

Attribute	Assumptions Relevant to Proposed IFRS	Assumptions Relevant to Statement 123
Value of Award	An entity grants 100 options to each of its 500 employees. Each grant is conditional upon the employee working for the entity over the next three years. The entity estimates that the fair value of each option is CU15, before adjusting for the possibility of forfeiture due to failure of the employee to complete the required three-year period of service. On the basis of a weighted-average probability, the entity estimates that 20 per cent of employees will leave during the three-year period and therefore forfeit their rights to the options. Therefore, the total fair value of the options granted = 500 employees × 100 options × CU15 × 80% = CU600,000.[11] 40 employees leave during year 1, another 50 employees leave during year 2, and on average those employees complete six months' service in the year of their departure. At the end of year 2, the entity cancels the options, and grants each of the remaining 410 employees 100 options each, conditional upon the employee remaining in the entity's employ for two years. The entity estimates that the fair value of the new options granted is CU8 each, and it does not identify the new options as replacement options for the cancelled options. The entity estimates that the fair value of the cancelled options is CU5 each (measured as if the options had not been cancelled) at the date the replacement options were granted.	An entity grants 100 options to each of its 500 employees. Each grant is conditional upon the employee working for the entity over the next three years. The entity estimates that the fair value of each option is CU15. On the basis of a weighted-average probability, the entity estimates that 20 per cent of employees will leave during the 3-year period and therefore forfeit their rights to the options. The possibility of forfeiture does not affect the "fair value" of each option under Statement 123. 40 employees leave during year 1, another 50 employees leave during year 2. At the end of year 2, the entity cancels the options and grants each of the remaining 410 employees 100 options each, conditional upon the employee remaining in the entity's employ for 2 years. The entity estimates that the fair value of the new options granted is CU8 each. The fair value of each of the cancelled options is CU5 at the date the new options were granted. Statement 123 does not distinguish between a cancellation and new grant and a repricing. The "new" award is deemed to be a modification of the original award and would be measured the same as in Example 4(a), and the incremental value, plus any unrecognized value from the original award,

[11]It should be noted that the use of a weighted-average probability to adjust the fair value of each option for the possibility of forfeiture is not the only method that could be used. Paragraph 24 of the Proposed IFRS does not specify a particular method to apply when taking vesting conditions into account in the estimate of the fair value of the shares or options granted.

Attribute	Assumptions Relevant to Proposed IFRS	Assumptions Relevant to Statement 123
	The entity expects a further 10 employees to leave during each of years 3 and 4, with the departing employees completing on average six months' service in the year of their departure.	would be recognized over the remaining or revised vesting period. The entity expects a further 10 employees to leave during each of years 3 and 4.
Attribution	The entity continues to account for the services received in respect of the original option grant, and it also accounts for the services received in respect of the new option grant. The fair value of the new options granted = CU8 × 410 × 100 = CU328,000. The amount to attribute to each unit of service received in respect of the new option grant = CU328,000 / 800 = CU410 per unit of service.	Under Statement 123, the "units of service" method is not used. Instead, the modification would be accounted for on the basis of a CU300 incremental fair value per award (100 options × CU3 fair value) granted to 500 employees, added to any remaining measured but unrecognized compensation from the original award (CU500) vesting ratably over 2 years.
Rationale	This accounting method is designed to achieve the accounting objective, which is to account for the services received during the vesting period. The fair value of the modification is used as a surrogate measure, to determine the incremental fair value of the services received during the vesting period. The total is made up of 1,320 units of service at CU444.44 per year = CU586,660 in respect of the original option grant, plus 800 units of service at CU153.75 per year = CU123,000 in respect of the new option grant on repricing. There is a larger expense in year 3, because that year includes both the final year of the original option grant and the first year of the incremental value granted on repricing. This is consistent with the requirements of paragraph 29(a) of the Proposed IFRS, which treats the incremental value granted on repricing as a new option grant, in addition to the original option grant.	This accounting method is designed to achieve the accounting objective, which is to account for the value of the equity instruments issued to employees over the period that the employees perform the related services.

Year	Calculation Details	IASB ED	Stmt 123 (a)	Stmt 123 (e)
1	**ED:** (460 + (40 × 0.5)) units of service × CU444.44 **123(a):** 460 × CU1,500 × 1/3 **123(e):** 400 × CU1,500 × 1/3	CU213,331	CU230,000	CU200,000

2	**ED:** (410 + (50 × 0.5)) units of service × CU444.44 **123(a):** (410 × CU1,500 × 2/3) – (expense in year 1) **123(e):** (390 × CU1,500 × 2/3) – (expense in year 1) [12]	193,331	180,000	190,000
3	**ED:** (400 + (10 × 0.5)) units of service × CU444.44 (400 + (10 × 0.5)) units of service × CU410 **123(a):** (400 × ((CU1,500 × 1/3) + CU300) × 1/2) less: 10 × CU1,500 × 2/3 (years 1 & 2 expense for current-year forfeitures) **123(e):** (390 × ((CU1,500 × 1/3) + CU300) × 1/2)	179,998 166,050	160,000 (10,000)	156,000
4	**ED:** (390 + (10 × 0.5)) units of service × CU410 **123(a):** (390 × (CU1,500 + CU300)) – prior expense **123(e):** (390 × (CU1,500 + CU300)) – prior expense	161,950	142,000	156,000
	Total	CU914,660	CU702,000	CU702,000

Cash-settled share-based payment transactions

Attribute	Assumptions Relevant to Proposed IFRS	Assumptions Relevant to Statement 123
Value of Award	An entity grants 100 cash share appreciation rights (SARs) to each of its 500 employees, on condition that the employees remain in its employ for the next three years. The entity estimates that at grant date the fair value of each SAR granted is CU12, by applying an option pricing model and adjusting the value produced by that model to take into account the possibility of forfeiture due to failure of the employee to complete the required three-year period of service. Therefore, the total fair value of the SARs granted = 500 employees × 100 options × CU12 = CU600,000. On the basis of a weighted-average probability, the entity estimates that 20 per cent of employees will leave during the three-year period. The entity also estimates that the employee departures will be spread evenly over the three years. Therefore, the entity expects to receive three years' service from 400 employees (500 × 80%), and it expects to receive services from the other 20% of employees before they leave. The departures are expected to occur evenly over the three years.	An entity grants 100 cash share appreciation rights (SARs) to each of its 500 employees, on condition that the employees remain in its employ for the next 3 years. Under Statement 123, cash-settled awards are accounted for at intrinsic value at the end of each reporting period until exercised or settled. Equity awards are measured at grant date fair value, assumed to be CU15.00, in this example, without consideration of the possibility of forfeiture, and are expensed over the vesting period with no subsequent adjustment to compensation expense for changes in intrinsic value or time value. On the basis of a weighted-average probability, the entity estimates that 20 per cent of employees will leave during the 3-year period and therefore forfeit their rights to the options. The possibility of forfeiture does not affect the "fair value" or "intrinsic value" of the award under Statement 123.

[12]The estimate of the number of awards expected to vest is revised from 400 to 390 at the end of year 2.

Attribute	Assumptions Relevant to Proposed IFRS	Assumptions Relevant to Statement 123
	Fifty employees leave during year 1, 40 employees leave during year 2, and 20 employees leave during year 3, and in each year the employees complete an average of six months' service before their departure. **Fair Value** **Intrinsic Value** Year 1 CU14.40 CU5.00 Year 2 CU15.50 CU10.00 Year 3 CU18.20 CU15.00 Year 4 CU21.40 CU20.00 Year 5 N/A CU25.00	50 employees leave during year 1, 40 employees leave during year 2, and 20 employees leave during year 3, and in each year the employees complete an average of 6 months' service before their departure. **Fair Value** **Intrinsic Value** Year 1 CU14.40 CU5.00 Year 2 CU15.50 CU10.00 Year 3 CU18.20 CU15.00 Year 4 CU21.40 CU20.00 Year 5 N/A CU25.00
Attribution	The entity expects to receive, on average, 1.5 years' of service from each of the 100 employees who are expected to leave before vesting date. Therefore, the entity expects to receive in total (3 years' service × 400 employees) + (1.5 years' service × 100 employees) = 1,350 'years' (units) of service from the employees. Hence, for an equivalent equity-settled transaction, the deemed fair value of each unit of service rendered during the vesting period would be CU600,000 / 1,350 = CU444.44. (This information is needed to determine the amount to disclose under paragraph 52(b) of the Proposed IFRS.) At the end of year 3, 150 employees exercise their SARs, another 140 employees exercise their SARs at the end of year 4 and the remaining 100 employees exercise their SARs at the end of year 5. The entity estimates the fair value of the SARs at the end of each year in which a liability exists as shown below. Note that in years 1 and 2, the fair value estimate takes into account the possibility of forfeiture. At the end of year 3, all SARs held by the remaining employees vest. The intrinsic value of the SARs at the date of exercise (which equals the cash paid out) at the end of years 3, 4 and 5 are also shown below.	Under Statement 123, the "units of service" method is not used. Instead, cash awards would be accounted for on the basis of their intrinsic value at each reporting date. Because the awards vest ratably over 3 years at each reporting date, the cumulative intrinsic value would be multiplied by the fraction of the vesting period completed and the liability would be adjusted to that product. Equity awards would be accounted for at their fair value and recognized ratably over the vesting period. For purposes of this illustration, forfeitures are accounted for as they occur.
Rationale	This accounting method is designed to achieve the accounting objective, which is to account for the services received during the	For a cash-settled award, the SAR is a liability, the settlement of which ultimately depends on the employee rendering service

Attribute	Assumptions Relevant to Proposed IFRS	Assumptions Relevant to Statement 123
	vesting period. The fair value of the liability is used as a surrogate measure, to determine the fair value of the services received during the vesting period. Because this is a cash settled award, it will ultimately be "trued up" to settlement value.	in the future to earn that award. Because the award is settled in cash, it is accounted for as a liability at settlement value. No compensation cost is recognized for awards that are not earned by the employee and, therefore, not settled. For an equity award, the SAR is considered an option and is accounted for at fair value at grant date.

		IASB ED		Statement 123	
Year	**Calculation Details**	**Liability**	**Equity**	**Liability**	**Equity**
Expense year 1	**ED (L):** 450 empls × 100 SARs × CU14.40 × 1/3 **ED (E):** (450 + (50 × 0.5)) units × CU444.44 **123 (L):** 450 empls × 100 SARs × CU5.00 × 1/3 **123 (E):** 450 empls × 100 SARs × CU15.00 × 1/3	CU216,000	CU211,109	CU75,000	CU225,000
Bal. end year 1	**ED (L):** 450 empls × 100 SARs × CU14.40 × 1/3 **123 (L):** 450 empls × 100 SARs × CU5.00 × 1/3	216,000		75,000	
Expense year 2	**ED (L):** Change in liability **ED (E):** (410 + (40 × 0.5)) units × CU444.44 **123 (L):** Change in liability **123 (E):** 410 empls × 100 SARs × CU15.00 × 2/3 less expense recognized in year 1	207,667	191,109	198,333	185,000
Bal. end year 2	**ED (L):** 410 empls × 100 SARs × CU15.50 × 2/3 **123 (L):** 410 empls × 100 SARs × CU10.00 × 2/3	423,667		273,333	
Expense year 3	**ED (L):** Change in liability plus cash paid for awards exercised (150 × 100 × 15 = CU225,000) **ED (E):** (390 + (20 × 0.5)) units × CU444.44 **123 (L):** Change in liability plus cash paid for awards exercised (150 × 100 × 15 = CU225,000) **123 (E):** 390 empls × 100 SARs × CU15.00 less expense recognized in years 1 & 2	238,133	177,776	311,667	175,000
Bal. end year 3	**ED (L):** 240 employees × 100 SARs × CU18.20 **123 (L):** 240 employees × 100 SARs × CU15.00	436,800		360,000	
Expense year 4	**ED (L):** Change in liability plus cash paid for awards exercised (140 × 100 × 20 = CU280,000) **ED (E):** Fully vested; no further expense **123 (L):** Change in liability plus cash paid for awards exercised (140 × 100 × 20 = CU280,000) **123 (E):** Fully vested; no further expense	57,200	0	120,000	0
Bal. end year 4	**ED (L):** 100 employees × 100 SARs × CU21.40 **123 (L):** 100 employees × 100 SARs × CU20.00	214,000		200,000	
Expense year 5	**ED (L):** Change in liability plus cash paid for awards exercised (100 × 100 × 25 = CU250,000) **ED (E):** Fully vested; no further expense **123 (L):** Change in liability plus cash paid for awards exercised (100 × 100 × 25 = CU250,000) **123 (E):** Fully vested; no further expense	36,000	0	50,000	0
Bal. end year 5	**ED (L):** 0 employees × 100 SARs × CU25.00 **123 (L):** 0 employees × 100 SARs × CU25.00	0		0	
	Total Expense	CU755,000	CU579,994	CU755,000	CU585,000