

TW  
10 September 2013  
Company Secretaries

Dear Sir/Madam

## **APPLICATION OF IFRS 2 TO SHARE INCENTIVE SCHEMES CONTAINING A CASH SETTLEMENT OPTION**

The JSE wishes to bring to your attention a recent matter arising from its pro-active monitoring activities dealing with the treatment of cash settled options. The matter was also referred to the Financial Reporting Investigation Panel (“**FRIP**”) for their advice.

### Fact pattern

The terms of an equity settled share based payment scheme permitted settlement in cash at the option of the Issuer. In the first year of vesting the Issuer settled certain of the employees share appreciation rights (“**SARS**”) in cash when requested to do so by the employees. In the subsequent years, further SARS were settled in cash, even in instances when no request was made by the employee.

The Issuer continued to treat the SARS as equity settled on the basis that the decision to settle in cash was made at settlement date based on an assessment of the commercial and economic factors, and what would be most beneficial to the Issuer. The Issuer had no stated policy with regards to cash settlement and contended that it thus did not have a present obligation of cash settlement, and continued to treat the scheme as equity settled.

### Application of IFRS 2

Given the above fact pattern the SARS should have been treated as cash settled in terms of paragraphs 41 to 43 of IFRS 2. In considering this matter the FRIP noted that:

- Past behaviour and patterns of generally settling in cash shed light on the assessment of the likely conduct in the future indicating a rebuttable presumption of likely conduct;
- In circumstances where the Issuer cash settles the majority of SARS, this would be an indicator that a practice has been developed of settling SARS in cash (irrespective of its stated policy in this regard);



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**Company Secretary:** GC Clarke

- Settlement in cash, even when not requested to do so by the holder of the right, would point to conduct of generally settling in cash, and establishes a business behaviour in relation thereto;
- The settling in cash in those circumstances (without the request from the holder of the right), would in fact be a stronger indication of an obligation to settle in cash than the circumstance in IFRS 2 paragraph 41 which contemplates that the counter-party specifically requests cash settlement;
- Even if the original intention was to settle in shares, in the Issuers case, the settlements in cash indicated a practice of cash settlement, which would drive the accounting thereafter; and
- For completeness, the assessment of whether the SARS were cash or equity settled would be a significant judgment that should be disclosed in terms of IAS 1.

### Conclusion

The JSE urges Issuers to pay careful attention to their accounting treatment for share incentive shares where the scheme allows for cash settlement and this option is being utilised.

Should you have any queries regarding the content of this letter please contact Tania Wimberley.

Yours faithfully

A handwritten signature in black ink, consisting of a large, stylized capital letter 'F' with a vertical line extending downwards from its base. The top of the 'F' is rounded and loops back to the left.

**A F VISSER: GENERAL MANAGER  
ISSUER REGULATION**

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