FINANCIAL REPORTING PRONOUNCEMENT 3: ACCOUNTING FOR BLACK ECONOMIC EMPOWERMENT (BEE) TRANSACTION UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) FOR SMALL AND MEDIUM ENTERPRISES

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I, Dr Rob Davies, Minister of Trade and Industry, pursuant to the publication of notice 1448 in *Government Gazette* 41338 dated 18 December 2017 for wider public consultation, publish the final notice on Financial Reporting Pronouncement 3. The final notice comes into force on the date of publication.

(Signed)

Dr ROB DAVIES, MP
Minister of Trade and Industry
12 February 2018

FINANCIAL REPORTING PRONOUNCEMENT 3 ACCOUNTING FOR BLACK ECONOMIC EMPOWERMENT (BEE) TRANSACTIONS UNDER IFRS FOR SMEs

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Preface

Financial Reporting Pronouncement 3 (FRP 3) has been issued by the Financial Reporting Standards Council (FRSC) and applies to companies applying IFRS for SMEs. It is applicable to both the 2009 and 2015 version of IFRS for SMEs.

Under IFRS for SMEs, section 28 *Share-based Payment*, applies to the accounting for Black Economic Empowerment (BEE) transactions where the value of cash and other assets received is less than the fair value of equity instruments granted to the BEE partner, ie for the BEE equity credentials.

While section 26 addresses the broad principle that equity instruments issued at a discount are within the scope of section 26 it does not address issues specific to BEE transactions. This FRP seeks to address certain of these issues:

- Should the difference between the fair value of the equity instruments granted and the fair value of the cash and other assets received, ie the BEE equity credentials, be recognised as an intangible asset or as an expense?
- Where BEE equity credentials are obtained as part of the net assets acquired in a business combination, how should the BEE equity credentials acquired be accounted for?
- Assuming that BEE equity credentials do not meet the criteria for recognition as an intangible asset, how should vesting conditions be interpreted in the context of a BEE transaction?

A separate FRP (FRP 2 *Accounting for Black Economic Empowerment (BEE) Transactions under IFRS*) addresses these issues for companies applying IFRS.

With reference to the Preface to Financial Reporting Pronouncements and Guides issued by the FRSC, the FRSC may issue Financial Reporting Pronouncements (FRPs) to provide authoritative guidance to preparers, auditors and users of financial statements, thus facilitating the standardisation of financial reporting.

This FRP has the same authority as IFRS for SMEs.

ACCOUNTING FOR BLACK ECONOMIC EMPOWERMENT (BEE) TRANSACTIONS UNDER IFRS FOR SMEs

Paragraph 3.3 of section 3 of IFRS for SMEs (Financial Statement Presentation) requires an entity whose financial statements comply with IFRS for SMEs to make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with IFRS for SMEs unless they comply with all the requirements of IFRS for SMEs. Paragraph 3.16 states that assessing whether an omission or misstatement could influence economic decisions of users, and so be material, depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item or a combination of both, could be the determining factor.

References

(a) Section 2 - Concepts and Pervasive Principles;

(b) Section 10 - Accounting Policies, Estimates and Errors;

(c) Section 18 - Intangible Assets other than Goodwill;

(d) Section 26 - Share-based Payment;

(e) Section 19 - Business Combinations and Goodwill; and

(f) Appendix B - Glossary of terms

Background

1 The FRSC issued FRP 2 *Accounting for Black Economic Empowerment (BEE) Transactions under IFRS* in November 2016. Given that entities applying IFRS for SMEs may also enter into BEE transactions, the FRSC considered it would be useful to issue a similar FRP addressing the same issues under IFRS for SMEs.

2 Paragraph 26.17 of section 26 of IFRS for SMEs clarifies that if the identifiable consideration received appears to be less than the fair value of the equity instruments granted or the liability incurred, this typically indicates that other consideration (ie unidentifiable goods or services) has been (or will be) received.

3 In the context of empowerment of black people * through meaningful participation in the South African economy, entities may issue equity

* As defined in terms of the Broad-Based Black Economic Empowerment Act 53 of 2003

instruments to black people or entities controlled by black people at a discount to fair value. The goods or services received from the black people or entities controlled by them in return for the equity instruments may or may not be specifically identifiable.

4 Section 26, therefore, applies to the accounting for BEE transactions where the fair value of cash and other assets received is less than the fair value of equity instruments granted to the BEE partner, ie to the BEE equity credentials.

Scope

5 While section 26 addresses the broad principle that equity instruments issued at a discount are within the scope of section 26, it does not address issues specific to BEE transactions. This FRP seeks to address certain of these issues.

6 BEE credentials are determined based on a scorecard that measures the following 5 elements *-

(a) ownership;

(b) management control;

(c) skills Development;

(d) enterprise and supplier development;

(e) socio-economic development.

7 BEE credentials may be obtained in various ways, such as-

(a) equity ownership;

(b) management control;

(c) compliance with the Employment Equity Act;

(d) contribution to skills development;

(e) preferential procurement; and

(f) enterprise development.

8 This FRP considers only those BEE transactions where the entity grants equity instruments to black people (directly or indirectly) and the fair value of the cash and other assets received (or to be received), if any, is less than the fair value of the equity instruments granted.

9 The equity instruments may take many legal forms, such as-

(a) ordinary shares;

(b) deferred ordinary shares;

(c) share options; and

(d) convertible preference shares or debentures.

10 The difference between the fair value of the cash and other assets received and the fair value of the equity instruments granted may arise because of specific goods or services that the BEE partner provides to the entity, or because of the BEE equity credentials that the entity has received. This FRP applies only to BEE transactions where there is a difference that arises from the entity obtaining BEE equity credentials. It does not apply to transactions where the BEE partner is issued with equity instruments for transactions that are unrelated to the entity obtaining BEE equity credentials, because the requirements of section 26 are adequate for such transactions.

11 Types of structures that are considered to be within the scope of this FRP include, but are not limited to, the following-

(a) leveraged buyout structures where equity is issued to an empowerment partner and the issuer of the equity (or a related party) provides or

* Amended Broad-Based Black Economic Empowerment Codes of Good Practice October 2012

guarantees the borrowings required to purchase the equity;

(b) structures where equity is issued at a nominal amount by a new entity to all participants so that the entity can obtain BEE equity credentials;

(c) structures where equity is issued to or acquired by the BEE partner at a price equal to its fair value, where such issue or acquisition is funded by a notional loan whereby the loan is repaid via the dividends from the equity instruments;

(d) transactions between shareholders of an entity that enable the entity to obtain BEE equity credentials;

(e) transactions that facilitate BEE through a special-purpose entity for obtaining BEE equity credentials; and

(f) business combinations between BEE businesses in order for at least one entity to obtain further BEE equity credentials.

Issues

12 **Issue 1**: Should the difference between the fair value of the equity instruments granted and the fair value of the cash and other assets received, ie the BEE equity credentials, be recognised as an intangible asset or as an expense?

13 **Issue 2**: Where BEE equity credentials are obtained as part of the net assets acquired in a business combination, how should the BEE equity credentials acquired be accounted for?

14 **Issue 3**: Assuming that BEE equity credentials do not meet the criteria for recognition as an intangible asset, how should vesting conditions be interpreted in the context of a BEE transaction?

Consensus

15 **Issue 1**: The difference between the fair value of the equity instruments granted and the fair value of the cash and other assets received, ie the BEE equity credentials, represents an internally generated intangible item. Such items (even if they meet the definition of an intangible asset) do not qualify for recognition as assets under IFRS for SMEs. The difference should be expensed.

16 Where the cost of the BEE equity credentials is directly attributable to the acquisition of another intangible asset that does qualify for recognition, then such an intangible asset should be valued at its fair value and any additional BEE equity credential costs should be expensed.

17 **Issue 2**: Where BEE equity credentials are obtained as part of the net assets acquired in a business combination, the BEE equity credentials do not qualify for recognition as an intangible asset and shall, therefore, form part of goodwill.

18 Where the business combination element of the transaction is insignificant or contrived, this would indicate that the substance of the transaction is in fact two separate transactions - a BEE transaction and a business combination. These two transactions should be accounted for separately. The BEE transaction should be accounted for under section 26, and the business combination should be accounted for under section 19.

19 **Issue 3**: The entity should assess whether the terms of the BEE transaction include service conditions, performance conditions, or non-vesting conditions.

20 Where the BEE transaction includes service conditions, the fair value of the equity instruments shall be measured at grant date and the expense should be recognised over the vesting period, which is the period over which services are rendered to the entity. The service condition shall not be taken into account when estimating the fair value of the equity instrument. Where the

BEE transaction includes no service conditions, the fair value of the equity instruments shall be measured at grant date and the expense should be recognised immediately on grant date.

21 Performance conditions exist where the counterparty must complete a service period and a performance target must be met. A performance condition may be either a market performance condition or a non-market performance condition.

22 Non-market performance conditions exist when the BEE partner must complete a specified period of service, and meet a non-market performance target, such as an earnings target. Where such non-market performance conditions exist, these shall not be taken into account when estimating the fair value of the equity instruments at the grant date. Instead, they shall be taken into account when estimating the number of equity instruments expected to vest. This estimate shall be revised if new information indicates that the estimate has changed. On vesting, the estimate shall be revised to equal the number of equity instruments that ultimately vested. This means that the cumulative amount recognised for goods or services received (ie BEE equity credentials) as consideration for the share-based payment shall be based on the number of equity instruments that the BEE partner will become entitled to.

23 Market performance conditions exist when the BEE partner must complete a specified period of service, and meet a market performance target, such as a share price target. Where such conditions exist, the market performance target shall be taken into account when estimating the fair value of the equity instruments granted.

24 Where a non-vesting condition exists in a BEE transaction, it shall be taken into account when estimating the fair value of the equity instruments granted.

Effective date

25 An entity shall apply this FRP for annual periods beginning on or after xxx [*]. Earlier application is permitted and encouraged. If an entity applies this FRP for an earlier period, it shall disclose that fact.

26 This FRP shall be applied retrospectively subject to the provisions of section 10 *Accounting Policies, Estimates and Errors* of IFRS for SMEs.

Illustrative examples

These examples accompany, but are not part of this FRP.

These examples of the application of the scope of the FRF and its consensus are not an exhaustive list, as other fact patterns are possible.

Illustrative examples of the application of the scope

Exclusion of goods or services that are unrelated to obtaining BEE equity credentials (paragraphs 6 to 10 of the FRP)

Example 1

Facts

IE1 A BEE partner is paid commission, through the issue of equity instruments, on the basis of profits from contracts that it is instrumental in obtaining on behalf of the entity. The fair value of the service received by the entity is equal to the fair value of the equity instruments. Is the payment of commission within the scope of this FRP?

Conclusion

[*] Proposed effective date is annual periods beginning on or after 1 January 2018.

IE2 The recognition of the commission and equity instruments issued is not within the scope of this FRP because there is no BEE equity credential element in the transaction.

IE3 The payment of this commission is, however, clearly within the scope of section 26.

Example 2

Facts

IE4 An entity issues equity instruments to a BEE partner for the purpose of acquiring a building. The fair value of the building acquired is lower than the fair value of the equity instruments given up. Is this transaction within the scope of this FRP?

Conclusion

IE5 Section 26 applies to transactions in which goods or services are received. section 26, therefore, clearly applies to the building element, as this is identifiable through its fair value. Assuming that there are no other clearly identifiable goods or services, the difference between the fair value of the building and the fair value of the equity instruments is attributable to BEE equity credentials and is, therefore, within the scope of this FRP.

Example of partial capitalisation of BEE equity credentials as part of the acquisition of another intangible asset (paragraph 15 of the FRP)

Example 3

Facts

IE6 Company A enters into a BEE transaction with a black-owned company, Company B, in which it sells 25% of its ordinary share capital to Company B at a 20% discount to the fair value of the shares. In return, Company B has contractually agreed to buy a specific minimum number of tyres exclusively from a over the next seven years to meet its production requirements. Assume that the right to future revenue arising from the supply contract meets the definition of an intangible asset in terms of section 18.

Conclusion

IE7 In terms of the facts, Company A has issued shares in order to secure future revenue through the supply of tyres to Company B over the next seven years. The supply contract is considered to be 'goods' received, in the form of intangible assets, in terms of section 26 paragraph 26.3. Paragraph 26.7 requires that '*the entity shall measure the goods or services received, and the corresponding increase in equity, at the fair value of the goods or services received, unless the fair value cannot be estimated reliably*'.

IE8 Section 26, therefore, clearly applies to the intangible asset arising from the supply contract. Assuming that there are no other clearly identifiable goods or services, the difference between the fair value of the intangible asset arising from the supply contract and the fair value of the equity instruments is attributable to BEE equity credentials. Also, assuming that the supply contract and the BEE equity credentials are directly linked, the difference should be capitalised to the intangible asset in accordance with paragraph 15 of this FRP only to the extent of the fair value of the supply contract. Any excess over the fair value of the supply contract should be expensed in terms of this FRP.

Examples of application of the consensus in relation to vesting conditions (paragraphs 18 to 23 of the FRP)

Example 4

Facts

IE9 In order to obtain BEE equity credentials, Company A introduces a BEE share incentive schema for its black directors. In terms of the scheme, Company A grants share options to these black directors in return for which the black directors are required to remain in the company's employ for three years. The number of options that the black directors will be entitled to depends on profit growth at the end of the three years. Therefore, the actual number of options to be delivered to the black directors will not be finalised until the end of year three. Over what period should the expense related to these options be recognised?

Conclusion

IE10 In terms of paragraph 26.6 of section 26, the services received in relation to a share-based payment arrangement, to which payment vests only once the counterparty completes a specified service period, shall be recognised as an expense over the vesting period.

IE11 Because the black directors are required to be in the employment of the company for a service period in order to be entitled to a certain number of options, and are required to meet a specified profit target, the grant has a non-market performance or vesting condition. The expense should be recognised over the three-year service period. Per paragraph 26.9*(a)* of section 26 as meeting a specified profit target is a non-market performance condition, it shall not be taken into account when estimating the fair value of the equity instruments at the measurement date.

Instead, the non-market performance condition shall be taken into account when estimating the number of equity instruments expected to vest. Subsequently, the estimate shall be revised if new information indicates that it is expected to be different. On vesting date, the estimate shall be revised to equal the number of equity instruments that the black directors will become entitled to.

Example 5

Facts

IE12 Company B grants share options to a BEE consortium. The BEE consortium does not need to provide any further identifiable service or deliver goods, although it is locked into the BEE transaction for a period of five years. The number of share options that the BEE consortium will be entitled to depends on the profit growth over the next five years. Therefore, the actual number of share options to be delivered will not be finalised until after year five. Over what period should the expense related to these options be recognised? What are the implications of the profit target and the post-vesting transfer on the valuation of the expense?

Conclusion

IE13 The BEE consortium is not required to complete a specified period of service. Therefore, there are no services or performance vesting conditions attached to the grant, and the expense should be recognised in profit and loss on grant date. The profit target and the post-vesting transfer restrictions are non-vesting conditions, and in terms of paragraph 26.9*(b)* they should be taken into account when estimating the fair value of the equity instruments granted and should not be included as an adjustment to the number of options the BEE consortium is expected to be entitled to.

Basis for conclusions

This Basis for Conclusions accompanies, but is not part of the FRP.

BC1 This Basis for Conclusions summarises the considerations of the Financial Reporting Standards Council (FRSC) in reaching its consensus. Individual FRSC members gave greater weight to some factors than to others.

Issue 1

BC2 The South African government has issued various BEE documents, including the Broad-Based Black Economic Empowerment Act, Act 53 of 2003. This Act empowers the Minister of Trade and Industry to issue codes of good practice, which currently are not legally binding, with the purpose of achieving meaningful participation by black people in the South African economy. These codes will be applied in determining both foreign and local entities' BEE credentials that are necessary for the granting of tenders, licences and other concessions by government in South Africa.

BC3 in a BEE transaction, the entity, therefore, issues equity instruments in order to obtain a certain number of points that contribute to the entity's overall BEE scorecard and the entity's ability to tender for business.

BC4 Entities that do not have favourable BEE credentials are finding it difficult to operate effectively as a result of tender criteria that require, amongst other things, minimum participation of black people. Entities, therefore, enter into BEE transactions with the intention of either preventing loss of future revenue or increasing opportunities to obtain future revenues.

BC5 Because an entity relies on the market and government (its customers) to decide whether a BEE transaction increases or maintains the entity's ability to operate and tender for business, It is difficult to determine whether the entity has actually received goods or services, as contemplated by accounting frameworks, as a result of concluding the BEE transaction.

BC6 in addition, the issue of equity instruments is merely one element that contributes to the determination of the entity's BEE scorecard, as mentioned in paragraph 6 of this FRP, and, therefore, the issue of equity instruments has no direct relationship to the value the entity's customers will place on the issue of the equity instruments or the amount of business the entity will obtain from its customers.

BC7 The nature of BEE equity credentials may, therefore, be likened to internally generated intangible items. Given that paragraph 18.4*(c)* of section 18, does not permit internally generated intangible assets to be recognised as assets under IFRS for SMEs, it is not necessary to assess whether the BEE credentials meet the definition of an intangible asset. Even if they do, paragraph 18.14 of section 18 requires expenditure incurred internally on internally generated intangible assets to be expensed unless it forms part of the cost of another asset that meets the recognition criteria in section 18.

BC8 Paragraph 18.15 of IFRS for SMEs provides examples of items the expenditure on which should be expensed-

- *(a)* internally generated brands, logos, publishing titles, customer lists and items similar in substance;
- *(b)* start-up activities;
- *(c)* training activities;
- *(d)* advertising and promotional activities;
- *(e)* relocating or reorganising part or all of the entity; and
- *(f)* internally generated goodwill.

BC9 **Conclusion on recognition of an asset:** Since paragraph 18.4*(c)* prohibits the capitalisation of internally generated intangible assets, even if the BEE equity credentials met the definition of intangible assets, they would not qualify for recognition as an asset. Paragraph 26.4 requires that '*when the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets, the entity shall recognise them as expenses*'.

BC10 Therefore, the BEE equity credentials are expensed in profit or loss, except under the circumstances referred to in paragraph BC11 of this FRP.

BC11 It is considered extremely rare that the expenditure incurred to create or obtain BEE equity credentials may be capitalised as an asset. Only two situations are envisaged where BEE equity credentials may be capitalised as an asset:

(a) Where the BEE equity credentials are created or obtained in a business combination as discussed in Issue 2; or

(b) Where the cost of the BEE equity credentials is directly attributable to the acquisition of another intangible asset that qualifies for recognition under section 18. in this situation the cost may be capitalised to the cost of the other intangible asset in accordance with paragraph 18.14. (Refer to illustrative Example 3.)

Issue 2

BC12 Section 19 of IFRS for SMEs deals with business combinations. Paragraphs 19.15 and 18.8 require the acquirer to recognise separately the acquiree's identifiable assets, liabilities and contingent liabilities at the date of acquisition only if certain criteria are satisfied. In the case of an intangible asset, the only criterion is that its fair value can be measured reliably without undue cost or effort.

BC13 Appendix B Glossary of terms of IFRS for SMEs defines an intangible asset as *'An identifiable non-monetary asset without physical substance. Such an asset is identifiable when it-*

(a) *is separable, ie is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or*

(b) *arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations*.'

BC14 An asset is defined in Appendix B of IFRS for SMEs as 'a resource-

(c) *controlled by an entity as a result of past events; and*

(d) *from which future economic benefits are expected to flow to the entity*.'

BC15 The BEE equity credentials that may be created in a BEE transaction are a non-monetary item without physical substance.

BC16 **Identifiable:** The BEE equity credentials are not separable as they are linked to the business as a whole and the BEE partner to whom the equity instruments have been granted. The BEE equity credentials are, therefore, not capable of being sold, transferred, licensed, rented or exchanged separately from the business.

BC17 The BEE equity credentials may arise from contractual rights where the BEE transaction includes a contract between the entity and the BEE partner. Where this is the case, the BEE equity credentials could be considered identifiable.

BC18 **Control:** In BEE transactions, a contract is usually entered into with a BEE partner. The contract between the entity and the BEE partner may include a contractual lock-in period or a clause that only allows the transfer of such equity instruments to another BEE partner. However, the contract does not provide the entity with legal rights that give it the power to obtain the future economic benefits arising from the BEE transaction, nor the ability to restrict the access of others to those benefits.

BC19 In the absence of a specific contract between the entity and a counterparty, for example a sales or supply agreement with a customer which provides the entity with legal rights that give it the power to obtain the future economic benefits arising from the BEE transaction and the ability to restrict the access of others to those benefits and which is concluded on the basis of the BEE transaction and at the time that the BEE transaction is concluded, the contract between the entity and the BEE partner does not establish control over future economic benefits.

BC20 In addition, exchange transactions do not exist for BEE equity credentials because BEE equity credentials are linked to the business as a whole and the BEE partner to whom the equity instruments have been granted. Therefore, BEE equity credentials me not capable of being exchanged separately from the business.

BC21 This means that, in a BEE transaction, the BEE equity credentials are not controlled by the entity because the entity is not able to demonstrate that the entity has the power to obtain the future economic benefits flowing from the underlying resource either through legal rights or through exchange transactions.

BC22 **Future economic benefits:** As mentioned previously, all organs of state and public entities must take an entity's BEE status into account when determining awards of business contracts. Entities may, therefore, enter into BEE transactions with the aim of either preventing loss of future revenue or increasing opportunities to obtain future revenue. The protection or enhancement of future revenues represents an economic benefit as envisaged by the definition of an intangible asset.

BC23 **Conclusion on definition of intangible asset:** The BEE equity credentials acquired do not meet the definition of an intangible asset. Accordingly, where the BEE equity credentials are acquired as part of a business combination, this intangible item shall form part of the amount attributed to goodwill at the acquisition date.

BC24 Paragraph 2.8 of section 2 states that:

'*Transaction and other events and conditions should be accounted for and presented in accordance with their substance and not merely their legal form. This enhances the reliability of financial statements*.'

BC25 Where the business combination element of the transaction is insignificant or contrived, this would indicate that the substance of the transaction is in fact two separate transactions, a BEE transaction and a business combination. These two transactions should be accounted for separately, and the BEE transaction should be accounted for under section 26 of IFRS for SMEs.

Issue 3

BC26 Paragraph 26.3 of section 26 requires the recognition of the goods or services received or acquired in a share-based payment transaction when these goods are obtained or the services are received.

BC27 Paragraph 26.5 of section 26 states that:

'*If the share-based payments granted to employees vest immediately, the employee is not required to complete a specified period of service before becoming unconditionally entitled to those share-based payments. In the absence of evidence to the contrary, the entity shall presume that services rendered by employees have been received. In this case, <u>on grant date the entity shall the services received in full</u>, with a corresponding increase in equity and liabilities*.' (emphasis added)

BC28 Paragraph 26.6 of section 26 states that:

'*If the share-based payments do not vest until the employee completes a specified period of service, the entity shall presume that the services to be rendered by the counterparty as consideration for those share-based payments will be received in the future, during the vesting period. <u>The entity shall account for those services they are rendered</u> by the employee during* *the vesting period, with a corresponding increase in equity or liabilities.*' (emphasis added)

BC29 Vesting conditions are defined in Appendix B of IFRS for SMEs as:

'*The conditions that determine whether the entity receives the services that entitle the counterparty to receive cash, other assets or equity instruments of the entity under a share-based payment arrangement. Vesting conditions are either service conditions or performance conditions. Service conditions require the counterparty to complete a specified period of service. Performance conditions require the counterparty to complete a specified period of service and specified performance targets to be met (such as a specified increase in the entity's profit over a specified period of time). A performance condition might include a market vesting condition*.'

BC30 A market vesting condition is defined in Appendix B of IFRS for SMEs as:

'*A condition upon which the exercise price, vesting or exercisability of an equity instrument depends that is related to the market price of the entity's equity instruments, such as attaining a specified share price or a specified amount of intrinsic value of a share option, or achieving a specified target that is based on the market price of the entity's equity instruments relative to an index of market prices of equity instruments of other entities*.'

BC31 According to paragraph 26.9*(a)*:

'*All vesting conditions related to employee service or to a non-market performance condition shall be taken into account when estimating the number of equity instruments expected to vest. Subsequently, the entity shall revise that estimate if new information indicates that the number of equity instruments expected to vest differs from previous estimates. On the vesting dates, the entity shall revise the estimate to equal the number of equity instruments that ultimately vested. Vesting conditions related to employee service or to a non-market performance condition shall not be taken into account when estimating the fair value of the shares, share options or other equity instruments at the measurement date*.'

BC32 According to paragraph 26.9*(b)*:

'*All market vesting conditions and non-vesting conditions shall be taken into account when estimating the fair value of the shares, share options or other equity instruments at the measurement date, with no subsequent adjustment to the estimated fair value, irrespective of the outcome of the market or non-vesting condition, provided that all other vesting conditions are satisfied*'.

BC33 Based on the requirements of section 26, if no services are required to be rendered by the BEE partner, an expense shall be recognised immediately, even if there is a lock-in period (ie a period during which the BEE partner may not sell their shares) or even if there are other conditions, such as earnings targets or share price targets.

BC34 This effectively results in recognition of the expense during the vesting period, but on a basis that reflects when the goods and services, ie BEE equity credentials, are received.