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INSIGHTS

ACCOUNTING & TECHNOLOGY

IFRS 2 share-based payments and ESOPs in Cambodia

How CIFRS IFRS 2 and CIFRS for SMEs Section 26 account for employee share options, share appreciation rights and group ESOPs, and why the Cambodian tax treatment of equity awards needs separate advice.



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HOW DOES A CAMBODIAN COMPANY ACCOUNT FOR AN EMPLOYEE SHARE OPTION PLAN UNDER IFRS 2?

Under CIFRS (IFRS 2 Share-based Payment) an equity-settled share option is measured at the fair value of the equity instruments at the grant date and recognised as an expense over the vesting period, with a corresponding increase in equity; a cash-settled award is remeasured at fair value at each reporting date and recognised as a liability. Service and non-market performance conditions affect the number of awards expected to vest, while market conditions are reflected in the grant-date fair value. CIFRS for SMEs Section 26 applies the same equity/cash-settled distinction with simpler measurement and disclosure requirements. In Cambodia, the accounting expense does not settle the tax treatment: equity awards can raise Tax on Salary, fringe-benefit and withholding questions, so the plan should be reviewed with the GDT and employment tax advice.

IN SHORT

- Equity-settled awards are measured at grant-date fair value and expensed over the vesting period, with a credit to equity.
- Cash-settled awards are liabilities remeasured at fair value each reporting date, with changes in profit or loss.
- Service and non-market performance conditions adjust the number of awards expected to vest; market conditions are built into the grant-date fair value.
- Group ESOPs need a careful analysis of which entity grants the award and which entity receives the employee's services.
- The accounting expense is not automatically tax-deductible; equity awards can raise Tax on Salary, fringe-benefit and withholding issues in Cambodia.

Equity-settled versus cash-settled

IFRS 2 applies to transactions in which an entity receives goods or services in exchange for equity instruments, cash or other assets based on the price of its equity instruments. Employee share options, restricted shares, share appreciation rights, employee share purchase plans and share-based payments to non-employees are all within scope. The first question is whether the entity will settle in equity or cash, because the measurement and the subsequent accounting differ.

An equity-settled award is measured at the fair value of the equity instruments granted at the grant date, and the expense is recognised over the vesting period with a corresponding increase in equity. The grant-date fair value is not remeasured for later changes in the share price. A cash-settled award is a liability measured at the fair value of the liability at each reporting date, with changes recognised in profit or loss until settlement.

Some plans give the entity or the employee a choice of settlement. The award is split into a liability component and an equity component at grant date, and each is accounted for under its own rules. A plan that looks like an equity plan but requires the company to buy the shares back at a fixed price can be a cash-settled liability in substance.

EQUITY-SETTLED AND CASH-SETTLED AWARDS

Feature	Equity-settled	Cash-settled
Measurement date	Grant date	Each reporting date
Measurement	Fair value of equity instruments	Fair value of the liability
Subsequent changes	Not remeasured	Remeasured through profit or loss
Balance sheet	Equity reserve	Liability
Settlement	Issue shares	Pay cash or assets

Grant-date fair value and vesting conditions

Vesting conditions determine whether the employee becomes entitled to the award. Service conditions require the employee to remain employed for a period. Performance conditions require a specified performance target, such as revenue, profit or a project milestone. Market conditions, such as a share-price target, are reflected in the grant-date fair value and are not adjusted afterwards; service and non-market performance conditions adjust the number of awards expected to vest.

The entity estimates the number of awards expected to vest at each reporting date and recognises the cumulative expense based on the elapsed vesting period. If an employee leaves, the estimate is revised; if a non-market performance condition is not expected to be met, the number of awards is reduced. A market condition that is not met does not reverse the expense already recognised, because it was priced into the grant-date fair value.

The grant-date fair value of an option is usually estimated with an option-pricing model, such as Black-Scholes-Merton or a binomial model. The inputs include the share price, the exercise price, the expected term, the expected volatility, the dividend yield and the risk-free rate. A private company without a market price needs a valuation of its equity and a supportable volatility assumption.

The expense is not the cash cost

An equity-settled award may never use cash, but it still has an accounting expense and a real economic cost to existing shareholders. Do not omit the expense because the company did not pay cash.

Group ESOPs and recharge arrangements

A group ESOP often involves a parent or a holding company granting options over its shares to employees of a Cambodian subsidiary. The accounting follows the substance: the entity that receives the employees' services recognises the share-based payment expense, even if another group entity grants the award or settles it. The corresponding entry is an equity contribution from the parent, or a liability if the subsidiary is obliged to reimburse the parent.

A recharge arrangement, where the subsidiary pays the parent for the awards, can turn the equity-settled award into a cash obligation for the subsidiary. The subsidiary recognises a liability to the extent of the recharge, and the parent accounts for the arrangement under IFRS 2 and the group structure. The intercompany balance, the vesting schedule and the tax deduction should be reconciled across the group.

IFRS 2 also applies to awards granted to employees of an acquiree in a business combination if the awards are for continued service; replacement awards are accounted for under IFRS 3 and IFRS 2. The acquisition agreement should identify which awards are consideration for the business and which are remuneration for future service.

CIFRS for SMEs Section 26

CIFRS for SMEs Section 26 Share-based Payment applies the same equity-settled and cash-settled distinction with simpler measurement and disclosure requirements. Equity-settled awards are measured at fair value at grant date and expensed over the vesting period; cash-settled awards are measured at fair value at each reporting date. The 2025 edition also addresses awards settled by another group entity or a shareholder, which is directly relevant to a Cambodian subsidiary in a group ESOP.

The National Accounting Council's adoption determines the edition in Cambodia. Confirm the edition with the auditor before relying on a paragraph number, and apply the policy consistently to all share-based payment arrangements.

Cambodian tax and payroll

The accounting expense is not automatically the tax deduction. An equity award to an employee can be a benefit in kind for Tax on Salary or fringe benefits, and the timing and valuation of the taxable benefit may differ from the IFRS 2 expense. A cash-settled award is closer to a cash

bonus, but the tax point depends on the plan terms and the payment. The company should obtain advice on the Tax on Salary, fringe-benefit and withholding treatment before the first vesting.

For the corporate tax deduction, the GDT may require the expense to be supported by the plan, the board and shareholder approvals, the valuation, the vesting records and the payroll. A deduction that is claimed without those documents is exposed on audit. The deferred tax calculation should reflect the difference between the accounting expense and the tax deduction, including any tax benefit the group expects to realise.

A Cambodian company that issues new shares under an ESOP also needs to consider the MOC share issuance, the share register, the foreign-employee work-permit position and any shareholder approval. The accounting entry is only one part of the implementation.

- Tax on Salary and fringe-benefit treatment of the award.
- Corporate tax deduction and the supporting plan documents.
- Deferred tax on the accounting-versus-tax difference.
- MOC share issuance, share register and shareholder approvals.
- Foreign-employee work permits and payroll reporting.

Audit evidence and governance

The auditor will test the plan rules, the grant date, the number of awards, the vesting conditions, the fair value and the expense. The evidence includes the board and shareholder resolutions, the plan document, the grant letters, the valuation report, the vesting schedule, the leaver records and the payroll. A private-company valuation needs a documented method and a challenge of the key assumptions.

Under CISA, ISA 540 applies to the fair value estimate and ISA 620 applies when the auditor uses a valuation expert. The auditor should also consider whether the plan is a liability or equity in substance, whether the group recharge is complete and whether the disclosure explains the plan and the expense.

Key facts

How this article is checked

Figures were verified against the sources listed below in November 2026 and are re-checked each January or when the rule changes. Written by Liv Bonito, Co-founder & Managing Director. General information, not advice on your situation: for that, talk to a partner.

QUESTIONS

Questions people ask

Can a private Cambodian company use a simplified option valuation?

IFRS 2 requires the fair value of the equity instruments at grant date; it does not prescribe a single model. A private company can use an option-pricing model with supportable inputs, including a valuation of its own equity. CIFRS for SMEs Section 26 is simpler but still requires a fair value measurement. The method and assumptions must be documented.

What happens if an employee leaves before vesting?

The entity revises its estimate of the number of awards expected to vest and adjusts the cumulative expense. For a service condition, the leaver's awards are generally forfeited and the previously recognised expense is reversed to the extent the awards will not vest. The plan rules and the vesting schedule determine the exact treatment.

Is the IFRS 2 expense tax-deductible in Cambodia?

Do not assume it is. The tax treatment of an equity award can involve Tax on Salary, fringe benefits and the corporate deduction, and the timing may differ from the accounting expense. Confirm the position with the GDT and employment tax advice, and support the deduction with the plan, approvals, valuation and payroll records.

How is a group ESOP accounted for in the subsidiary?

The subsidiary that receives the employees' services recognises the share-based payment expense, even if the parent grants or settles the award. The corresponding entry is an equity contribution from the parent, or a liability if the subsidiary must reimburse the parent. A recharge arrangement can change the classification.

SOURCES

Where the rules come from

01 IFRS 2 Share-based Payment (https://www.ifrs.org/issued-standards/list-of-standards/ifrs-2-share-based-payment/) — IFRS Foundation

02 IFRS for SMEs Accounting Standard, Section 26 Share-based Payment (https://www.ifrs.org/issued-standards/ifrs-for-smes/) — IFRS Foundation

03 IFRS 3 Business Combinations (replacement awards) (https://www.ifrs.org/issued-standards/list-of-standards/ifrs-3-business-combinations/) — IFRS Foundation

04 Law on Taxation (Royal Kram NS/RKM/0523/004, 16 May 2023); Prakas 543 on Tax on Salary and Prakas 575 on fringe benefits (https://www.tax.gov.kh) — Kingdom of Cambodia / General Department of Taxation

05 Law on Commercial Enterprises (2005 & 2022 Amendment): share issuance and MOC filings — Kingdom of Cambodia