ICAEW REPRESENTATION 50/15

CLASSIFICATION AND MEASUREMENT OF SHARE-BASED PAYMENT TRANSACTIONS

ICAEW welcomes the opportunity to comment on the exposure draft *Classification and Measurement of Share-based Payment Transactions: Proposed amendments to IFRS 2* published by the IASB in November 2014, a copy of which is available from this link.

This response of 16 March 2015 has been prepared on behalf of ICAEW by the Financial Reporting Faculty. Recognised internationally as a leading authority on financial reporting, the Faculty, through its Financial Reporting Committee, is responsible for formulating ICAEW policy on financial reporting issues and makes submissions to standard setters and other external bodies on behalf of ICAEW. The Faculty provides an extensive range of services to its members including providing practical assistance with common financial reporting problems.

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MAJOR POINTS

Support for the proposals

1. We welcome the IASB's proposals to clarify various aspects of the accounting for share-based payment arrangements, including modifications to cash-settled arrangements and to specify the classification of share-based payment transactions with net settlement features. However, we note that IFRS 2 *Share-based Payment* continues to attract a wide range of application and interpretation issues and for this reason encourage the IASB to continue with its longer-term research project on the standard.

RESPONSES TO SPECIFIC QUESTIONS

Question 1

The IASB proposes to clarify that accounting for the effects of vesting and non-vesting conditions on the measurement of a cash-settled share-based payment should follow the approach used for measuring equity-settled share-based payments in paragraphs 19–21A of IFRS 2. Do you agree? Why or why not?

2. Yes. We agree that it would be useful for IFRS 2 to clarify that the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments should follow the same approach as that used for measuring equity-settled share-based payments. We also agree that the proposed example 12A is helpful in explaining the accounting treatment, although we note that some minor corrections will be required - it initially refers to 'revenue targets' and then to 'profit targets'.

Question 2

The IASB proposes to specify that a share-based payment transaction in which the entity settles the share-based payment arrangement net by withholding a specified portion of the equity instruments to meet the statutory tax withholding obligation should be classified as equity-settled in its entirety. This is required if the entire share-based payment transaction would otherwise have been classified as an equity-settled share-based payment transaction if it had not included the net settlement feature. Do you agree? Why or why not?

3. Yes. We believe that the proposed amendment offers a practical solution to the situation whereby an entity settles a share-based payment arrangement net by withholding a specified portion of the equity instruments sufficient to meet a statutory tax withholding obligation.

Question 3

The IASB proposes to specify the accounting for modifications to the terms and conditions of a cash-settled share-based payment transaction that results in a change in its classification from cash-settled to equity-settled. The IASB proposes that these transactions should be accounted for in the following manner:

(a) the share-based payment transaction is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification;

(b) the liability recognised in respect of the original cash-settled share-based payment is derecognised upon the modification, and the equity-settled share-based payment is recognised to the extent that the services have been rendered up to the modification date; and

(c) the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately.

Do you agree? Why or why not?

4. We acknowledge that the lack of guidance in IFRS 2 on this matter has resulted in diversity in practice. We therefore agree that further guidance is needed, and on balance agree with the proposed approach which would reflect the change in nature of the arrangement (from cash settled to equity settled) and the fact that the entity has effectively settled the liability for the original cash-settled share-based payment. We would however prefer that the new paragraphs outlining the principles for accounting for modifications to cash-settled share-based payments appeared within the main body of the standard, rather than in Appendix B as proposed.

Question 4

The IASB proposes prospective application of these amendments, but also proposes to permit the entity to apply the amendments retrospectively if it has the information needed to do so and this information is available without the use of hindsight. Do you agree? Why or why not?

5. We agree that entities should be given the choice as to whether the amendments are applied prospectively or retrospectively but do not find the current drafting entirely clear as to the extent of that choice. We note that BC23 states that ‘it would be preferable for an entity to apply the same transition method for all the amendments’ as this will give better information for users. This appears to suggest that an entity would be required to apply <u>all</u> the amendments either prospectively or retrospectively: we agree with this approach. However, this is not reflected in the proposed wording of paragraph 63D. It will be important for the IASB to clarify whether or not it is proposing an ‘all or nothing’ approach to choosing between prospective and retrospective application of the amendments, as implied by BC23.

Question 5

Do you have any other comments on the proposals?

6. IFRS 2 continues to attract a significant number of application and interpretation issues and for this reason we would encourage the IASB to continue with its longer-term research project on the standard.