



Project:	Classification and Measurement of Share-based Payment Transactions (Proposed amendments to AASB 2)	Meeting	AASB June 2016 (M152)
Topic:	Consider how to finalise ED 257	Date	7 June 2016
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		Project Priority:	Medium
		Decision-Making:	High
		Project Status:	Issuance of Standard

Introduction and objective of this paper

- 1 The objective of this paper is to seek board’s decision on how to finalise AASB ED 257 *Classification and Measurement of Share-based Payment Transactions (Proposed amendments to AASB 2)*.
- 2 ED 257 incorporates IASB ED/2014/5 *Classification and Measurement of Share-based Payment Transactions (Proposed amendments to IFRS 2)*, which proposed to address:
 - (a) the effects of vesting conditions on the measurement of a cash-settled share-based payment;
 - (b) the classification of share-based payment transactions with net settlement features; and
 - (c) modifications of share-based payment arrangements that change their classification from cash-settled to equity-settled
- 3 The IASB is expected to issue an amending standard incorporating ED/2014/5 in June 2016.

Link to IASB project summary

- 4 The IASB project summary below includes links to the IASB ED, board papers, comment letters received, and board decisions from the IASB:
<http://www.ifrs.org/Current-Projects/IASB-Projects/IFRS-2-share-based-payment-transactions-that-include-performance-condition/Pages/Home.aspx>

Changes to the proposed amendments

- 5 In November 2015 the IASB made minor changes to the proposed amendments in response to feedback it had received on the ED. The majority of the amendments further clarify the proposed requirements in the ED and add further support to the IASB's rationale in the Basis for Conclusions.
- 6 Changes of note to the proposed amendments: are outlined below

Share-based payments with net settlement features

- (a) Clarify that any difference between the compensation cost recognised during the vesting period and the amount of cash paid to the taxation authority (in satisfying the recipient's tax obligations) must be accounted for as a deduction from equity (per IFRS 2.29¹).
- (b) Require an entity to disclose the expected withholding tax obligation to indicate to users that there will be a future outflow of cash to the tax authority.
- (c) Provide an additional illustrative example to demonstrate these new requirements.

Modifications that change a share-based payment transaction from cash-settled to equity-settled

- (d) Provide an additional illustrative example to illustrate the accounting for a modification to the terms of a share-based payment transaction that changes the classification of that transaction from cash-settled to equity-settled.
- 7 In December 2015 the IASB concluded that the above changes are not substantial. Therefore, the requirements did not need to be re-exposed. AASB staff agree with that rationale and also with the changes made.

ED 257 comment letters received and AASB submission on IASB ED/2014/5

- 8 The AASB received three comment letters² to ED 257.³ While the comment letters expressed support for the general idea of proposals, there were strong reservations about the detail of the proposed amendments.

1 IFRS 2.29: If an entity repurchases vested equity instruments, the payment made to the employee shall be accounted for as a deduction from equity, except to the extent that the payment exceeds the fair value of the equity instruments repurchased, measured at the repurchase date. Any such excess shall be recognised as an expense.

2 The comment letters are available on the AASB's website at <http://www.aasb.gov.au/Work-In-Progress/Pending.aspx?id=1808>. Note to board members: comment letters on ED 257 are also available in the "Supporting documents folder" in Dropbox.

3 Comment letters were received from Ernst & Young, the Institute of Public Accountants, and PwC. The Institute of Public Accountants directly submitted their submission to the AASB. Ernst & Young and PwC copied the AASB in their submission to the IASB.

- 9 One respondent had a view that the amendments should be applied retrospectively. The respondent also disagreed with inserting a new exception into IFRS 2 to classify share-based payments with net settlement features as equity-settled in their entirety if that is how the instrument would have been classified without the net-settlement feature. Another respondent suggested that the scope of the net-settled share-based payment amendments should be expanded beyond just statutory obligations to include contractual and constructive obligations. Further, the respondent also suggested that modifications that change a transaction's classification from equity-settled to cash-settled also need to be addressed in the ED. These views were those of submissions sent directly to the IASB and copied to the AASB after the Board's submission was finalised.
- 10 The AASB submission⁴ generally agreed with the IASB's proposed amendments. The AASB submission noted that the proposed amendments would help reduce diversity in practice arising from the application of IFRS 2 *Share-based Payment Transactions*.

Staff views

- 11 Acknowledging the AASB submission and feedback received from Australian constituents, staff recommend the Board finalise the project by making an amending standard incorporating the forthcoming IFRS *Classification and Measurement of Share based Payment Transactions (Amendments to IFRS 2 Share-based Payment)*, out-of-session, after the IFRS is issued and our Office of Best Practice Regulation process is completed.
- 12 Staff expect the IFRS to require the additional disclosure as noted in paragraph 6(b) above. The AASB Reduced Disclosure Requirements (RDR) project team will consider whether Tier 2 entities should provide this additional disclosure as part of that project. Depending on when the IFRS is published, a proposal on whether Tier 2 entities would need to comply with this disclosure would be included in the forthcoming RDR Exposure Draft, or else considered separately.

Questions for Board members

- Q1 Do any Board members intend to dissent from the making of an Amending Standard incorporating the forthcoming IFRS *Classification and Measurement of Share based Payment Transactions (Amendments to IFRS 2 Share-based Payment)*?
- Q2 Do Board members agree with the staff recommendation to finalise an Amending Standard out-of-session?

4 http://www.aasb.gov.au/admin/file/content106/c2/AASB_commentLetter_IASB_ED2014-5_Classification_Measurement_SBP.pdf