



Australian Government
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Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
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Dear Hans

AASB comments on IASB Exposure Draft ED/2014/5
Classification and Measurement of Share-based Payment Transactions

The Australian Accounting Standards Board (AASB) welcomes the opportunity to provide comments on IASB ED/2014/5 *Classification and Measurement of Share-based Payment Transactions*. In formulating its comments, the AASB sought and considered the views of Australian constituents through comment letters and other consultation. The comment letters received are published on the AASB's website.

The AASB supports the IASB's efforts to address diversity in practice arising from the implementation of IFRS 2 *Share-based Payment Transactions* and generally agrees with the IASB's proposed amendments to the three issues identified in IASB ED/2014/5.

The AASB's responses to the specific matters for comment in ED/2014/5 are included in the Appendix to this letter.

If you have queries regarding any matters in this submission, please contact Kala Kandiah (kkandiah@asb.gov.au).

Yours sincerely

A handwritten signature in blue ink that reads "K. E. Peach".

Kris Peach
AASB Chair

APPENDIX

AASB comments on IASB ED/2014/5 *Classification and Measurement of Share-based Payment Transactions*

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?

The AASB notes that the ‘fair value’ of share-based payment transactions should be measured in accordance with the specific guidance in paragraph 6A of IFRS 2 for measuring the impact of vesting and non-vesting conditions and not in accordance with IFRS 13 *Fair Value Measurement*. The AASB also notes that the accounting for a cash-settled award that includes a service condition in Example 12 of the Implementation Guidance in IFRS 2 is consistent with the accounting for the effect of a vesting condition (other than a market condition) in an equity-settled award and is not consistent with the remeasurement for all the uncertainties at each reporting date.

Consequently, the AASB agrees with the proposals that the accounting for the effects of vesting and non-vesting conditions on the measurement of a cash-settled share-based payment should be based on the analogy of the accounting treatment for an equity-settled share-based payment transaction. The AASB also agrees with the IASB’s observation that measuring the fair value of the liability incurred in a cash-settled share-based payment transaction by analogy to the guidance for equity-settled share-based payment transactions would be easier to apply in practice (paragraph BC4 of IASB ED/2014/5).

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?

The AASB agrees with the proposed amendments as the economic substance of the relevant share-based payment transaction is that the entity settles the share based payment entirely in equity instruments and separately, yet simultaneously, repurchases a portion of those equity instruments to settle the tax obligations of the counterparty, to which paragraph 29 of IFRS 2 applies. The AASB considers that the entity is acting as an agent in paying cash to the taxation authorities, because the tax obligation is the employee’s obligation, consistent with View 2 in paragraph BC12 of ED/2014/5. The AASB also acknowledges that the alternative approach considered by the IASB (View 1 in paragraph BC10(a) of ED/2014/5) would impose undue burden on entities.

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?

The AASB agrees that the replacement equity-settled share-based payment transaction should be measured by reference to the modification-date fair value of the equity-settled share-based payment, because the modification-date should be viewed as the grant date of the replacement equity-settled share-based payment in accordance with the definition of 'grant date' in IFRS 2 .

The AASB also agrees that the liability recorded in respect of the original cash-settled share-based payment should be derecognised upon the modification and the equity-settled share-based payment should be recognised to the extent that service has been rendered up to the modification date; and the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity as at the same date should be recorded in profit or loss immediately. This reflects the remeasurement of the liability to the settlement amount in accordance with paragraph 30 of IFRS 2 and is consistent with the IASB observation in paragraph BC19 of ED/2014/5 that at the original grant date of cash-settled share based payment there was a shared understanding that the entity would pay cash for services to be rendered by the counterparty. However, at the modification date, the entity and its counterparty have a new shared understanding that the entity would issue equity instruments to the counterparty.

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?

The AASB agrees with the proposed transition requirements, when considering the proposed amendments collectively. This makes the transition requirements straight-forward

and also enables an entity to apply the amendments applicable to it retrospectively if the entity has the information necessary to do so.