Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

via email: standard@aasb.gov.au

31 March 2015

Dear Kris

Re: Exposure draft 257 *Classification and Measurement of Share-based Payment Transactions*

I am enclosing a copy of PricewaterhouseCooopers' response to the International Accounting Standards Board's exposure draft ED/2014/5 *Classification and Measurement of Share-based Payment Transactions (Proposed amendments to IFRS 2)*.

The letter reflects the views of the PricewaterhouseCoopers (PwC) network of firms and as such includes our own comments on the matters raised in the request for comment. PwC refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

AASB specific matters for comment

We are not aware of any regulatory or other issues that could affect the implementation of the proposals for not-for-profit and public sector entities.

Should the proposed amendments be approved by the IASB, we are not aware of anything that would indicate that the proposals are not in the best interests of the Australian economy.

I would welcome the opportunity to discuss our firm's views at your convenience. Please contact me on (03) 8603 5371 if you would like to discuss our comments further.

Yours sincerely,

Margot Le Bars.

Margot Le Bars
Partner, PricewaterhouseCoopers

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International Accounting Standards Board
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24 March 2015

Exposure Draft ED/2014/5 – Classification and Measurement of Share-based Payment Transactions

We are pleased to respond to the invitation by the IASB to comment on the Exposure Draft, 'Classification and Measurement of Share-based Payment Transactions' (the 'Exposure Draft'), on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of those member firms that commented on the Exposure Draft.

'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Net settled awards

We do not support the proposed exception to the principles in IFRS 2 for transactions in which the entity settles an award by withholding a specified portion of the equity instruments to meet a statutory tax withholding obligation and remitting cash to the taxing authority on the recipient's behalf.

The proposed exception does not reflect the substance of these transactions, which is that the entity is required to settle part of its obligation in cash on the recipient's behalf. We also believe that the amendment will not reduce complexity. It can be difficult to establish whether the tax withheld matches or exceeds the statutory requirement, particularly where employees in many jurisdictions are affected or the withholding applies to total remuneration, including a share based payment.

We are aware of some diversity in practice and suggest that the Board confirms that these awards should be bifurcated into cash-settled and equity-settled components. Any resulting changes in the accounting for these arrangements should be applied retrospectively in accordance with IAS 8. We understand that hindsight might be required in some circumstances, but this approach is consistent with the transitional guidance for cash-settled awards that was required on adoption of IFRS 2. An entity should apply the guidance in IAS 8 if it is impracticable to apply the amendment retrospectively.

Measurement of cash settled awards and modifications

We support the proposed clarification of the guidance for the measurement of cash-settled share based payments and the accounting for modifications that change the classification of a share based payment award from cash-settled to equity-settled.

These changes should be applied retrospectively in accordance with IAS 8. We believe that entities should generally be able to determine the retrospective effect of these changes. There might be

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circumstances in which it is impracticable to apply a change in classification from cash-settled to equity-settled retrospectively. The guidance in IAS 8 should be followed in these circumstances.

Transition guidance

We believe that any amendment to IFRS 2 should be applied retrospectively. Prospective application to awards after the date of the proposed amendments will mean that an entity could apply different accounting to similar transactions for many years. An entity should be permitted to apply the amendment retrospectively, even if the Board decides not to require retrospective application.

The transition guidance should be clarified if the Board decides not to require retrospective application for some or all of the proposed amendments, as we recommended above. The Exposure Draft states that "An entity shall apply those amendments prospectively for annual periods beginning on or after [date to be inserted after exposure]." It does not explain 'prospectively' in this context and whether or not comparative amounts should be restated. We suggest that the Board requires that the revised guidance is applied to awards granted or modified after the effective date of the proposed amendments.

Our detailed comments, including answers to the specific questions in the Exposure Draft, expand the views expressed above and are included in the appendix to this letter.

If you have any questions on this letter, please contact Paul Fitzsimon, PwC Global Chief Accountant (+1 416 869 2322) or Tony de Bell (+44 207 213 5336).

Yours faithfully

PricewaterhouseCoopers

APPENDIX

Question 1 – Measurement of cash-settled share based payments

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?

We agree with the proposed clarification. The proposed amendment will reduce diversity in practice by clarifying the definition of 'fair value' in connection with the measurement of cash-settled share-based payment transactions. However, we note that this proposed amendment will increase divergence between the guidance in IFRS 2 and IAS 19 for the timing of expense recognition for cash-settled arrangements and is inconsistent with the reference to the Basis for Conclusions in IAS 19 quoted in IFRS 2, BC 244.

The proposed clarification means that a liability will not be recognised for awards that are not probable of vesting. We therefore suggest that additional disclosure of the potential liability be required, consistent with the requirement in IAS 37 to disclose a contingent liability where an outflow is not probable but not remote.

Question 2 – Classification of awards with net settlement features relating to withholding taxes

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?

We do not agree with the proposed amendment because it creates an exception to the principles in IFRS 2 and would not reflect the substance of the arrangements.

The proposed exception does not reflect the substance of these transactions, which is that the entity is required to settle part of its obligation in cash on the recipient's behalf. Practice under IFRS 2 is to either gross settle the share-based payment, selling sufficient shares on behalf of the employee to meet any withholding tax obligation, or to bifurcate the award into a cash-settled component for the tax and an equity-settled component for the shares issued to the employee. This reflects the substance of the transaction and the principle in IFRS 2 that the classification is driven by whether or not the entity uses cash or shares to settle its obligation.

Both the existing and proposed approaches can present practical measurement and tracking difficulties, but we note that remeasurement of cash-settled awards at each reporting date is often required for payroll taxes or social charges that are levied on vesting or settlement of equity-settled share based payments. The proposed exception will therefore not always eliminate the need to determine the fair value of the obligations associated with otherwise equity-classified transactions.

We also believe that the amendment will not reduce complexity because it can sometimes be difficult to establish whether the tax withheld matches or exceeds the statutory requirement. This can be particularly difficult where employees in a variety of jurisdictions are affected or the withholding applies to total remuneration of which the share based payment is only one element.

These practical difficulties have caused the FASB to consider an amendment to relax the criteria for applying the exception. The IASB's proposed amendment may therefore not lead to convergence with US GAAP.

We also note that the guidance in US GAAP (ASC 718) generally does not permit bifurcation into a cash-settled and equity-settled settlement. The need for the exception under US GAAP is therefore more apparent. Without the US GAAP exception, a net tax withholding feature would mean liability classification for the entire award and the accounting would not reflect the substance of the arrangement.

Question 3 – Accounting for modifications that result in a change of classification for share-based payments from cash-settled to equity-settled

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?

We agree that the proposed amendment will increase consistency by clarifying the accounting for modifications to cash-settled share based payments that result in a change of classification to equity-settled.

Question 4 – Transition

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?

We do not agree with the proposed transition guidance and suggest that the amendments are applied retrospectively. We do not believe that the use of hindsight is a practical issue and believe that most entities will have the necessary information to apply the amendments retrospectively. We also note that prospective application might result in entities accounting differently for similar transactions for many years.

We note that if the Board decides not to make the amendment proposed in Question 2, the recognition of a liability for the withholding tax obligation may require hindsight for companies that did not previously account for the tax settlement component as a liability. This approach is consistent with the transitional guidance for cash settled awards that was required upon adoption of IFRS 2.

The transition guidance should be clarified if the Board decides not to require retrospective application for some or all of the proposed amendments. The Exposure Draft states that "An entity shall apply those amendments prospectively for annual periods beginning on or after [date to be inserted after exposure]." It does not explain 'prospectively' in this context and whether or not comparative amounts should be restated. We suggest that the Board requires that the revised guidance is applied to awards granted or modified after the effective date of the proposed amendments. We support the proposal to allow retrospective application if it is not required.