Hong Kong Institute of
Certified Public Accountants
香港會計師公會

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Sent electronically through the IASB Website (www.ifrs.org)

30 March 2015

Mr. Hans Hoogervorst
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Hans,

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

The Hong Kong Institute of Certified Public Accountants is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We welcome the opportunity to comment on this Exposure Draft (ED).

We are grateful for the IASB's efforts to reduce diversity in practice, and support the amendments to IFRS 2 *Share-based Payment* as proposed in this ED.

While we agree with prospective application of the amendments proposed in this ED by having considered the efforts required for retrospective application, we recommend that the IASB should provide guidance on how to apply the proposed amendments prospectively.

Our detailed response to the questions raised in the ED is set out in the Appendix for your consideration.

If you have any questions regarding the matters raised in our comment letter, please contact me or Ben Lo, Associate Director of the Institute's Standard Setting Department, at ben@hkicpa.org.hk.

Yours faithfully,

Christina Ng
Head of Financial Reporting
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Encl.

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Detailed comments on IASB Exposure Draft 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?

We support the IASB's proposal to provide guidance on the accounting for the effects of vesting and non-vesting conditions on the measurement of a cash-settled share-based payment. We also agree with the proposed clarification in this ED that would result in consistent application of IFRS 2 to both equity-settled and cash-settled share-based payments.

However, the Institute notes that the wording in paragraphs BC 244 - BC 245 of IFRS 2 is not consistent with the proposed guidance. That is, paragraphs BC 244 - BC 245 of IFRS 2 imply that a liability should be recognised during the vesting period to the extent that employees have performed services even though there is a possibility that the benefit may not vest, whereas the proposed IG Example 12A illustrates that no expense would be recognised in Year 1 as the probability of achieving the revenue target is only 40%.

The Institute recommends that the IASB amends the wording in paragraphs BC 244 - BC 245 of IFRS 2 to be consistent with the proposed IG Example 12A.

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?

While we prefer to keep IFRSs as principles-based standards, we can understand the practical difficulties in apportioning each component of an equity-settled share-based payment arrangement with a net settlement feature in a manner that is consistent with the manner of settlement. Moreover, if we were to take View 1 of BC 10 of the ED (that is, to apportion each component), an entity would be required to estimate changes in tax laws, including changes in tax rates, that affect the amount that is required to be withheld and remitted by the entity and, as estimated inputs change, the entity would need to reclassify a portion of the share-based payment between cash-settled and equity-settled.

We also agree with the view contained in paragraph BC12 of the ED that 'the entity is acting as an agent in paying cash to the taxation authorities, because the tax obligation is the employee's obligation'.

Accordingly, we are prepared to support the view contained in paragraph BC 15 of the ED, which is to reduce operational complexity.

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?

We support the view contained in paragraph BC19 of the ED, which states that the modification 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, is considered as a settlement of the original cash-settled share-based payment by the granting of a new equity-settled share-based payment. We think that in substance, a new transaction has been created and the balances relating to the earlier transaction should be de-recognised. Accordingly, we agree with the proposed amendment that the replacement awards should be measured by reference to the modification-date fair value of the equity instruments granted. This proposal would also be consistent with the grant-date approach for equity-settled share-based payment.

We also support the IASB's proposal that any difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date would be recorded in profit or loss immediately. This would be consistent with the accounting treatment for the extinguishment of liabilities as the magnitude of change is considered as significant. However, as some may be confused as to how to attribute unvested amounts between services provided in the past and services to be provided in the future, we recommend that the IASB adds an illustrative example to illustrate the accounting at the modification date, as well as the subsequent accounting until the vesting of the equity-settled share-based payment.

<u>Question 4</u>

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?

Having considered the efforts required for retrospective application, we support applying these proposed amendments prospectively.

However, we recommend that the IASB clarifies how to apply the proposed amendments prospectively. For example, should the proposed amendments apply to new share-based transactions only or to both new and existing share-based transactions? For the amendment that relates to modification of a share-based transaction from cash-settled to equity-settled, we believe the amendment should apply only to modifications that take place after the amendment comes into effect (that is, 'new' modifications).

The Institute also thinks that the IASB should consider developing consistent core 'principles' for transitional provisions of new standards and amendments to existing standards. If the IASB considers that the default 'retrospective' application does not work in practice due to cost or any other reasons, perhaps 'prospective' application with additional disclosure on the impact of the proposed or new requirements to comparative amounts should become a default principle for transitional provisions.

<u>Question 5</u>

Do you have any other comments on the proposals?

We do not have any other comments.

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