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Dear Susanne,

FRED 61: Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland - Share-based payment transactions with cash alternatives (April 2015)

We are pleased to have the opportunity to comment on the Exposure Draft "FRED 61: Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland - Share-based payment transactions with cash alternatives (April 2015)" (the Exposure Draft).

We agree with the amendment to align the requirements in FRS 102 with full IFRS and previous UK and Irish GAAP in cases where the entity can choose to settle in cash or equity and to retain the current requirements of FRS 102 to recognise a liability where the recipient can require settlement in cash.

Since the current IASB research project on share-based payments includes accounting for a share-based payment in which the manner of settlement is contingent on future events, the change to include those cases where the settlement method is dependent on an external event seems premature.

We have some observations as regards transitional provisions.

Our detailed comments on the questions asked in FRED 61 are set out overleaf.

If you wish to discuss any of the points further, please do not hesitate in contacting me.

Yours sincerely,

Nicole Kissun

BDO LLP
Nicole Kissun
Partner
For and on behalf of BDO LLP



Question 1

The proposed requirements for share-based payment transactions with cash alternatives:

- (a) align the requirements in FRS 102 with full IFRS and previous UK and Irish GAAP in cases where the entity can choose to settle in cash or equity;*
- (b) retain the current requirements of FRS 102 to recognise a liability where the recipient can require settlement in cash; and*
- (c) generalise the requirements to include those cases where the settlement method is dependent on an external event.*

Do you agree with this proposal and the draft amendments to paragraph 26.15 of FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland? If not, why not?

We agree with the proposal to align the requirements in FRS 102 with full IFRS and previous UK and Irish GAAP in cases where the entity can choose to settle in cash or equity and to retain the current requirements of FRS 102 to recognise a liability where the recipient can require settlement in cash.

Given that the current IASB research project on share-based payments includes as an issue accounting for a share-based payment in which the manner of settlement is contingent on future events the change proposed at (c) above seems premature

We note that FRS 20 and IFRS 2 include requirements on settlement that are not included in FRS 102. For example, where a liability is recognised but the share-based payment transaction is settled in shares or vice versa. In particular, where the issuing entity opts for the settlement alternative with the higher value an additional expense is recognised as the entity has chosen to further remunerate the holder (IFRS 2:43(c)). It is possible that different treatments will arise in practice under FRS 102.

If an entity cannot avoid settling in cash should the recipient ask for it, then the proposed amendment treats the transaction in its entirety as cash-settled. As noted in the Accounting Council's advice to the FRC, this requirement is different to IFRS 2 and FRS 20 which require such an obligation to be separated into its debt and equity components. The Accounting Council believe that this departure provides a practical and proportionate solution. We concur with this approach.

We note the use of the words "unconditional right" in 26.15(a) presumably to "generalise the requirements to include those cases where the settlement method is dependent on an external event". However it is not clear what this is meant to capture. For example FRS 102.22.3A qualifies such a requirement with "and where settlement is dependent on the occurrence or non-occurrence of uncertain future events beyond the control of the issuer and the holder". We also note that this matter was raised with IFRIC in 2010 who noted that "IFRS 2 does not provide guidance on share-based payment transactions for which the manner of settlement is contingent on a future event that is outside the control of both the entity and the counterparty." The matter is also being carried forward as part of the IASB Share-based Payment Research Project.

Question 2

The amendments are proposed to be effective from 1 January 2015. Nevertheless, entities were able to apply FRS 102 to accounting periods commencing prior to 1 January 2015 and if so, may have adopted the extant requirements of paragraph 26.15 of FRS 102. Based on the assumption that this will not be an issue for many entities, if any, FRED 61 does not contain any transitional provisions.

Do you agree that transitional provisions are not required for the purposes of this proposed amendment? If not, please tell us what transitional provisions you would suggest and why.

Clarification that the transitional provisions in FRS 10235.10(b) would still apply to cash settled share-based payments settled before the original date of transition to FRS 102 would be helpful. In the absence of that clarification there may be uncertainty whether the proposed change was fully retrospective.

The amendment clarifies that FRS 102 differs from FRS 102/ and IFRS 2 in requiring an entity to treat a share-based payment transaction in its entirety as cash-settled in certain cases. This raises a transitional issue for “compound” share-based payment transactions entered into before transition. FRS 102.35.10(b) exempts equity instrument granted before transition but not liabilities (unless settled before transition). There is therefore some uncertainty as to the treatment of share-based payment transactions that were treated as compound under FRS 20 or IFRS 2 but fall to be wholly liabilities under FRS 102.