



By email to: [ukfrs@frc.org.uk](mailto:ukfrs@frc.org.uk)

Susanne Pust Shah  
Financial Reporting Council  
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125 London Wall  
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28<sup>th</sup> May 2015

Dear Madam,

**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**

We welcome the opportunity to comment, on behalf of PricewaterhouseCoopers LLP, on the proposals in 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*

Generally, we agree with the FRC's proposals to amend the requirements for arrangements in which the entity has a choice of settlement, or in which the counterparty has a choice of settlement.

However, we do not agree with the proposals for arrangements in which the choice of settlement is outside the control of both the entity and the counterparty. We believe that the FRC should consider this further before making a change in this area.

Our detailed answers to your specific questions in FRED 61 and additional drafting comments, are included in the attached Appendix 1.

Please contact Peter Hogarth via [Peter.Hogarth@uk.pwc.com](mailto:Peter.Hogarth@uk.pwc.com) if you would like to discuss the contents of this letter.

Yours faithfully,

A handwritten signature in black ink that reads 'PricewaterhouseCoopers LLP'.

PricewaterhouseCoopers LLP

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**Appendix I: Response to 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**

**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 amend the standard for situations where the entity has the choice of settlement, because these changes will align the standard in this area with FRS 20 (IFRS 2).

We agree with the FRC's proposal to treat arrangements where the counterparty has a choice of settlement as wholly cash-settled, rather than as a compound financial instrument. While this creates a divergence from FRS 20 (IFRS 2), we accept that this is outweighed by the benefits to reporters of the simplification.

We do not agree with the proposal to specify the treatment for those arrangements where the settlement is dependent on factors outside the scope of either party's control (for example an IPO, or other change of control of the reporting entity). While we understand the FRC's desire to provide guidance in an area where FRS 20 (IFRS 2) is currently silent, this will create a divergence from IFRS 2 in an area that the IASB has previously considered and decided not to take onto its agenda. We also have concerns about whether the proposed wording that the entity has a present obligation where it does not have an unconditional obligation to avoid settling in cash would have unintended consequences. We therefore believe that the FRC should not make this change at this time and instead should consider the issue more fully as part of its triennial review before deciding whether, and how, to amend the standard.



## 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.**

For existing arrangements where the counterparty has a choice of settlement, the entity will currently be accounting for this as a compound financial instrument under FRS 20. The proposed changes will require such arrangements to be accounted for entirely as cash settled.

From the existing transitional requirements for share-based payments in paragraph 35.10(b), we do not believe it is entirely clear whether an entity with such an arrangement could continue to recognise any equity-settled component, or whether it would need to reclassify that element to cash-settled. We suggest that the FRC may wish to clarify the requirement – perhaps in the “Accounting Council’s Advice to the FRC” section of the standard.