ICAEW REPRESENTATION 82/15

FRED 61 Share based payment transactions with cash alternatives

ICAEW welcomes the opportunity to comment on *FRED 61 Draft amendment to FRS 102: share based payment transactions with cash alternatives* published by the Financial Reporting Council (FRC) in April 2015, a copy of which is available from this link.

This response of 1 June 2015 has been prepared on behalf of ICAEW by the Financial Reporting Faculty. Recognised internationally as a leading authority on financial reporting, the Faculty, through its Financial Reporting Committee, is responsible for formulating ICAEW policy on financial reporting issues and makes submissions to standard setters and other external bodies on behalf of ICAEW. The Faculty provides an extensive range of services to its members including providing practical assistance with common financial reporting problems.

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MAJOR POINTS

Support for the proposals

1. We broadly support the proposed narrow scope amendment to FRS 102 *The Financial Reporting Standard for the UK and Republic of Ireland* in relation to share-based payment transactions that give either the entity or the counterparty a choice of settling in cash or equity. In our view, the proposed change will ensure greater consistency between the requirements of FRS 102 and those of FRS 20 and IFRS 2. We do however have some concerns regarding the proposal to extend the scope of the amended paragraph to include all share-based payment transactions with uncertain settlement methods. This is discussed in more detail below.

RESPONSES TO SPECIFIC QUESTIONS

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?

2. Yes, we broadly support the proposed amendments to Section 26 *Share-based Payment* of FRS 102. As noted in the exposure draft, currently the required accounting treatment for share-based payment transactions that give either the entity or the counterparty a choice of settling in cash (or other assets) or by transfer of equity, could result in cash-settlement accounting under FRS 102, while the same transaction would result in equity-settled accounting under FRS 20 or IFRS 2. This discrepancy is clearly unwelcome, not least because cash-settled accounting is generally considered more onerous as it requires the re-measurement of the resulting liability at each reporting date. The proposed amendments will therefore achieve a greater consistency between the requirements of FRS 102 and those of FRS 20 and IFRS 2 in this area.

3. However, we do have some concerns over the proposal to expand the scope of paragraph 26.15 so that it covers all share-based payment transactions with uncertain settlement methods, for example, in the event of a change that is outside the control of the entity and the counterparty. Our understanding is that the proposals would require all such arrangements to be accounted for as cash-settled because the 'settlement' decision is outside the control of the entity, and therefore the entity does not have an 'unconditional right to avoid settling in cash or other assets.'

4. In our view, widening the scope in this way could make FRS 102 more prescriptive than IFRS 2. This is because while this matter was recently reviewed by the IFRS Interpretations Committee and subject to debate by the IASB in 2014, no amendments were ultimately made to IFRS 2. We also have doubts as to whether the proposed amendment would in fact achieve the most appropriate accounting treatment for such arrangements, particularly as it appears to result in a different outcome to that which was being considered by the IFRS Interpretations Committee. Therefore, we believe that further consideration of this matter is necessary and that this should form part of the first triennial review of FRS 102, rather than as part of this consultation.

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. Reporting Standard applicable in the UK and Republic of Ireland? If not, why not?

5. We agree that in the circumstances the proposed amendments should be effective from 1 January 2015, with early adoption permitted, and that no further transitional provisions are required.