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For the attention of Susanne Pust Shah

04 June 2015

Dear Madam

FRED 61 "Draft amendments to FRS 102 – Share-based payment transactions with cash alternatives)"

We welcome the opportunity to comment on the FRC's Exposure Draft FRED 61 "Draft amendments to FRS 102 – Share-based payment transactions with cash alternatives" ("the Exposure Draft").

We are generally supportive of the proposals to amend FRS 102 to address potential unintended consequences in the application of section 26 – Share-based payment. However, we observe that the proposed amendment, whilst addressing an unintended consequence may create further divergence from IFRS, which is contrary to one of the stated aims of FRED 61 "to achieve greater consistency with the equivalent requirements of IFRS 2". Our responses to the specific questions raised in the Exposure Draft are set out in Appendix 1.

We are aware that FRS 102 is, even now, not yet in widespread use. We presume that this is the FRC's logic in continuing to make small amendments to the Standard. Up until this point, we have been supportive of improvements made to FRS 102 in general. However, in our opinion, FRED 61 is a step too far. There was no pressing need to make this particular amendment prior to the triennial review and we would respectfully suggest that it is now time to stop changing the Standard and to allow preparers time to get to grips with its requirements, warts and all, and note any further changes for the first review. Obviously in making this comment, we recognise that the changes to incorporate the small company requirements of the new EC Accounting Directive will of course go ahead as planned in the summer.

If you would like to discuss any aspect of this response please do not hesitate to contact Danielle Stewart.

Yours faithfully

Baker Tilly Tax and Accounting Limited

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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 support the principle of amending the requirements of FRS 102 for share-based payments with cash alternatives, since the application of FRS 102 could lead to an issuer accounting for a share-based payment arrangement as cash-settled even though it has sole discretion over the method of settlement and intends to settle the arrangement by issuing equity instruments.

However, we do have some concerns over the proposals in FRED 61 since its application would have the effect of expanding the scope of paragraph 26.15 to share-based payment transactions with uncertain settlement methods. FRED 61 requires an arrangement with uncertain settlement methods to be accounted for as cash-settled because in such circumstances the issuer does not have the unconditional right to avoid settling in cash (or other assets).

This matter was reviewed recently by the Interpretations Committee of the IASB and no amendments were subsequently made to IFRS 2. The Interpretations Committee's decision not to be prescriptive regarding the accounting treatment permits preparers of financial statements to apply judgement as to the appropriate accounting treatment based upon the specific facts and circumstances prevailing, on a case-by-case basis. Consequently we question whether it is appropriate for the FRC to go beyond the provisions of IFRS 2 in respect of this aspect of accounting for share-based payment arrangements.

We suggest that, as part of its first triennial review of FRS 102, the FRC considers this matter in detail.

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.

We believe that the FRC should address the specific matter raised in response to question 1 before we are able to suggest whether transitional provisions might be necessary.