



Grant Thornton

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Dear Ms Pust Shah

FRED 61 Share-based payment transactions with cash alternatives

Grant Thornton UK LLP (Grant Thornton) welcomes the opportunity to comment on the Financial Reporting Council's (FRC) consultation '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'.

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We support the overall objectives and approach of FRED 61. In particular we support the proposal to amend the requirements of paragraph 26.15 to align the requirements in FRS 102 with full IFRS and previous UK GAAP where the entity can choose to settle in cash or equity. We also support the proposal to retain the current requirements of FRS 102 to recognise a liability where the recipient can require settlement in cash, and the generalisation of the requirements in paragraph 26.15 to include those cases where the settlement method is dependent on an external event.

We set out our detailed responses to each of the questions raised in the attached Appendix.

If you have any questions on our response, or wish us to amplify our comments, please contact Mary Holden (telephone: 020 772 82886, email mary.holden@uk.gt.com) or Robert Carroll (telephone: 020 772 82210, email robert.w.carroll@uk.gt.com).

Chartered Accountants

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Yours sincerely

A handwritten signature in blue ink, appearing to read 'Mark Cardiff', with a large, stylized flourish at the end.

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Response 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? If not, why not?

As set out in our covering letter, we support the proposal to amend paragraph 26.15 to align the requirements in FRS 102 with full IFRS and previous UK GAAP 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.

We also support the generalisation of the requirements in paragraph 26.15 to include those cases where the settlement method is dependent on an external event. We note that the proposed amendment considers whether the entity has "an unconditional right" to avoid settling in cash or other assets. This is consistent with the terminology used in paragraph 22.3A of FRS 102 with regard to the classification of a financial instrument as a financial liability or as equity. We therefore read the amendment as aligning the classification of share-based payments where the settlement method is dependent on an external event with the classification of financial instruments where settlement is dependent on uncertain future events. A similar analysis of whether the external event is within the control of the entity would therefore be required to determine classification of a share-based payment award in this situation. If alignment with paragraph 22.3A of FRS 102 is not the intention of the FRC, then in our view the term "unconditional right" should not be used in this amendment to Section 26.

We note that FRS 102 does not include requirements for the treatment of a share-based payment award on settlement where the method of settlement is different to the treatment applied to account for the award under paragraph 26.15 (for example, an award was classified as equity-settled following the requirements of paragraph 26.15, but is ultimately settled in cash). This may lead to diversity in the accounting treatments applied in such situations. We recommend that the FRC considers addressing the accounting treatment on settlement of such awards in the first triennial review of FRS 102.

Question 2 – Do you agree that transitional provisions are not required for the purposes of this proposed amendment?

We acknowledge that transition to the proposed requirements will be an issue only for entities that have adopted FRS 102 early, and will therefore not have an impact on many entities. However, in our view transitional provisions should be provided for the benefit of those entities that have adopted FRS 102 early.

In our view, transition provisions should permit an entity that has applied the existing requirements of paragraph 26.15 of FRS 102 to classify share-based payment awards as either equity- or cash-settled to retain that classification for those awards on adoption of this

amendment. New awards granted after the date of transition to the amendment should be classified in accordance with the new requirements.

In addition, in our view transition provisions should be included to allow an entity to retain its previous accounting treatment for share-based payment awards granted prior to the date of transition to the amendment where the settlement method is dependent on an external event. New awards granted after the date of transition to the amendment should be classified in accordance with the new requirements.