

Association of Accounting Technicians response to FRED 61 Draft amendments to FRS 102 – Share-based payment transactions with cash alternatives

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1. Introduction

- 1.1. The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to 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*, released on 20 April 2015 (ED).
- 1.2. This response is being submitted on behalf of AATs membership and from the wider public benefit.
- 1.3. AAT's comments outlined in this response encompass areas where it is felt that value can be added or to highlight those aspects where it is suggested that further consideration is required. Opinion is provided on the operational elements of the proposals along with the practicalities in implementing the measures outlined. Furthermore, observations reflect the potential impact that the proposed changes would have on SMEs many of which employ AAT members or would be represented by AATs operationally skilled members in practice.

2. Executive summary

- 2.1. The Financial Reporting Council (FRC) issued exposure draft FRED 61 on 20 April 2015 which proposes a narrow scope amendment to the accounting requirements in respect of share-based payment transactions with cash alternatives.
- 2.2. Section 26 *Share-based Payment* of FRS 102 is based on the requirements in IFRS 2 *Share-based Payment* as well as previous accounting requirements in FRS 20 (IFRS 2) *Share-based Payment*. FRS 102 is applicable for accounting periods commencing on or after 1 January 2015 and as such entities and their advisors have been assessing the detail of the new standard to develop their understanding of the consequences for entities in the UK and Republic of Ireland which are required to apply the new reporting requirements.
- 2.3. Under IFRS 2 and FRS 20, a cash-settled share-based payment transaction results in the recognition of a liability; whilst an equity-settled share-based payment transaction results in an increase in equity.
- 2.4. FRS 102 currently requires that share-based payment transactions are accounted for as cash-settled, unless the entity has a past practice of settling such arrangements by issuing equity instruments, or there is no commercial substance in the cash-settlement option (FRS 102 para 26.15 (a) and (b)). The FRC have been informed of potential unintended consequences in situations where an entity can choose to settle a share-based payment transaction in cash or equity instruments (e.g. shares) because paragraph 26.15 differs from the requirements in IFRS and previous UK GAAP.
- 2.5. A difference in accounting treatment arises because a share-based payment transaction which is settled in equity (and accounted for as equity-settled under FRS 20/IFRS 2) could result in the recognition of a liability under current FRS 102 requirements (i.e. accounted for as cash-settled) rather than as an increase in equity. In addition, this would be onerous for the reporting entity as cash-settled obligations are measured at fair value at each reporting date.

- 2.6. Transitional provisions in relation to the amendment are not proposed (FRED 61 question 2) and AAT takes an alternative view to this proposal. The alternative view is taken on the basis that entities which have early-adopted FRS 102 may have accounted for share-based payment transactions in accordance with current paragraph 26.15 requirements. Such entities should have some clarification on the classification of these existing transactions and on subsequent share-based payment awards after the date of transition to the new requirements. AAT's suggested transitional provisions are outlined in paragraph 3.9 of this response.

3. AAT response to the exposure draft FRED 61 *Draft amendments to FRS 102 – Share-based payment transactions with cash alternatives*

- 3.1. The following paragraphs outline AAT's response to the proposals outlined in FRED 61. We have only listed those questions where we have a comment to make.

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?

- 3.2. AAT agrees with the proposal to amend paragraph 26.15 of FRS 102 on the grounds that the amendments will result in consistent application of FRS 102 with entities reporting under IFRS 2 principles.
- 3.3. The proposed amendment will also enable reporting entities transitioning from previous UK GAAP to FRS 102 to be familiar with the accounting for share-based payment transactions with cash alternatives.
- 3.4. AAT also agrees that the resulting amendments to paragraph 26.15 will remove the scope for unintended consequences by clarifying the circumstances in which cash-settled accounting is appropriate.
- 3.5. AAT is in support of the additional guidance provided in draft paragraph 26.15 (a) (b) and (c) (FRED 61 page 7) which outlines the circumstances in which the entity has a present obligation to settle in cash (or other assets).
- 3.6. AAT believes that the additional guidance will serve to clarify that cash-settlement accounting of share-based payment transactions can only be applied where the entity has a present obligation to settle in cash.
- 3.7. AAT also supports the amended wording in paragraph 26.15 which clarifies the position when an entity does not have a present obligation to settle in cash (or other assets) and hence accounts for the transaction as a wholly equity-settled share-based payment (FRED 61 page 7).

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.

- 3.8. AAT does not agree that transitional provisions are not required for the purposes of this proposed amendment.
- 3.9. AAT acknowledges that only a minority of entities which have early-adopted FRS 102 may be affected by this amendment. However, AAT suggests that transitional provisions should be included for the benefit of entities which have early-adopted FRS 102 and applied the provisions in current paragraph 26.15 as this will offer clarification on how such entities are to deal with the classification of previously recognised share-based payment transactions.
- 3.10. The transitional provisions should allow entities that have early-adopted FRS 102 and applied the provisions in current paragraph 26.15 to retain the original classification of share-based payment transactions as either equity- or cash-settled. The transitional provisions should also require that any awards granted after the date of transition to the new requirements should be accounted for in accordance with the amended paragraph 26.15.

4. Conclusion

- 4.1. AAT supports the proposed amendments to paragraph 26.15 in FRS 102 which will clarify when cash-settlement accounting of share-based payment transactions are to apply (3.2, above).
- 4.2. AAT further supports the inclusion of additional guidance in paragraphs 26.15 (a) (b) and (c) which outlines when a present obligation to settle in cash exists (3.5 and 3.6, above).
- 4.3. AAT does not agree that transitional provisions are not required within the standard and believes that those entities that have early-adopted FRS 102, and accounted for share-based payment transactions as equity, or cash, settled, should be allowed to continue with that classification and apply the amendments to paragraph 26.15 to any share-based payment transactions entered into after the transition date (3.9, above). This approach will also offer clarification to early-adopters of FRS 102 that have applied the principles in current paragraph 26.15 of FRS 102

5. About AAT

- 5.1. AAT is a professional accountancy body with over 49,800 full and fellow members and 78,400 student and affiliate members worldwide¹. Of the full and fellow members, there are over 4,100 Members in Practice who provide accountancy and taxation services to individuals, not-for-profit organisations and the full range of business types.
- 5.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

¹ Figures correct as at 31 March 2015

6. Further information

If you have any questions or would like to discuss any of the points in more detail then please contact AAT at:

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