24 March 2015

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH
United Kingdom
Email: CommentLetters@ifrs.org

Dear Sir/Madam

SAICA SUBMISSION ON ED/2014/5 – *CLASSIFICATION AND MEASUREMENT OF SHARE-BASED PAYMENT TRANSACTIONS*: PROPOSED AMENDMENTS TO IFRS 2 – *SHARE-BASED PAYMENT*

In response to your request for comments on ED/2014/5 **–** *Classification and Measurement of Share-based Payment Transactions*: Proposed Amendments to IFRS 2 – *Share-based Payment,* attached is the comment letter prepared by the Accounting Practices Committee (APC) of The South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of the APC, which comprises members from reporting organisations, regulators, investment analysts, auditors, IFRS specialists and academics.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours faithfully,

Prof Danie Coetsee
Chairman of the Accounting Practices Committee

Bongeka Nodada
Project Director – Financial Reporting Standards

SAICA SUBMISSION ON ED/2014/5 – *CLASSIFICATION AND MEASUREMENT OF SHARE-BASED PAYMENT TRANSACTIONS*: PROPOSED AMENDMENTS TO IFRS 2 – *SHARE-BASED PAYMENT*

GENERAL COMMENTS

We welcome the efforts by the International Accounting Standards Board (IASB or Board) to simplify and clarify the accounting for share-based payment transactions. We would further request that the IASB perform a detailed post-implementation review on IFRS 2 – *Share-based Payment*. IFRS 2 has many exceptions which often lead to inconsistent accounting treatments relative to other accounting standards. We are therefore not supportive of additional exceptions being included in IFRS 2. For example, for the amendment below relating to taxes on share-based payments, we do not see how this is consistent with the principles of IFRS 2.

SPECIFIC COMMENTS

Question 1

The IASB proposes to clarify that accounting for the effects of vesting and non-vesting conditions on the measurement of a cash-settled share-based payment should follow the approach used for measuring equity-settled share-based payments in paragraphs 19–21A of IFRS 2.
Do you agree? Why or why not?

We agree with the proposal to clarify that accounting for the effects of vesting and non-vesting conditions on the measurement of a cash-settled share-based payment should follow the approach used for measuring equity-settled share-based payments in paragraphs 19–21A of IFRS 2.

However, we do suggest amendments to the wording in paragraphs 33, 33A and 33B to clarify the way in which vesting conditions are taken into account. We believe that, just as is required for equity-settled share-based payments, the measurement of cash-settled share-based payments should ultimately be the fair value per share appreciation right (taking into account all conditions other than non-market vesting conditions) multiplied by the number of share appreciation rights that eventually vest. This concept does not come through in the current wording in paragraph 33. Reference is made to 'the fair value of the cash-settled share-based payment' which we believe would generally be interpreted to mean the entire liability, rather than each share appreciation right. With this meaning it does not make sense that non-market vesting conditions are not taken into account because they do need to be reflected in the measurement of the liability. Also, reference is made to 'awards'. We believe the use of this word can be ambiguous because the 'award' could be regarded as the collective of share appreciation rights granted at the same time with the same terms or each share appreciation right granted. We understand that the Board intended it to be the latter, but we are concerned that it could be misinterpreted, and hence we suggest referring to 'share appreciation rights' rather than 'awards'. Our suggested amendments to paragraphs 33, 33A and 33B are set out in Annexure A.

We also suggest an amendment to IG Example 12A to better demonstrate the application of paragraphs 30-33A. This example depicts a scenario where vesting is not probable in Year 1 and thus no expense is recognised. However, we note that in practice the probability of meeting a vesting condition is normally higher in Year 1. A scenario where the vesting condition is probable in Year 1 and becomes no longer probable in Year 2 would be a better reflection of practice and the application of the amendment.

Furthermore, we would suggest enhancing the disclosure requirements of cash-settled awards in IFRS 2 to provide disclosure where the vesting is not probable, but may be in the future. We recommend the disclosure should be similar to that of a contingent liability under IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*.

Question 2

The IASB proposes to specify that a share-based payment transaction in which the entity settles the share-based payment arrangement net by withholding a specified portion of the equity instruments to meet the statutory tax withholding obligation should be classified as equity-settled in its entirety. This is required if the entire share-based payment transaction would otherwise have been classified as an equity-settled share-based payment transaction if it had not included the net settlement feature. Do you agree? Why or why not?

Whilst we agree with the view that the proposal will provide a pragmatic solution, in principle, we do not agree with the proposed amendment to specify that a share-based payment transaction in which the entity settles the share-based payment arrangement, net by withholding a specified portion of the equity instruments to meet the statutory tax withholding, obligation should be classified as equity-settled in its entirety. Notwithstanding the operational challenges that come with applying view 1 as outlined in BC10 of the exposure draft, we support this view which states that the entity should account for the portion which the entity withholds to fulfil the obligation to pay cash, as a cash-settled share-based payment transaction whereas the portion that the entity settles by the issue of equity instruments be accounted for as an equity-settled share-based payment. This would ensure that this is aligned with the requirements in paragraph 34 of IFRS 2.

Should the IASB proceed with publishing this amendment, we recommend that paragraph 33D should also apply in instances where it is an entity's normal practice to withhold an amount of an employee's tax obligation associated with share-based payments and transfers the amount, normally in cash, to the taxation authorities. Currently, the wording in paragraph 33D implies that the exception only applies when an entity is required by 'tax laws or regulations' to withhold an amount for an employee's tax obligation associated with share-based payments.

Question 3

The IASB proposes to specify the accounting for modifications to the terms and conditions of a cash-settled share-based payment transaction that results in a change in its classification from cash-settled to equity-settled. The IASB proposes that these transactions should be accounted for in the following manner:

(a) the share-based payment transaction is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification;

(b) the liability recognised in respect of the original cash-settled share-based payment is derecognised upon the modification, and the equity-settled share-based payment is

recognised to the extent that the services have been rendered up to the modification date; and

(c) the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately.

Do you agree? Why or why not?

We do not agree with the proposal as set out in the amendment. In applying the proposed amendment, the accounting principle is not similar to that applied to equity-settled awards, which would effectively require the incremental value to be spread over the remaining service period. Our understanding of the proposed amendment is that for the incremental value of the award, there would be a 'catch up expense' for the service periods vested in the current year of the modification. As the benefit is only promised on modification of the award, we believe it is more appropriate to spread the incremental charge promised at that point in time over the remaining vesting period. This is consistent with the accounting treatment for equity-settled modifications where incremental value has been granted.

Question 4

The IASB proposes prospective application of these amendments, but also proposes to permit the entity to apply the amendments retrospectively if it has the information needed to do so and this information is available without the use of hindsight.

Do you agree? Why or why not?

The exposure draft proposes that the proposed amendments be applied prospectively and also provides an option to retrospectively apply the proposed amendments. However, we are unclear what is meant by prospective application in the context of the proposed amendments. Specifically, we are concerned about the accounting for a modification to the terms and conditions of a share-based payment transaction that changes the classification of the transaction from cash-settled to equity-settled. Does prospective application imply that an entity is required to adjust the opening retained earnings of the earliest period presented or is an entity required to account for all adjustments that relate to the modifications that occurred in prior periods in the profit or loss of the reporting period in which the entity applies these amendments? We request that the IASB clarifies what transition provisions would apply in this regard.

We recommend that it may be made clear that the amendments to IFRS 2 are applied to awards granted. The current wording may suggest that the proposed amendments may only be applied if all information is available for all amendments and not per award granted. Therefore, where it is possible to apply IFRS 2 retrospectively for an award it could be applied to only those grants so long as hindsight is not used. Alternatively, the amendment should be applied prospectively for awards granted after a specific date and not for years commencing. This would remove the concern raised in the paragraph above.

Question 5

Do you have any other comments on the proposals?

As noted above, we are concerned that the amendments to IFRS 2 are resulting in ever-increasing complexity in the requirements of IFRS 2. Rather than continuing to introduce individual amendments, we suggest again that the IASB should undertake a post-implementation review of IFRS 2 to consider all implementation issues so as to provide solutions in a broader principle-based context.

Annexure A

We suggest that paragraph 33 be amended as follows: *"The liability shall be measured, initially and at the end of each reporting period until settled, at the fair value of the share appreciation rights, by applying an option pricing model, taking into account the terms and conditions on which the share appreciation rights were granted, and the extent to which the employees have rendered service to date. Vesting conditions, other than market conditions, shall not be taken into account when estimating the fair value of ~~the cash-settled share-based payment~~ each share appreciation right at the measurement date. Instead, non-market vesting conditions shall be taken into account by adjusting the number of ~~awards~~ share appreciation rights included in the measurement of the transaction amount so that, ultimately, the amount recognised for goods and services received as consideration for the awards granted shall be based on the number of ~~awards~~ share appreciation rights that eventually vest and are settled."*

We suggest that paragraph 33A be amended as follows: *"To apply the requirements in paragraph 33, the entity shall recognise an amount for the goods or services received during the vesting period. That amount shall be based on the best available estimate of the number of ~~awards~~ share appreciation rights that are expected to vest. It shall revise that estimate, if necessary, if subsequent information indicates that the number of ~~awards~~ rights that are expected to vest differs from previous estimates. On the vesting date, the entity shall revise the estimate to equal the number of ~~awards~~ share appreciation rights that ultimately vested."*

We suggest that paragraph 33B be amended as follows: *"Market conditions, such as a target share price upon which vesting (or exercisability) is conditioned, as well as non-vesting conditions, shall be taken into account when estimating the fair value of ~~the cash-settled share-based payment~~ each share appreciation right ~~granted~~ at grant date, ~~and when remeasuring the fair value of the awards~~ at the end of each reporting period and at the date of settlement."*

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