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COMMISSIE VOOR BOEKHOUDKUNDIGE NORMEN

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Correspondant	Your references	Our references	Date
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Dear Sir, Madam,

Invitation to comment – IASB ED *Classification and Measurement of Share-based Payment Transactions*

The Belgian Accounting Standards Board (BASB) is pleased to respond to the Exposure Draft on *Classification and Measurement of Share-based Payment Transactions* issued by the IASB (the "Board") on 25 November 2014 (hereinafter the "ED").

> **Question 1**
> The IASB proposes to clarify that the accounting for the effects of vesting and non-vesting conditions on a cash-settled share-based payment should follow the approach used for equity-settled share-based payments in paragraphs 19–21A of IFRS 2.
> Do you agree? Why or why not?

As drafted, IFRS 2 does not specifically address the impact of vesting conditions in the context of cash-settled transactions – the provisions of IFRS 2 relating to vesting conditions are to be found in paragraphs 19 to 21 of IFRS 2, all of which fall under the main heading equity-settled share-based payment transactions immediately before paragraph 10.

Where a vesting condition is a minimum service period, IG Example 12 in IFRS 2 clearly indicates that, during the period to vesting, the liability should be estimated on the basis of the current best estimate of the number of awards that will vest, this estimate being made exactly as for an equity-settled transaction.

Therefore, it appears that IFRS 2 does not require the probability of achieving a service condition to be directly reflected in the fair value of a cash-settled award but, instead, requires this to be taken into account in estimating the expense, as for an equity-settled award.

Where a cash-settled award has other non-market performance conditions, the BASB agrees that it is unclear in IFRS 2, as currently drafted, whether an entity should:

- analogise to the treatment of service periods in IG Example 12 (see Example 31.36 above), basing the liability until vesting date on the current best estimate of the outcome of those conditions; or
- reflect the estimated outcome of the conditions other than service as part of the fair value calculation.

Both approaches have been used in practice and, against the background of such diversity of accounting treatment, the Interpretations Committee took the matter onto its agenda; and we agree with the proposed adjustments of November 2013 that indicate the following:

- market performance conditions and non-vesting conditions should be reflected in estimating the fair value of a cash-settled share-based payment both at grant date and subsequently;
- vesting conditions (*other than market conditions*) should not be taken into account in estimating the fair value of a cash-settled share-based payment. Instead, such conditions should be taken into account in the measurement of the liability incurred by adjusting the number of awards that are expected to vest. This estimate should be revised whenever the liability is remeasured between grant date and vesting date; and
- on a cumulative basis, no amount should be recognised for goods or services received if the awards do not vest as a result of a failure to satisfy a vesting condition or a non-vesting condition.

The BASB agrees with the proposed clarifications as it will result in a consistent application of vesting and non-vesting conditions in cash and equity-settled share-based payments plans.

Question 2

The IASB proposes to specify that a share-based payment transaction with employees 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 obligations 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?

The BASB agrees with the proposed amendment.

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 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 would be 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 should be derecognised upon the modification and the equity-settled share-based payment should be 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 should be recorded in profit or loss immediately.

Do you agree? Why or why not?

As currently drafted, IFRS 2 does not contain specific guidance for modifications from cash-settlement to equity-settlement and there is diversity in the accounting treatment seen in practice.

Using the current version of the standard, the BASB is of the opinion that it is appropriate to draw on the guidance for the settlement in equity of awards where there is a choice of settlement, but which have been accounted for as cash-settled during the vesting period.

Essentially, IFRS 2 requires the liability to be remeasured to fair value at the date of settlement and transferred to equity. Any excess of the fair value of the equity instruments used to settle the award over the fair value of the liability is recognised in profit or loss.

This principle can be adapted to the modification of an award from cash- to equity-settlement so that, in effect, the original cash-settled award is treated as having been cancelled and replaced with an equity-settled award.

Within this overall approach, we believe that there are two methodologies for the recognition of any incremental fair value of the equity-settled award as measured at the date of modification. The incremental fair value may be recognised either:

- immediately in profit or loss for the vested portion of the award (an approach that follows more closely the requirements of settlement accounting); or
- over the remaining vesting period (an approach that combines settlement accounting with the spreading approach applied when an equity-settled award is modified)

The proposed model for cash-settled to equity-settled modifications only allows the first approach although the second alternative is currently being applied by reporting entities.

Conceptually we understand the first alternative but we would like to understand why the second alternative was not further discussed in the ED (e.g. in the Basis for Conclusions paragraph BC 21).

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 BASB would suggest to apply the general requirements of IAS 8 *Accounting policies, changes in accounting estimates and errors*.

Should you wish to discuss the content of this letter with us, please contact Jan Verhoeye at jan.verhoeye@cnc-cbn.be.

Yours faithfully,

Jan Verhoeye
Chairman BASB

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