EFRAG’s Draft Letter to the European Commission Regarding Endorsement of Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2

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Dear Mr Guersent

Adoption of *Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2*

Based on the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards, EFRAG is pleased to provide its opinion on *Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2* (‘the Amendments’), which was issued by the IASB on 20 June 2016. An Exposure Draft of the Amendments was issued on 2 November 2014. EFRAG provided its comment letter on that Exposure Draft on 2 April 2015.

The objective of the Amendments is to provide guidance on three issues reported by the IFRS Interpretations Committee regarding:

(a) the effects of vesting conditions on the measurement of a cash-settled share-based payment;

(b) the classification of share-based payment transactions with net settlement features for withholding tax obligations; and

(c) the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The Amendments become effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. A description is included in Appendix 1 to this letter.

In order to provide our endorsement advice as you have requested, we have first assessed whether the Amendments would meet the technical criteria for endorsement, i.e. whether the Amendments would provide relevant, reliable, comparable and understandable information, lead to prudent accounting and not be contrary to the true and fair view principle. We have then assessed whether the Amendments would be conducive to the European public good. We provide our conclusions below.

Do the Amendments meet the IAS Regulation technical endorsement criteria?

EFRAG has concluded that the Amendments meet the qualitative characteristics of relevance, reliability, comparability and understandability required to support economic decisions and the assessment of stewardship; and raise no issues regarding prudent accounting. EFRAG has also assessed that the Amendments do not create any distortion in their interaction with other IFRS and that all necessary disclosures are required. Therefore EFRAG has concluded that the Amendments are not contrary to the true and fair view principle. EFRAG's reasoning is explained in Appendix 2.

Are the Amendments conducive to the European public good?

EFRAG has assessed that the Amendments would improve financial reporting and would reach an acceptable cost-benefit trade-off. EFRAG has not identified that the Amendments could have any adverse effect on the European economy, including financial stability and economic growth and competitiveness. Accordingly, EFRAG assesses that adopting he Amendments is conducive to the European public good. EFRAG's reasoning is explained in Appendix 3.

Our advice to the European Commission

As explained above, we have concluded that the Amendments meet the qualitative characteristics of relevance, reliability, comparability and understandability required to support economic decisions and the assessment of stewardship, raise no issues regarding prudent accounting, and that they are not contrary to the true and fair view principle. We have also concluded that the Amendments are conducive to the European public good. Therefore, we recommend the Amendments for endorsement.

On behalf of EFRAG, I would be happy to discuss our advice with you, other officials of the European Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely,

Jean-Paul Gauzès

President of the EFRAG Board

Appendix 1: Understanding the changes brought about by the Amendments

Background

2 The Amendments were issued on 20 June 2016 by the IASB.

The issue and how it has been addressed

3 The IFRS Interpretations Committee received requests to clarify the classification and measurement of a number of share-based payment transactions.

4 The Amendments involve a number of narrow scope amendments to IFRS 2 *Share-based Payment* to clarify the classification and measurement of share-based payment transactions in relation to:

(a) the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;

(b) the classification of share-based payment transactions with a net settlement feature for withholding tax obligations; and

(c) the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

What has changed?

5 The Amendments include additional clarifications that:

(a) the effects of vesting and non-vesting conditions on the measurement of a cash-settled share-based payment should follow the same approach used for measuring an equity-settled share-based payment (Amendment 1);

(b) when an entity settles a share-based payment arrangement net by withholding a specified portion of the equity instruments to meet a statutory tax withholding obligation, the award is classified as equity-settled in its entirety if, without the net settlement feature, the entire share-based payment would otherwise be classified as equity-settled (Amendment 2); and

(c) in case of modification of a share-based payment that changes its classification from cash-settled to equity-settled, the award is remeasured as the proportion of the modification date fair value of the equity instruments granted; any difference between the new measurement and the liability recognised in the past for the original cash-settled plan is credited or charged to profit or loss (Amendment 3).

When do the Amendments become effective?

6 The Amendments apply for annual periods beginning on or after 1 January 2018, prior periods shall not be restated.

7 Entities are permitted to apply all three amendments retrospectively (in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*) provided that the entity has the information necessary to do so and this information is available without the use of hindsight.

Appendix 2: EFRAG's technical assessment on the Amendments against the endorsement criteria

Notes to Constituents:

This appendix sets out the basis for the conclusions reached, and for the recommendation made, by EFRAG on the Amendments. In it, EFRAG assesses how the Amendments satisfy the technical criteria set out in the Regulation (EC) No 1606/2002 for the adoption of international accounting standards. It provides a detailed evaluation for the criteria of relevance, reliability, comparability and understandability, so that financial information is appropriate for economic decisions and the assessment of stewardship. It evaluates separately whether the Amendments lead to prudent accounting and finally considers whether the Amendments would not be contrary to the true and fair view principle.

In its comment letters to the IASB, EFRAG points out that such letters are submitted in EFRAG's capacity of contributing to the IASB's due process. They do not necessarily indicate the conclusions that would be reached by EFRAG in its capacity of advising the European Commission on endorsement of the definitive IFRS in the European Union and European Economic Area.

In the latter capacity, EFRAG's role is to make a recommendation about endorsement based on its assessment of the final IFRS or Interpretation against the technical criteria for European endorsement, as currently defined. These are explicit criteria which have been designed specifically for application in the endorsement process, and therefore the conclusions reached on endorsement may be different from those arrived at by EFRAG in developing its comments on proposed IFRS or Interpretations. Another reason for a difference is that EFRAG's thinking may evolve.

Does the accounting that results from the application of the Amendments meet the technical criteria for endorsement in the European Union?

1 EFRAG has considered whether the Amendments meet the technical requirements of the European Parliament and of the Council on the application of international accounting standards, as set out in Regulation (EC) No 1606/2002 (the IAS Regulation), in other words that the Amendments:

(a) are not contrary to the principle set out in Article 4 (3) of Council Directive 2013/34/EU (the Accounting Directive); and

(b) meet the criteria of understandability, relevance, reliability, and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

2 Article 4(3) of the Accounting Directive provides that:

The annual financial statements shall give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss. Where the application of this Directive would not be sufficient to give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss, such additional information as is necessary to comply with that requirement shall be given in the notes to the financial statements.

3 The IAS Regulation further clarifies that '*to adopt an international accounting standard for application in the Community, it is necessary firstly that it meets the basic requirement of the aforementioned Council Directives, that is to say that its application results in a true and fair view of the financial position and performance of an enterprise - this principle being considered in the light of the said Council Directives without implying a strict conformity with each and every provision of this Directive*' (Recital 9 of the IAS Regulation).

4 EFRAG's assessment as to whether the Amendments would not be contrary to the true and fair view principle has been performed against the European legal background summarised above.

5 In its assessment, EFRAG has considered the Amendments from the perspectives of both usefulness for decision-making and assessment of the stewardship of management. EFRAG has concluded that the information resulting from the application of the Amendments is appropriate both for making decisions and assessing the stewardship of management.

6 EFRAG's assessment on whether the Amendments are not contrary to the true and fair view principle set out in Article 4(3) of Council Directive 2013/34/EU is based on the assessment of whether they meet all other technical criteria including whether the Amendments lead to prudent accounting. EFRAG's assessment also includes assessing whether the Amendments do not interact negatively with other IFRS and whether all necessary disclosures are required. Detailed assessments are included in this appendix in the following paragraphs:

(a) relevance: paragraphs 7 - 17;

(b) reliability: paragraphs 18 - 28;

(c) comparability: paragraphs 29 -34;

(d) understandability: paragraphs 35 - 41;

(e) whether overall they lead to prudent accounting: paragraphs 42 - 47; and

(f) whether they would not be contrary to the true and fair view principle: paragraphs 48 - 52.

Relevance

7 Information is relevant when it influences the economic decisions of users by helping them evaluate past, present or future events or by confirming or correcting their past evaluations. Information is also relevant when it assists in evaluating the stewardship of management.

8 EFRAG considered whether the Amendments would result in the provision of relevant information - in other words, information that has predictive value, confirmatory value or both - or whether it would result in the omission of relevant information.

Accounting for the effects of vesting conditions on the measurement of a cash-settled share-based payment (Amendment 1)

9 EFRAG first observes that IFRS 2 already requires the use of a specific notion of 'fair value', in particular as regards the effects of vesting and non-vesting conditions of equity-settled share-based payment. Amendment 1 does not modify that principle but only clarifies that the same principles also apply when determining the fair value of a cash-settled share-based payment.

10 EFRAG considers that applying the same approach to measure the fair value of cash-settled and equity-settled plans result in the provision of equally relevant information

because the difference in economic substance of the two types of award does not justify different principles to measure their value

11 EFRAG assesses that Amendment 1 results in the provision of relevant information for users insofar as it ensures that:

(a) the liability incurred in a cash-settled share-based payment transaction is measured at fair value, as defined in the Standard, until it is settled;

(b) the amount ultimately recognised for goods and services received as consideration for the instruments granted is based on the actual number of equity instruments that eventually vest and the amount of cash that is eventually paid to the tax authority; and

(c) on a cumulative basis, no amount is recognised for goods or services received if the awards granted do not vest because of failure to satisfy a vesting condition or a non-vesting condition.

Classification of share-based payment transactions with net settlement features (Amendment 2)

12 Some may consider that that the relevance of information for users may be reduced if no liability is recognised for future cash disbursements by the entity (either by using its own cash or by issuing and trading its own shares) to meet the employee's statutory tax withholding obligation.

13 EFRAG however observes that an entity is required to disclose an estimate of the amount that it expects to transfer to the tax authority to settle the employee's tax obligation. EFRAG considers that this disclosure provides relevant information because the amount due to the tax authority, which may reflect settlement date fair value, may be significantly different from the amount recognised during the vesting period (which reflects grant-date fair value).

14 Overall, EFRAG considers that Amendment 2 results in the provision of relevant information.

Accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled (Amendment 3)

15 EFRAG assesses that derecognising the liability for the original cash-settled share-based payment, at the date of the changes, provides relevant information as it reflects that the entity is no longer obliged to transfer cash (or other assets) to the counterparty from that date on.

16 Further, EFRAG considers that taking to profit or loss any difference between the derecognised liability (for the original grant) and the amount recognised in equity for the new grant is consistent with the general requirements applied to the extinguishment of liabilities. In its endorsement advice on IFRS 9 *Financial Instruments*, EFRAG concluded that such requirements resulted in the provision of relevant information.

Overall conclusion on relevance

17 EFRAG's overall assessment is that the Amendments would result in the provision of relevant information and therefore satisfy the relevance criterion.

Reliability

18 EFRAG also considered the reliability of the information that will be provided by applying the Amendments. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully what it either purports to represent, or could reasonably be expected to represent, and is complete within the bounds of materiality and cost.

19 There are a number of aspects to the notion of reliability: freedom from material error and bias, faithful representation, and completeness.

Accounting for the effects of vesting conditions on the measurement of a cash-settled share-based payment (Amendment 1)

20 As explained in paragraph 9, EFRAG considers that the different natures of a cash-based and an equity-settled share-based payment do not justify different approaches in the determination of their fair value.

21 EFRAG also observes that by requiring an entity to take into account non-market vesting conditions in the determination of the number of awards expected to vest, Amendment 1 avoids the practical difficulties, already identified for equity-settled awards (see paragraph 184 of the Basis for Conclusion to IFRS 2), of incorporating non-market conditions into option pricing models.

22 Overall, EFRAG considers that Amendment 1 would raise no concerns about freedom from material error and bias, faithful representation, and completeness.

Classification of share-based payment transactions with net settlement features (Amendment 2)

23 EFRAG considers that the transactions with the net settlement features as described in Amendment 2 are in substance equity-settled plans and should be accounted for as such. The reason is that, absent of the withholding tax, the plan would qualify as an equity-settled plan, and the withholding tax is not an expense of the company, rather a tax paid on behalf of the employee.

24 Therefore accounting for the whole award as an equity-settled share based payment provides a faithful representation of the transaction in which the entity is acting as an agent in paying cash to the tax authority.

25 EFRAG also considers that the requirement to disclose an estimate of the amount that the entity expects to transfer to the tax authority contributes to the completeness of the information. This is because, as explained in paragraph 12 above, the amount ultimately payable to the tax authority may significantly differ from the amount recognised for the equity-settled share-based payment during the vesting period which is based on the grant-date fair value of the awards.

Accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled (Amendment 3)

26 EFRAG considers that a cash-settled plan is substantially different from an equity-settled one and therefore accounting for changes in awards that result in a reclassification from cash-settled to equity-settled as a settlement of the original award and its replacement by the promise to issue equity instruments faithfully represents the substance of the transaction. In particular:

(a) remeasuring the original award at the replacement date, results in reliable information because, at that date, the entity and the beneficiary have a new shared understanding that the entity would issue shares (rather than pay cash) for services rendered or to be rendered by the beneficiary; and

(b) derecognising the liability for the original award at the modification date reflects the fact that the entity is no longer obliged to make cash payments for services already rendered under the original award.

27 EFRAG's overall assessment is that the Amendment 3 satisfies the reliability criterion.

Overall conclusion on reliability

28 EFRAG's overall assessment is that the Amendments would result in the provision of reliable information and therefore satisfy the reliability criterion.

Comparability

29 The notion of comparability requires that like items and events are accounted for in a consistent way through time and by different entities, and that unlike items and events should be accounted for differently.

30 EFRAG has considered whether the Amendments result in transactions that are:

(a) economically similar being accounted for differently; or

(b) transactions that are economically different being accounted for as if they are similar.

31 EFRAG's assessment is that the three Amendments are likely to lead to increased consistency in the classification and measurement of share-based payments by providing guidance in areas where IFRS 2 was silent or provided limited guidance and thus enhance comparability of financial information. In particular:

(a) Amendment 1 will result in a consistent determination of fair value for cash and equity-settled awards including vesting conditions for all awards on or after the application date of the Amendments;

(b) Amendment 2 will result in consistent classification for all plans that are settled net to meet a statutory tax withholding obligation, regardless of whether an entity uses its own cash to settle the tax liability or effectively issues and retains a number of vested instruments to meet the tax obligation; and

(c) Amendment 3 will result in consistent accounting for modifications to the terms and conditions of a share-based payment that result in changes of classification of the transaction from cash-settled to equity-settled.

32 EFRAG however observes that comparability could be hindered at least for a transition period, because the Amendments are applicable prospectively. However EFRAG observes that, by permitting retrospective application when the information needed to do is available without the use of hindsight, the Amendments enable entities to avoid an unnecessary reduction in the comparability of financial information.

33 EFRAG also observes that Amendment 3 is only applicable to modifications occurring after the effective date. As a consequence, awards with similar features may be accounted for differently depending on whether the changes in terms that led to reclassification from cash-settled to equity-settled occurred before or after the effective date. However the effect on comparability is mitigated by expectation that these transactions would not occur frequently.

34 Overall, EFRAG's assessment is that the Amendments satisfy the comparability criterion.

Understandability

35 The notion of understandability requires that the financial information provided should be readily understandable by users with a reasonable knowledge of business and economic activity and accounting, and the willingness to study the information with reasonable diligence.

36 Although there are a number of aspects related to the notion of 'understandability', EFRAG believes that most of the aspects are covered by the discussion above about relevance, reliability and comparability.

37 As a result, in EFRAG's opinion, the main additional issue it needs to consider when assessing whether the information resulting from the application of the Amendments is understandable is whether that information will be unduly complex.

38 EFRAG observes that Amendments 1 and 3 do not introduce new concepts or principles in IFRS 2 but merely clarify that:

(a) accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payment follows the approach used for equity-settled share-based payment; and

(b) replacing a cash-settled plan with an equity-settled plan is akin to a settlement of the original award rather than a modification and should follow the existing guidance applicable to such settlements of awards.

39 Amendment 2 is characterised as an exception in IFRS 2. Generally, EFRAG does not support the inclusion of exceptions because they could be applied by analogy to other situations than the one intended.

40 However, in this instance, EFRAG notes that Amendment clarifies that the exception is strictly limited to the situation in which a net settlement feature is used by an entity to meet statutory tax withholding obligations incurred as a result of the share-based payment transaction and, therefore, cannot be analogised to other situations. As mentioned in paragraph BC14, other circumstances could lead to a classification as a cash-settled share-based payment transaction.

41 Overall, in EFRAG's view, the Amendments do not introduce any new complexities that may impair understandability. Therefore, EFRAG's overall assessment is that the Amendments satisfy the understandability criterion in all material respects.

Prudence

42 For the purpose of this endorsement advice, prudence is defined as caution in conditions of uncertainty. In some circumstances, prudence requires asymmetry in recognition such that assets or income are not overstated and liabilities or expenses are not understated.

43 EFRAG has considered in particular the following provisions contained in the Amendments that could affect its assessment on prudence.

Amendment 2 - no separate liability recognised for the entity's obligation to eventually transfer cash (or other assets) to the tax authority

44 EFRAG assesses that the provision would not lead to imprudent accounting because the amount of withholding taxes to be paid to a tax authority is not a liability of the entity but rather a tax paid on behalf of the employee.

45 Although EFRAG has noted that the amount ultimately payable to the tax authority could significantly differ from the amount recognised for the equity-settled share-based payment (because the former may be based on settlement date fair value and

the latter is based on the grant-date fair value of the awards), EFRAG has assessed that appropriate disclosures on the amounts expected to be transferred to the tax authority are required to inform users about the future cash-flow effects associated with the share-based payment.

Amendment 3 - Taking to profit or loss the difference between the fair value of the original grant and that of the replacement award

46 EFRAG assesses that recognising the difference in value between the original and the replacement award in profit or loss is consistent with the requirements for the extinguishment of a financial liability (in IFRS 9 *Financial Instruments* and IFRIC Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments)* which have been assessed to lead to prudent accounting.

47 EFRAG concludes that the Amendments do not raise any issues in relation to prudence as defined above.

True and Fair View Principle

48 A Standard will not impede information from meeting the true and fair view principle when, on a stand-alone basis and in conjunction with other IFRS, it:

(a) does not lead to unavoidable distortions or significant omissions in the representation of that entity's assets, liabilities, financial position and profit or loss; and

(b) includes all disclosures that are necessary to provide a complete and reliable depiction of an entity's assets, liabilities, financial position and profit or loss.

49 EFRAG has assessed that, on a stand-alone basis, the Amendments provide relevant, reliable, comparable and understandable information and do not affect prudence.

50 EFRAG has also assessed that the Amendments do not create any negative interactions with other IFRS. Accordingly, EFRAG has assessed that the Amendments do not lead to unavoidable distortions or significant omissions and therefore they do not impede financial statements from providing a true and fair view.

51 EFRAG has concluded that the appropriate disclosures that are necessary to provide a complete and reliable depiction of an entity's assets, liabilities, financial position and profit or loss are required.

52 As a result, EFRAG concludes that the application of the Amendments would not lead to information that would be contrary to the true and fair view principle.

Conclusion

53 Accordingly, for the reasons set out above, EFRAG's assessment is that the Amendments meet the technical requirements for EU endorsement as set out in the IAS Regulation.

Appendix 3: Assessing whether the Amendments are conducive to the European public good

Introduction

1 EFRAG considered whether it would be conducive to the European public good to adopt the Amendments. In addition to its assessment included in Appendix 2, EFRAG has considered a number of issues in order to identify any potential negative effects for the European economy on the application of the Amendments. In doing this, EFRAG considered:

(a) Whether the Amendments improve financial reporting. This requires a comparison of the Amendments with the existing requirements and how they fit into IFRS as a whole;

(b) The costs and benefits associated with the Amendments; and

(c) Whether the Amendments could have any adverse effect to the European economy, including financial stability and economic growth.

2 These assessments allow EFRAG to draw an intermediate conclusion as to whether the Amendments are likely to be conducive to the European public good.

3 If the assessment concludes to a net benefit, the Amendments will be conducive to the objectives of the IAS Regulation, i.e. improve the transparency and comparability of financial reporting.

EFRAG's evaluation of whether the Amendments are likely to improve financial reporting

4 EFRAG assesses that the Amendments provide practical guidance in classification and measurement areas where IFRS 2 was previously silent, or contained limited guidance, therefore enhancing consistency of application and increase comparability.

5 The Amendments address requests received by the IFRS Interpretation Committee in a way that does not introduce identified inconsistencies with the existing guidance in IFRS 2.

6 EFRAG has therefore concluded that the Amendments are likely to improve financial reporting.

EFRAG's initial analysis of the costs and benefits of the Amendments

7 EFRAG first considered the extent of the work. For some Standards or Interpretations, it might be necessary to carry out some extensive work, in order to understand fully the cost and benefit implications of the Standard or Interpretation being assessed. However, in the case of the Amendments, EFRAG's view is that the cost and benefit implications can be assessed by carrying out a more modest amount of work.

Cost for preparers

8 EFRAG has carried out an assessment of the cost implications for preparers resulting from the Amendments.

One-off costs

9 EFRAG's initial assessment is that one-off costs are likely to be insignificant for most preparers because:

(a) the Amendments are applicable prospectively and no comparative information is required on the first year of application;

(b) the Amendments do not involve complex changes and rely on principles that already exist in IFRS 2; and

(c) Amendment 3 is only applicable to modifications to award occurring after the date of application of the Amendments.

10 Some entities may already be applying IFRS 2 in a way that is identical or is very similar to that required by the Amendments, and for those entities it is likely that here will be little if any incremental cost involved.

11 EFRAG acknowledges that for some preparers there may be additional costs incurred to restate previously awarded plans that are still outstanding as of the effective date of the Amendments to:

(a) identify and adjust for the effects of vesting and non-vesting conditions on their outstanding cash-settled share-based payment; and

(b) identify and restate previously recognised awards with tax withholding features that are still outstanding as of the effective date of the Amendments.

12 However, for these entities, EFRAG's assessment is that the Amendments are unlikely to result in significant costs. This is because the Amendments do not involve significant changes to procedures and systems in place and do not introduce new concepts or principles.

Ongoing costs

13 EFRAG's initial assessment is that ongoing costs for preparers are likely to be insignificant for Amendments 1 and 3 because:

(a) Amendment 1 avoids the practical complexities and cost of measuring the effects of non-market conditions on the fair value of the awards in an option pricing model; and

(b) Although Amendment 3 requires the determination of the fair value of the award at the replacement date, EFRAG considers that it is likely that the beneficiary would have required an assessment of the replacement date fair value to accept the change. Requiring the entity to use for accounting purposes the fair value at a different date (such as the grant date of the original award) would have been more burdensome.

14 EFRAG assesses that Amendment 2 avoids the operational challenge and cost for preparers of dividing the transaction into components at the grant date and estimating changes that affect the amount that the entity is required to withhold and remit to the tax authority. This is because dividing the transaction into two components at the grant date of the award would require an entity to estimate, throughout the plan, changes that affect the amount that the entity is required to withhold and remit to the tax authority on the employee's behalf in respect of the share-based payment (including changes in tax rates and reclassify accordingly a portion of the share-based payment between cash-settled and equity-settled).

15 However, EFRAG considers that the cost reliefs provided to preparers by Amendment 2 may in some cases be limited by the requirement to separately account for any amount retained in excess of the statutory tax obligation as cash-settled plan. For preparers that did not previously separately account for such features, increased costs may even be incurred.

16 EFRAG observes that this situation may typically arise in jurisdictions where the individual income tax rate of each employee is progressive and has to be

approximated at the time the award is net settled; or when the number of the instruments withheld has to be rounded up by an entity to avoid broken shares. In such circumstances entities may commonly deduct shares with a fair value in excess of the ultimate statutory tax obligation, and in due course remit this excess in cash to the employee. Preparers that previously accounted for the entire award as equity-settled would need to change their accounting policy in accordance with the Amendments, subject to materiality considerations.

Questions for Constituents

17 Do Constituents agree with EFRAG assessment that the cost relief provided by Amendment 2 may be limited, or costs even increased, in the circumstances described in paragraphs 15 and 16? Please explain why or why not.

Conclusion about the cost for preparers

18 Overall, EFRAG's initial assessment is that the Amendments, taken together, are likely to result in insignificant one-off costs for preparers. The Amendments are also likely to result in insignificant ongoing cost for users and for most preparers. However the cost relief provided by the Amendments may be limited, for some preparers, or costs even be increased by the requirement to separately account for any amount retained in excess of the statutory tax obligation as cash-settled plan.

Costs for users

19 EFRAG has carried out an assessment of the cost implications for users resulting from the Amendments.

20 Users may incur one-off costs to restate comparative information as the Amendments are applied prospectively and no comparative information is provided. However, such costs are not expected to be significant due to the discrete nature of the transactions involved by the Amendments. On an ongoing basis, users are not expected to incur increased cost.

21 Overall, EFRAG's assessment is that implementation of the Amendments will not result in a significant increase in costs to users.

Benefits for users and preparers

22 EFRAG has carried out an assessment of the benefits for users and preparers resulting from the Amendments.

23 EFRAG's initial assessment is that users and preparers are likely to benefit from the Amendments as the Amendments should:
  (a) enhance the clarity of the requirements for preparers in areas where submissions to the IFRS Interpretations Committee have identified that IFRS 2 was not providing enough guidance and;
  (b) enhance the consistency of application of the requirements and therefore increase comparability of information for users.

Conclusion on the costs and benefits of the Amendments

24 EFRAG's overall assessment is that the overall benefits of enhanced consistency of application and increased comparability are likely to outweigh costs associated with implementing the requirements and the ongoing costs of complying with the Amendments.

Conclusion

25 EFRAG considers that the Amendments will generally bring improved financial reporting when compared to current guidance. As such, their adoption is conducive to the European public good in that improved financial reporting improves transparency and assists in the assessment of management stewardship.

26 EFRAG has not identified that the Amendments could have any adverse effect on the European economy, including financial stability, economic growth and competitiveness.

27 Furthermore, EFRAG has considered whether there are any other factors that could mean that adoption is not conducive to the public good and has not identified any such factors.

28 Having considered all relevant aspects, including the trade-off between the costs and benefits of implementing the Amendments, EFRAG assesses that endorsing the Amendments is conducive to the European public good.