BUSINESSEUROPE

International Accounting Standards
Board (IASB)
30 Cannon Street
London EC4M 6XH
United Kingdom

30 March 2015

Dear Board Member,

Re: Exposure Draft ED/2014/5 *Classification and Measurement of Share-based Payment Transactions (Proposed amendments to IFRS 2)*

BUSINESSEUROPE appreciates the opportunity to comment on the above Exposure Draft. We continue to be concerned about the approach being taken to improving an accounting standard which is too rules-based. Rather than continuing this piecemeal approach, there is a need to re-emphasise the principles behind IFRS 2 and propose improvements taking these into account. It is a very detailed standard for what are generally immaterial items.

Therefore, although we have provided answers below to the specific questions in the ED, we would recommend that the IASB instead undertakes "a post-implementation review" process for IFRS 2.

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?

The proposal would seem to be logical, but the principle on which it is based is unclear.

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?

We agree with the proposal as we believe it reflects the substance of the transaction and do not understand why the Board believes (in the Introduction and paragraph

BC15) it would create an exception to IFRS 2 requirements. We do not consider that the justification for the proposal is only based on reducing the operational complexity. This again demonstrates the lack of clear principles behind IFRS 2.

However, in order to avoid inconsistent application, further clarification is needed in the final amendment. The improvement should not limit application only to transactions where equity instruments are withheld to meet employees' tax liabilities, but it should apply to all transactions where the share-based payment arrangement is settled net because the entity is required by law to withhold the employees' taxes associated with the share-based payment to pay to the tax authorities. We do not consider that the substance of the transaction is any different where, for example, equity instruments are not withheld and the employees' tax liability is settled by the entity directly rather than by cash generated from sale of equity instruments. In all such cases, the withheld amount is not an expense of the entity but tax paid, acting as an agent, on behalf of the employees to settle their obligations.

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?

The proposal would seem to be logical, but the principle on which it is based is unclear.

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?

We support a practical approach but, particularly in respect of paragraph BC23, the IASB should clarify what "prospective" means. It is not clear whether or not arrangements in place at the effective date would be "grandfathered" or whether there would be a "catch-up" adjustment in the first period of application.

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Question 5

Do you have any other comments on the proposals?

We have no further comments.

Please do not hesitate to contact us should you wish to discuss these issues any further.

Yours sincerely,

Jérôme P. Chauvin
Deputy Director General