Deutsches Rechnungslegungs Standards Committee e.V.
Accounting Standards Committee of Germany
IFRS-Fachausschuss

DRSC e. V. • Zimmerstr. 30 • 10969 Berlin

Telefon +49 (0)30 206412-12
Telefax +49 (0)30 206412-15
E-Mail info@drsc.de

Mr Hans Hoogervorst
Chairman of the
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Berlin, XX. March 2015

DRAFT

Dear Hans,

IASB Exposure Draft ED/2014/5 *Classification and Measurement of Share-based Payment Transactions – Proposed amendments to IFRS 2*

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the IASB's Exposure Draft ED/2014/5 (herein referred to as the 'ED'). We appreciate the opportunity to comment on the ED.

In general, we welcome the IASB's aim to clarify the specific points addressed in the ED as there seems to be diversity in practice regarding some issues that IFRS 2 does not address explicitly. However, we would like to address some additional concerns regarding the standard itself and its further development.

- Although IFRS 2 is – in our view – based on a general, high-level principle for the accounting of share-based payments, we do not deem this principle to be adequately designed as we have been observing a significant number of issues raised by constituents for consideration at the IFRS IC since the standard was issued in 2004. In addition, when discussing the ED we noted further ambiguities arising in connection with the application of IFRS 2 (please see our comments on question 5).
- In our view, IFRS 2 contains a lot of guidance which aims at addressing individual and single cases instead of a robust principle. This has the effect of making the standard very complex. We think this complexity increases by amending the standard as proposed by the IASB.
- Therefore, we would like to recommend defining a clear and robust principle for the accounting of share-based payments in connection with a general revision of the standard. A Post-Implementation-Review might be a good starting point in this respect.

When discussing the questions raised by the IASB we assumed that the Board does not take such general revision at that stage into account. Thus, our responses to questions 1 – 4 refer to

the ED in connection with IFRS 2 as currently issued but do not address our view regarding the need for a comprehensive revision of IFRS 2.

The attached appendix includes our responses to the questions raised by the IASB. If you would like to discuss our comments further, please do not hesitate to contact me.

Yours sincerely,

[signature]
President

DRAFT

Appendix – Answers to the questions of the Exposure Draft

> **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 IASB's 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 as described in paragraphs 19-21A of IFRS 2. We are of the opinion that both general types of share-based payments should be treated consistently with regard to the determination of the fair value of the share-based payment transaction.

We support the IASB's effort to address the impact of vesting and non-vesting conditions on the measurement of the fair value of the liability incurred in a cash-settled share-based payment transaction. For a cash-settled share-based payment transaction a remeasurement of the fair value of the liability at the end of each reporting date is required until the liability is settled according to paragraph 30 of IFRS 2. However, in determining the fair value of the liability the standard is not clear on how to reflect changes in expectations of meeting service and non-market performance conditions. We are aware that different views are considered in the accounting literature (see KPMG Insights to IFRS 2014/15, pg. 1105; Deloitte iGAAP 2014, pg. 1384) and are applied in practice:

- Under the mixed approach only changes in the fair value of the underlying equity instruments including the effects of market and non-vesting conditions are recognised as remeasurements. Other adjustments to the liability due to revisions in the estimate of the outcome of service and non-market performance conditions are considered to be a true up and therewith similar to equity-settled share-based payments.
- Under the full fair value approach any change in the fair value of the liability is considered to be a remeasurement.

Depending on the policy choice made, there might be significantly different outcomes if the grant-date fair value of a cash-settled share-based payment transaction is capitalised. This is the case if the cost of services received in a cash-settled transaction is recognised in the carrying amount of an asset. In this case, only the grant date fair value of the arrangement may qualify for asset recognition. Furthermore, a remeasurement affects the carrying amount of the liability but not the carrying amount of the asset, whereas a true up has an effect on both. Thus, the carrying amount of the asset varies depending on what is considered a remeasurement and

what is considered a true up, subject to the accounting policy choice as described above. The proposed amendment is not unambiguous as to whether a change to current practice is intended. We think an additional illustrative example would be useful.

Kommentar [TS1]: Alternativ-Antwort

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?

In general, we support the proposed amendment with respect to the classification of those transactions.

However, we note that the ED is silent about the accounting for an award involving net settlement features. Even though the ED states that "...*the share-based payment shall be accounted for in accordance with the requirements that apply to equity-settled share-based payment transactions in paragraphs 10–29.*" it remains unclear how to account for the withheld portion of the award in general. Furthermore, we observe a number of specific questions for which the principles of IFRS 2, which the ED refers to in this regard, do not seem to be sufficiently designed. Examples include:

- Should the payment to the tax authorities to be considered a repurchase of vested equity instruments for which paragraph 29 of IFRS 2 contains guidance, or be considered a transaction independent from the share-based payment award?
- How should the difference between the cash payment and the cost, recognised during the vesting period for the number of equity instruments needed to equal the monetary value of the tax, be treated?

In our opinion those questions need to be addressed in order to avoid further significant accounting diversity. For that reason we propose to have such guidance included in the final standard. In addition, we recommend incorporating an illustrative example.

Furthermore, we do not consider it appropriate to qualify the proposed solution as an exception to the requirements of IFRS 2 as the accounting outcome as described in the ED is the appropriate result from the existing guidance of the standard.

DRAFT

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 agree with the IASB's proposal as it is consistent with the standard's principle for the accounting for cash-settled share-based payments. The liability recognised in connection with a cash-settled share-based payment award needs to reflect the expected amount of resources to be transferred by the entity to the beneficiary. For that reason IFRS 2 requires remeasuring the liability arising from a cash-settled share-based payment transaction at fair value at the end of each reporting date until the liability is settled. Based on the assumption that the original award is settled and replaced by a new equity-settled award, the modification-date fair value of the new award reflects the entity's expectations at the modification date with regard to the value of the equity instruments to be transferred when the award is finally settled. Therefore, we agree that the minimum rule of IFRS 2.27 should not apply in those situations, as stated in BC18 of the ED.

However, we think that paragraph B41 of the ED is not sufficiently worded. It states, "*The equity-settled share-based payment transaction is measured at the fair value of the equity instruments granted as of the modification date.*" However, it does not include the guidance of BC18 as described above. We are of the opinion that this guidance needs to be provided in B41 or in a different paragraph in the main body of the standard.

Kommentar [TS2]: Ggf. zusätzlicher Hinweis

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?

DRAFT

We agree with the IASB's proposal to apply the amendments prospectively and to permit retrospective application if the entity has the information needed to do so and this information is available without the use of hindsight.

Question 5 Do you have any other comments on the proposals?

As mentioned in our cover letter we noted further diversity in accounting practice with respect to modifications to the terms and conditions of an equity-settled share-based payment transaction that results in a change in its classification from equity-settled to cash-settled. In the accounting literature there are different views on how to account for the difference between the liability to be recognised at the modification date and the total amount that has been recognised in equity until the modification date in connection with the equity-settled award in the case of the liability recognised exceeding the amount recognised in equity until that date.
Some are of the opinion that equity is debited by the full amount of the liability to be recognised, irrespective of whether the debit entry to equity exceeds the amount recognised in equity until the modification date (approach 1).
Others take the view that the debit entry to equity shall not exceed the amount recognised in equity until the modification date in connection with the equity-settled award. This would result in accounting for the remaining difference as an expense for the period in which the modification occurs (approach 2).
The third opinion regarding this issue states that both approaches are acceptable and entities should choose an accounting policy as to which approach to apply.
The different approaches result in different total expenses recognised until the end of the vesting period and only in approach 2 will the total expenses be equal to the liability at the end of the vesting period.
This example and the number of issues raised by constituents for consideration at the IFRS IC in recent years give rise to the conclusion that the general principle underlying IFRS 2 is not robust enough. We therefore recommend a general and comprehensive revision of the standard.

DRAFT