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By email to: ukfrs@frc.org.uk

29 May 2015

Dear Ms Pust Shah

FRED 61 Draft amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* – Share-based payment transactions with cash alternatives

Deloitte LLP is pleased to respond to FRED 61. We have set out our detailed responses to the consultation questions in the Appendix to this letter.

We support the proposal to align the requirements about settlement alternatives with those of IFRS 2 and FRS 20 in those cases when the reporting entity has the choice of settlement. This is a welcome and uncontroversial proposed amendment to FRS 102. However, we disagree with broadening the scope of paragraph 26.15 of FRS 102 to address those cases when the choice of settlement is dependent on an external event. This is a contentious issue which does not require urgent action and would be better left for consideration as part of the triennial review.

We would be happy to discuss our letter and the draft proposals with you. If you have any questions, please contact Ken Rigelsford on 020 7007 0752 or krigelsford@deloitte.co.uk.

Yours sincerely



Veronica Poole
National Head of Accounting and Corporate Reporting
Deloitte LLP

Appendix Responses to detailed questions

Question 1 The proposed requirements for share-based payment transactions with cash alternatives:

- (a) align the requirements in FRS 102 with full IFRS and previous UK and Irish GAAP in cases where the entity can choose to settle in cash or equity;
- (b) retain the current requirements of FRS 102 to recognise a liability where the recipient can require settlement in cash; and
- (c) generalise the requirements to include those cases where the settlement method is dependent on an external event.

Do you agree with this proposal and the draft amendments to paragraph 26.15 of FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*? If not, why not?

We agree with the proposal in (a) which is a welcome and uncontroversial amendment to FRS 102. In those cases where the entity can choose to settle in cash or equity, the original drafting of FRS 102 in some cases requires the inappropriate recognition of a liability when the entity has no obligation to transfer cash or other assets. We also agree with the proposal in (b) of retaining the existing simplified requirements of FRS 102 in those cases when the recipient can require settlement in cash. This avoids the complexities of accounting for a compound instrument which is required by IFRS 2 and FRS 20.

However, we do not agree with the proposal in (c) for those arrangements where the settlement method is dependent on an external event. The proposal would have the effect that all such arrangements would have to be accounted for as cash-settled irrespective of the probability of cash settlement occurring. This is an issue which has been considered by the IASB and its Interpretations Committee on various occasions and to date has not been resolved for the purposes of IFRS 2. Whatever the merits of the alternative points of view, we do not consider it appropriate for the FRC to seek to resolve the issue for the purposes of FRS 102 at this time. It is a contentious issue which does not require urgent action and would be better left for consideration as part of the triennial review. This can take into account any further action by the IASB to resolve the uncertainties about the interpretation of IFRS 2 and ensure a consistent solution.

Question 2 The amendments are proposed to be effective from 1 January 2015. Nevertheless, entities were able to apply FRS 102 to accounting periods commencing prior to 1 January 2015 and if so, may have adopted the extant requirements of paragraph 26.15 of FRS 102. Based on the assumption that this will not be an issue for many entities, if any, FRED 61 does not contain any transitional provisions. Do you agree that transitional provisions are not required for the purposes of this proposed amendment? If not, please tell us what transitional provisions you would suggest and why.

We agree that transitional provisions are not required for the purposes of the proposed amendment.