Deloitte Touche Tohmatsu Limited
2 New Street Square
London
EC4A 3BZ
United Kingdom

Tel: +44 (0) 20 7936 3000
Fax: +44 (0) 20 7583 1198
www.deloitte.com

Direct: +44 20 7007 0884
Direct fax: +44 20 7007 0158
vepoole@deloitte.co.uk

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

25 March 2015

Dear Mr Hoogervorst

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

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's (the IASB's) Exposure Draft *Classification and Measurement of Share-based Payment Transactions (Proposed amendments to IFRS 2)* ('the exposure draft').

We welcome the Board's initiative in addressing a number of areas of share-based payment accounting that currently cause problems in practice and, subject to some points of detail, support the proposals in the exposure draft.

Our detailed responses to the questions in the invitation to comment are included in the Appendix to this letter.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

Veronica Poole
Global IFRS Leader

Deloitte.

Appendix

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 proposal for the reasons set out in the Basis for Conclusions on the exposure draft.

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 that reducing the number of equity instruments delivered in lieu of settlement of an employee's tax liability directly resulting from the share-based payment should not change the classification of a share-based payment transaction that would otherwise be classified as equity-settled in its entirety.

We note, however, that the words "obliged by tax laws or regulations to withhold an amount" in proposed paragraph 33D could be read as limiting the amendment to jurisdictions in which withholding of shares (rather than, for example, deductions from the employee's salary) are required. We do not believe that such a detail should result in differing classification of arrangements in which the employee will receive shares less an amount necessary to settle their resulting tax liability.

In reference to the statement in paragraph BC16 of the Basis for Conclusions on the exposure draft on convergence with US GAAP, we also note that minimum statutory withholding requirements is one of the topics under discussion as part of the Financial Accounting Standards Board's ('FASB's') current project 'Employee Share-based Payment Accounting Improvements'. We recommend that the Board monitor that project to determine whether it indicates that any further amendments to IFRS 2 might be appropriate.

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 that upon such a modification the resulting equity-settled share-based payment should be measured by reference to its modification-date fair value and that the liability in respect of the original cash-settled share-based payment should be derecognised at the date of modification.

In respect of any difference in value arising, we note that (assuming finalisation of the exposure draft's proposals on the effect of vesting and non-vesting conditions on the measurement of cash-settled share-based payments) such a difference would represent an actual grant of additional value to (or withdrawal of value from) the counterparty rather than an accounting mismatch arising due to a difference in treatment of conditions for equity and cash-settled share-based payments. It is unclear that this additional (or lesser) value will always relate to service already provided and not to service provided in the future. As such, we recommend that the Board consider more fully whether immediate recognition in profit or loss is preferable to a treatment consistent with that applied to modifications of equity-settled share-based payments.

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?

It is unclear how prospective application would apply to share-based payment arrangements in existence when the proposed amendments are first applied (for example, whether reclassification of any arrangements to be settled net of tax not previously classified as equity-settled is required at that date).

We believe a preferable approach would be to apply the amendments in respect of vesting conditions of cash-settled share-based payments and in respect of share-based payments settled net of tax retrospectively to awards granted before the date of initial application of the amendments that have not vested at that date. This approach would ensure that the calculation of share-based payment expense is consistent for all unvested awards and should be practicable without the use of hindsight given that it would not require any additional inputs into a valuation exercise.

We recommend that the amendments in respect of modifications resulting in a change of classification from cash-settled to equity-settled be applied prospectively to modifications occurring after the date of initial application of the amendments.

Question 5

Do you have any other comments on the proposals?

We have no other comments.