



Room 525, 5/F., Prince's Building, Central, Hong Kong
Telephone: 2521 1160, 2521 1169 Facsimile: 2868 5035
Email: info@hkab.org.hk Web: www.hkab.org.hk

香港中環太子大廈5樓525室
電話：2521 1160, 2521 1169 圖文傳真：2868 5035
電郵：info@hkab.org.hk 網址：www.hkab.org.hk

17 February 2015

By email: commentletters@hkcipa.org.hk and by post

Mr. Simon Riley
Acting Director, Standard Setting
Hong Kong Institute of Certified Public Accountants
37th Floor, Wu Chung House
213 Queen's Road East
Wanchai
Hong Kong

Dear Mr. Riley

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

We refer to your letter dated 18 December 2014 and would like to set out our comments on the IASB's Exposure Draft ED/2014/5 – Classification and Measurement of Share-based Payment Transactions (Proposed amendments to IFRS 2) ('Exposure Draft').

We generally agree with the proposals that are set out in the Exposure Draft. They support the consistent application of the requirements of IFRS 2 *Share-based Payment* ('IFRS 2'). We also welcome the relief provided in respect of the transition requirements, which gives recognition to the practical difficulties that entities may encounter in implementing the proposals that are set out in the Exposure Draft.

We have some suggestions on how the proposals on the classification of share-based payment transactions with net settlement features can be clarified as set out in the attachment.

Our suggestions and comments on the specific questions raised in the Exposure Draft are elaborated in the attachment.

Chairman The Hongkong and Shanghai Banking Corporation Ltd
Vice Chairmen Bank of China (Hong Kong) Ltd
Standard Chartered Bank (Hong Kong) Ltd
Secretary Henry Chan

主席 香港上海匯豐銀行有限公司
副主席 中國銀行(香港)有限公司
渣打銀行(香港)有限公司
秘書 陳崇禧



We would be happy to further clarify or discuss any of our suggestions and comments should you so wish. Should you have any questions, please do not hesitate to contact Ms. Emily Ngan of the Secretariat at 2526 6080.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Henry Chan', is positioned above the printed name.

Henry Chan
Secretary

Enc.

Response of the Hong Kong Association of Banks to the Specific Questions in the International Accounting Standards Board's Exposure Draft ED/2014/5: *Classification and Measurement of Share-based Payment Transactions*

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. As stated in paragraph 4 of the Basis for Conclusions of the Exposure Draft ('BCs'), the proposal will result in the consistent application of paragraph 6A of IFRS 2 to both equity settled and cash settled share-based payment transactions.

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 since it reflects view 2 that is set out in paragraph 10 of the BCs. Paragraph 12 of the BCs explains that the assumption in view 2 is that the entity is acting as an agent of the employee to satisfy the employee's tax obligation. The entity uses the net settlement collection feature to fulfil its role as an agent. Such a collection feature should not alter the substance of the share-based payment transaction where the plan would have been classified as an equity settled plan if it had not included the net settlement feature.

Additionally, we recommend the inclusion of the following clarifications:

- (i) the proposed amendment to paragraph 33D of IFRS 2 does not address the accounting for any difference that may arise between the tax obligation and the portion of equity instruments withheld. We would suggest that paragraph 33D include a reference to paragraph 29 of IFRS 2 to address the accounting for this difference;
- ii) paragraph 15 of the BCs states that these requirements should only apply to a situation where the entity uses a net settlement feature to meet a statutory tax withholding obligation that arises from the share based payment transaction. We

would suggest that the IASB's intention can be made more explicit by amending the sub-title above paragraph 33D to "Classification of share-based payment transactions with net settlement features regarding withholding tax obligations"; and

iii) we would suggest the inclusion of an illustrative example.

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 proposed amendment. Our view is consistent with paragraph 19 of the BCs, that the replacement of a cash-settled plan with an equity-settled plan is more akin to a settlement of the original award rather than a modification.

Accordingly, we agree that the fair value of the replacement award should be measured at the replacement date because this is the value that extinguishes the liability for the cash-settled plan.

We also agree that any difference between the liability for the cash settled plan and the amount of equity recognized for the equity-settled plan should be recognised immediately in profit or loss. This is consistent with the requirements of paragraph 30 of IFRS 2.

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 these proposals for the reasons stated in paragraphs 22 and 23 of the BCs. We believe that the retrospective application of these proposals will not provide useful information to the users of financial statements. We also envision that the retrospective application of these proposals will not be possible without the use of hindsight when there is a tax rate change.