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Your Ref: C/FRSC
Our Ref: Lv010/15

By Post & Email (hkicpa@hkicpa.org.hk)

18 February 2015

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

Dear Mr Riley

Invitation to comment on IASB Supplement to Exposure Draft ED/2014/5 Classification and Measurement of Share-based Payment Transactions (Proposed Amendments to IFRS 2)

Thank you for your letter dated 18 December 2014 inviting us to comment on the subject matter.

We have consulted our member companies and their comments are as follows:

<u>Question 1</u>

- Agree as cash settled and equity settled share based payments should follow similar treatment and accounting approach.
- Basically agree. Through market conditions, whether it is vesting or non-vesting conditions, we can estimate the fair value of the cash-settled share-based payment granted and re-measure the fair value of the awards at the end of each reporting period, and at the date of settlement. That is truly reflecting the value of a cash-settled share-base payment transaction in conjunction with the markets however it may at the same time exposure to fluctuations, causing an unstable situation.

<u>Question 2</u>

- No comment as there is no withholding tax requirement for share based payment in Hong Kong.
- Agree. Actually, the entity will deduct the number of equity instruments needed to equal the monetary value of the statutory tax withholding obligation from the total number of equity instruments. Even there is no such a net settlement feature, the entire share-based payment transaction would also be classified as an equity-settled share-based payment. It will be much more consistent.

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Question 3

- Agree as modification of terms and conditions mean the whole original arrangement is changed. If the new arrangement is classified as equity settled, the liability on the original cash settled arrangement should be reversed.
- Agree. Accounted for such modifications resulted in a change in its classification from cash-settled to equity-settled by reference to the modification-date fair value of the equity instruments granted is reasonable due to follow with the market conditions at that time that is true and fair to reflect the value. These are reasonable accounting records for the liability recognized in respect of the original cash-settled share-based payment is derecognized upon the modification, and the equity-settled share-based payment is recognized to the extent that the services have been rendered up to the modification date. It is a general accounting approach for any difference incurred between the carrying amount of the liability as at the modification date and the amount recognized in equity at the same date is recorded in profit or loss immediately.

Question 4

- Will incline to apply this prospectively as significant amount of efforts will be required for retrospective application and we don't see the benefits for retrospective application.
- Basically agree. To permit the entity to apply the amendments retrospectively if it has the information necessary to do so and this information is available without the use of hindsight that can provide flexibility to the entity to cater its different kind of business modes and models.

We look forward to hearing your views on the observations set out above.

Yours sincerely

Selina Lau
General Manager - Communications & Committee

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