Grupo Latinoamericano de Emisores de Normas de Información Financiera

Group of Latin-american Accounting Standard Setters

March 25, 2015

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

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

Dear Board Members:

The "Group of Latin American Accounting Standard Setters" – GLASS[1] welcomes the opportunity to comment on the Exposure Draft Exposure Draft (ED/2014/5) on Classification and Measurement of Share-based Payment Transactions (Proposed amendments to IFRS 2) (**the "ED"**).

This response summarizes the views of our country-members, in accordance with the following due process.

Due process

The discussions in regard to the ED were held within a specified Technical Working Group (TWG) created in December 2014. All country-members had the opportunity to designate at least one member to participate in this TWG. Individually, all TWG members organized and decided the most effective way to get the answers and comments to the document under consideration, and subsequently, all TWG members summarized the answers from their respective countries which were presented and compared with the views of other members of the TWG. The answers were discussed and when some of the opinions and/or findings presented answers with comments or objection to the proposed improvement in the document under consideration, explanatory or alternative arguments were requested for the purpose of including it as part of our findings, in order to prepare a consensus response.

Overall comments

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 ED.

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

If you have any questions about our comments, please contact ***glenif@glenif.org***.

Yours sincerely,

Jorge José Gil
Chairman
Group of Latin American Accounting Standard Setters (GLASS)

[1] The general objective of the Group of Latin American Accounting Standard Setters (GLASS) is to present technical contributions in respect to all documents issued by the IASB. Therefore, GLASS aims to have a single regional voice before the IASB. GLASS is constituted by: Argentina (Chairman), Bolivia, Brazil (Board), Chile, Colombia (Board), Costa Rica, Ecuador, El Salvador, Guatemala (Board), Honduras, Mexico (Vice Chairman), Panama, Paraguay, Peru, Dominican Republic, Uruguay (Board) and Venezuela (Board);

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GLASS' Comment Letter on the IASB Exposure Draft on Classification and Measurement of Share-based Payment Transactions (Proposed amendments to IFRS 2)

The Group of Latin American Accounting Standards Setters (GLASS) welcomes the opportunity to submit its comments on the Exposure Draft ED/2014/5 on Classification and Measurement of Share-based Payment Transactions (Proposed amendments to IFRS 2) (the ED) issued for exposure in November, 2014. Set forth below you will find our comments on the specific questions posed in the ED.

QUESTION 1:

(a) 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?
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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?
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There are mixed views in the Technical Working Group.

1) Half of the countries agree that withholding a portion of equity instruments to settle 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.

Practitioners in these countries note 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. This practioners 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.

2) The other half of the countries believe that the amount of tax to be withheld upon settling the share-based payment arrangement by withholding a specified portion of the equity instruments to meet the statutory tax withholding should be recognized as a liability and not as equity. This is because the amount of shares that will be issued will be less than the total share-based payment and, therefore, in the periods in which the employee is working to obtain the right to receive the share-based payment, an amount that will be paid to the tax authorities will be shown as equity, and such amount will not flow to the paid-in capital upon vesting. These practitioners believe that, in accordance with the IFRS Conceptual Framework, paragraph 4.4(b) the amount to be withheld and paid to the tax authorities is a liability, as it is "...a present obligation of the entity arising from past events and the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits". These practitioners understand that determining the amount of the liability might be difficult, due to changes in the tax laws, including changes in the tax rate, and that for practical purposes it would be less complex to reclassify from equity to a liability the amount of tax due, when the share-based payment vests.

   Practitioners in these countries suggest that if the proposed amendment is finally adopted:

   a) a disclosure of the approximate amount of tax that will be withheld be required; and

   b) the end of paragraph 33D indicate that a "...the share-based payment that includes a net settlement feature shall be accounted for, in its entirety, in accordance with the requirements that apply to equity-settled share-based payment transactions in paragraphs 10-29." This is to avoid any misunderstanding.

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?
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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?
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It is unclear how prospective application would affect 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 clearer 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, if the information is available without the use of hindsight. This approach would ensure that the calculation of share-based payment expense is consistent for all unvested awards.

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?
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We have no other comments.

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