

STAFF PAPER

May 2016

IASB Meeting

Project	Research project— <i>IFRS 2 Share-based Payment</i>		
Paper topic	Project Update and Agenda Consultation Feedback		
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Purpose of paper

1. This paper:
 - (a) provides background information and a project update for the research project on *IFRS 2 Share-based Payment* (the IFRS 2 research project)—paragraphs 3-12;
 - (b) summarises the feedback received in response to the Request for Views: *2015 Agenda Consultation* (the Request for Views) and related online survey—paragraphs 13-23;
 - (c) sets out the staff analysis of the implications of that feedback—paragraphs 24-29.
2. This paper asks the Board for a decision on the way forward with the IFRS 2 research project.

Purpose and status of IFRS 2 research project

3. The IFRS 2 research project is currently in the assessment stage. During the 2011 Agenda Consultation, many respondents commented on the complexity of IFRS 2. It

has also attracted a large number of interpretation requests. The objective of this research project has been twofold:

- (a) to identify whether it is IFRS 2 that is causing the perceived complexity, and if it is, to identify the most common areas of complexity; and
- (b) to analyse why IFRS 2 has attracted many interpretation requests.

Research up to November 2015

4. The Board discussed the staff's *Report on the findings [of the research project] so far* at its meeting in November 2015. On the basis of the staff's research and outreach, it appears that the complexity of applying IFRS 2 in practice has two main causes. The first cause is the complexity of share-based payment arrangements themselves. The second cause—which has an accounting nature—is the usage of the *grant date* fair value measurement model in IFRS 2 for share-based payment arrangements that are settled in shares or in share options (ie equity-settled share-based payment arrangements).
5. As mentioned in the staff's *Report on the findings so far*, the staff believe that without reconsidering the *grant date* fair value measurement model, it will not be possible to reduce significantly the complexity that arises in applying IFRS 2.
6. The full *Report on the findings so far* that was presented to the Board in November 2015 is reproduced for this meeting as agenda paper 16A.

Updates since November 2015

7. Since the Board considered the staff paper in November 2015 there have been the following developments:
 - (a) The US Financial Accounting Standards Board (FASB) finalised narrow-scope amendments to employee share-based payment accounting in March 2016—paragraphs 8-9.
 - (b) The Global Preparers Forum (GFP) discussed the staff findings and the way forward in March 2016—paragraphs 10-11.

- (c) The Accounting Standards Advisory Forum (ASAF) discussed the staff findings and the way forward in April 2016—paragraph 12.

FASB finalised narrow-scope amendments in March 2016

8. The FASB’s amendments aimed to simplify accounting for employee share-based payment arrangements. The amendments have a very narrow scope and provide a small number of simplifications for private entities. The staff believe that these amendments did not create divergences between US GAAP and IFRS 2.
9. A summary of the FASB’s project and the amendments is available on the IFRS 2 research project’s webpage:

<http://www.ifrs.org/Current-Projects/IASB-Projects/Share-based-payments/Documents/FASB-SBP.pdf>

GPF meeting in March 2016

10. In summary, GPF members seemed to agree with the findings. They further believed that the Board should not perform further research and should not reconsider the *grant date* fair value measurement model, for the following main reasons:
- (a) most implementation issues have now been resolved;
- (b) replacing the *grant date* fair value measurement model with the *current date* fair value measurement model would lead to increased volatility of recognised share-based payment expenses; and
- (c) they are now used to the Standard’s requirements.

11. Full GPF meeting notes can be found at:

<http://www.ifrs.org/About-us/IASB/Advisory-bodies/GPF/Pages/GPF-meetings.aspx>

ASAF meeting in April 2016

12. In summary, ASAF members also seemed to agree with the findings. ASAF members seemed to have little appetite to reopen the *grant date* fair value measurement model in IFRS 2. Two ASAF members believed that the Board should perform a post-

implementation review of IFRS 2 because—although most of the implementation issues have already been resolved—they were still concerned about the number of interpretations of, and amendments to, IFRS 2. They further believed that there needed to be a structured process for making amendments to IFRS 2 instead of doing this ‘bit by bit’.

Responses to the Request for Views and online survey

Request for Views

13. This is a summary of responses:

Importance	Number of responses
Low	36
Medium	19
High	4
Total responses	59
No responses on this project	60
Overall total	119

14. Respondents commenting on the IFRS 2 research project primarily included: standard-setters, accounting firms and various organisations. Surprisingly few preparers (6) provided responses about this project; their responses were varied.

Who thinks this project is important

15. Only four respondents assigned high importance.

Why they think it is important

16. Complexity of IFRS 2 requirements is the most common reason given by respondents for ranking this topic as highly important.

17. One preparer (in South Africa) commented extensively on why they assigned high priority to this project. Their main concern was that they believe that economic hedges of share-based payment arrangements are not reflected faithfully at the moment.

Who thinks this project is not important

18. Of all the respondents who commented on this project, over half of them assigned low priority to this project. There was no obvious trend in terms of which groups of respondents held this point of view.

Why they think the project is not important

19. The main reason given by respondents for classifying this project as ‘unimportant’ was that this project had a lower priority compared to other projects. This seemed to suggest that the Standard is overall considered as operational.
20. Some respondents also stated that no further project was necessary because they believed that most practical issues arising from IFRS 2 have been addressed through subsequent amendments.
21. One respondent was concerned that major amendments to IFRS 2 might lead to divergence with US GAAP. (As a reminder, IFRS 2 and its US GAAP equivalent are broadly converged.)

Feedback from online survey

22. Investors responded to the question about the priority of this project as follows:

Priority	Number of responses
Low	25
Medium	26
High	11
Total	62

23. Almost half of respondents assigned low priority to the IFRS 2 research project. There were not that many comments (7) and therefore it was difficult to understand reasons for the assigned priorities. To the extent that the staff could see, the high and medium priorities were motivated by:
- (a) complexity of the Standard and some counter-intuitive results in some instances;
 - (b) investors rarely knowing how much a company's employee stock incentive plan really costs; and
 - (c) the fact that some entities adjust their reported numbers to exclude share-based payment expenses. (This comment seems to relate to the discussion about non-GAAP performance measures.)

Staff analysis

24. The main objective of this research project was to identify the most common areas of complexity in IFRS 2, and their causes. The staff believe that this research project is now complete.
25. The staff's findings from the research may be summarised as follows:
- (a) Without reconsidering the *grant date* fair value measurement model, it will not be possible to reduce significantly the complexity that arises in applying IFRS 2.
 - (b) The experience of making narrow-scope amendments to IFRS 2 shows that there may be a need to assess more closely the root-causes of issues that arise in practice before making amendments to standards.
26. The Board has not asked the staff to reconsider the merits of the *grant date* fair value measurement model. The staff believe that the Board should not ask the staff to reconsider its merits.
27. The staff think that the main messages from the responses to the Request for Views and online survey are that:

- (a) most respondents to the Request for Views and the online survey rated the IFRS 2 project as low or medium priority. This rating is consistent with the views expressed during the GPF and ASAF meetings in 2016;
 - (b) although many constituents continue to comment on the complexity of the Standard, it appears that most implementation issues have now been resolved since the Standard was first issued in 2004 and the Standard is considered as operational overall;
 - (c) there has also been not very strong but consistent feedback that the Board should consider classification and measurement of share-based payment arrangements as it proceeds with the research project on *Financial Instruments with Characteristics of Equity*.¹
28. On the basis of the findings of the research and the feedback obtained during the IFRS 2 research project the staff recommend that the Board should not carry out further research on this topic.
29. The staff also think that:
- (a) There is no need to seek feedback from stakeholders on the staff’s findings or on the decision not to carry out further work on this topic. However, in our public communications, we should emphasise that the Board welcomes any feedback stakeholders wish to provide.
 - (b) There is no need to publish a formal research paper or discussion paper summarising the research performed in this project. The staff will consider how best to make the work performed visible and retrievable.
 - (c) There may be some value in producing some educational material (perhaps in the style of a snapshot) on two aspects of IFRS 2 that seem to cause some confusion in practice:
 - (i) the nature of the information provided by the *grant date* fair value measurement model; and

¹ However, this consideration does not necessarily mean that classification and measurement of equity-settled share-based payment arrangements and own equity instruments need to be fully aligned.

- (ii) the reason why recognising an expense for share-based payment does not result in double counting.

Questions for the Board

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- 1 Do you agree that the Board should not carry out further work on this topic?
- 2 If you agree with the staff's recommendation in Question 1, do you agree that there is no need to seek feedback from stakeholders on that decision or on the staff's findings?
In our public communications, we plan to emphasise that the Board welcomes any feedback stakeholders wish to provide.
- 3 Do you agree that there is no need to publish a formal research paper or discussion paper summarising the research performed in this project?
The staff will consider how best to make the work performed visible and retrievable.