Organismo Italiano di Contabilità – OIC
(The Italian Standard Setter)
Italy, 00187 Roma, Via Poli 29
Tel. 0039/06/6976681 fax 0039/06/69766830
e-mail: presidenza@fondazioneoic.it

EFRAG
35 Square de Meeûs
B-1000 Brussels
BELGIUM
commentletter@efrag.org

6 March 2015

Re: Exposure Draft *Classification and Measurement of Share-based Payment Transactions (Proposed amendments to IFRS 2)*

Dear Roger,

We are pleased to have the opportunity to provide our comments in order to contribute to the finalization of the EFRAG comment letter on *Exposure Draft Classification and Measurement of Share-based Payment Transactions (Proposed amendments to IFRS 2).*

We appreciate IASB's decision to consider making amendments to IFRS 2 *Share-based Payment* to address specific issues with the aim to reduce divergence in the application of this Standard and we generally agree with the IASB proposals.

However, we have some comments related to the proposal on the classification of share-based payment transactions with net settlement features. In particular, we believe that the accounting treatment of the transaction regarding the payment to the taxation authorities should be clarified.
Furthermore, we share EFRAG's concern that IFRS 2 requires an overall review, due to the difficulties that are still raising in its application.

Our detailed comments and responses are set out in the Appendix.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,

Angelo Casò
(Chairman)

Question 1
The IASB proposes to clarify that the accounting for the effects of vesting and non-vesting conditions on a cash-settled share-based payment should follow the approach used for equity-settled share-based payments in paragraphs 19–21A of IFRS 2.
Do you agree? Why or why not?

We agree with the IASB proposed amendment.

Question 2
The IASB proposes to specify that a share-based payment transaction with employees 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 obligations 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 EFRAG's response to the IASB; in fact, even if we welcome the proposed amendment, we suggest that the IASB clarifies the accounting treatment for the settlement of the withholding tax.
In this regard it seems appropriate to distinguish the specific case into two distinct components:

- the first, related to the share-based transaction (to classify as equity-settled in its entirety); and
- the second, related to the relationship with the taxation authorities (on one side, the right to withhold a number of equity instruments that would otherwise be issued to the employee, on the other side, the obligation to transfer an amount equal to the withheld equity instruments to the taxation authorities).

In order to define the accounting treatment of the second component (the relationship with the taxation authorities), it would be appropriate that the IASB clarifies whether it would make a difference the way in which the entity satisfies the obligation with the taxation authority. In particular, by selling the equity instruments not delivered to the employee in the market or by paying cash directly without the issue of any equity instruments.

To this respect, it could be useful to clarify whether these two fact patterns should receive the same accounting treatment.
CASE 1
The employees will be granted 100 equity instruments if the vesting conditions are respected. When the vesting conditions will be met, the entity will issue only 70 equity instruments and, at the same time, will assume an obligation to the fiscal authority to pay an amount equivalent to the fair value of the 30 equity instruments withhold (tax rate 30%).
CASE 2
The employees will be granted 100 equity instruments if the vesting conditions are respected. When the vesting conditions will be met, the entity will issue 100 equity instruments, of which 70 will be assigned to the employees, 30 will be sold in the market and the consideration received will be used to pay the fiscal authority for the tax obligation of the employees (tax rate 30%).

Besides, it could be useful to clarify if it makes a difference in the accounting treatment the fact that the tax obligation is calculated with reference to the value of equity instruments at the inception of the plan or at the vesting date.

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 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 would be 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 should be derecognised upon the modification and the equity-settled share-based payment should be 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 should be recorded in profit or loss immediately.

Do you agree? Why or why not?

We agree with the IASB proposed amendment.