Accounting Standard Committee in Poland

Question 1.

Problem 1.

We find a scope of the draft IFRS inappropriate. We think that some of the cash-settled share-based payment transactions should be excluded from the scope of the IFRS.

As the definition indicates, cash–settled share-based payment transactions are transactions ‘in which the entity acquires goods or services by incurring liabilities to the supplier of those goods or services for amounts that are based on the price (or value) of the entity’s shares or other equity instruments.’ This definition does not recognized possible settlement ways, so we assume that used in the name of the transaction type a term *cash-settled* (although very misleading) does not limit transactions to those settled in cash (cash in the meaning of IAS 7). It is clear that used in the definition term ‘liabilities’ is very broad what means that the cash-settled share-based payment transactions can be settled in many different ways:

* in cash
* in other financial assets
* in non-financial assets
* in others e.g. rendering services.

All transactions in which the entity is obliged to deliver any of above assets (assuming that the transaction value is based on value of entity’s equity instrument) are included in the scope of the proposed IFRS[1]. Among these transactions there are some based on exchange of goods or services between entities – some kind of swap transactions, where the transaction value is based on the value / price of equity instrument. We think that this type of transaction should be excluded from scope of the IFRS unless special treatment is provided for them. It seems that most of problems concerning swap transactions are related to revenue recognition. Others refer to remeasurement and the fair value changes. Under §31 of the IFRS, the entity shall recognize any changes in fair value in profit or loss. That leads to recognition of some expenses, even though some of them may not be a cost for entity. Example illustrates this issue:

Entity X acquires some goods by incurring liability that is to be settled by delivery of commodity A. Commodity A is sold by entity X and belongs to its inventories. In swap contract the parties decide to base the value of the transaction (and therefore the amount of units of A provided by entity X) on the price of share X. We assume that the fair value of liability and received goods is the same (what is not obvious) and that the market price of commodity stays constant at 10 $ per unit. At the date of obtaining goods, the liability is incurred at the fair value = 1000 $ (and therefore entity X should deliver 100 units of commodity A). If at the next reporting day the liability value is changed to 1020 $, entity X is expected to deliver 102 units of commodity. Under §31 the entity is required to recognized expense in profit of 20 $. It seems that in such a situation a real cost to entity can be or even is much lower – it depends on the margin gained on the commodity A. If entity has 20% margin of market price, the real cost is only 16 $. If in next term the entity settles the liability by delivery of 102 units of commodity, it should recognized revenue of 1020 and cost of sale = 816 $. That means it generated profit of 204$ - it trues up unnecessarily recognized expenses of 4$. Above example illustrates, that applying proposed rules to non-financial asset – settled transaction can have misleading influence on financial statement.

It is necessary to note that above solution (under §31) collides with revenue recognition under IAS 18.

We suggest to limit the scope of the IFRS by excluding all transactions not settled in financial instruments. It can be easily implemented by inserting word ‘financial’ after ‘liability’ in the definition of cash-settled share-based payment.

Problem 2.

Other issue necessary to mention when considering the scope of the IFRS is the third type of transactions (where the entity or counterparty has the right to choose the way of settlement). It seems to us that by some mistake this category was limited. In paragraph 1c, where this issue is presented, there is used a term ‘cash’ instead of ‘cash or other assets’.

Problem 3.

We also would like to draw your attention to need of distinguishing of 4th kind of transitions – namely the transactions in which the way of settlement is not determined and neither entity nor its counterpart has the right to determine it.

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[1] Possible exceptions are some transactions under IAS 22, IAS 32 and IAS 39.

We think such transactions should be treated as cash-settled share-based transactions, where liability is recognised. Such a treatment would suit to IAS 39.22A (revised 200x).

W2. Agree

W3. Agree

Question 4. Agree

Question 5. Agree

Question 6. Yes, but we think standard should also analyse the situation when both the fair value of received services / goods and the fair value of equity instrument are readily determinable and they are not equal. Which of them should be used? We suggest the fair value of received goods/services.

Question 7. In most cases it is visible that the fair value of the equity instruments is more readily obtainable that the fair value of service rendered by employees, but it does not mean that it is impossible to calculate such value reliably. It means that the IASB should enable the direct way of transaction with employee measure.

Question 8. Partly agree, although lasting vesting period should not be the only one criteria showing that counterpart is still rendering services. We think it is necessary to consider other vesting conditions. It is possible that although vesting period has not expired yet, entity has clear evidence, that there will be no issuance of equity instrument as some conditions have not been met.

Question 9. Yes, but the premises regarded in answer to Q8 should be taken into consideration. The situation is possible when entity does not recognise any services expected under share –based payment arrangement (some conditions have not been met), although vesting period has not expired yet – vesting condition concerning lasting time has not been determined. We also want to notice that proposed method is very complex, and it can faced large resistance from practitioners.

Question 10 Agree.

Question 11. Agree

Question 12 Agree

Question 13 not discussed

Question 14 not discussed

Question 15 not discussed

Question 16 Agree

Question 17 not discussed

Question 18 not discussed

Question 19 Agree

Question 20 Agree

Question 21 not discussed

Question 22 Agree

Question 23 Agree

Question 24 not discussed

Question 25

We suggest changing the definition of share option in glossary to the following:

Option is a contract that

* gives the holder the right, but not the obligation, to subscribe to the entity's shares at a fixed or determinable price for a specified period of time, and

* **impose on the writer the obligation to issue** (at the requirement of the holder) entity’s shares at a fixed or determinable price for a specified period of time.