CL 138

February 7th, 2003

Kimberly Crook
Project Manager
International Accounting Standards Board
30 Canon Street
London
EC4M 6Xh
United Kingdom

Ms. Crook:

We have reviewed the IFRS Exposure Draft entitled: *Share-based Payment* and we have the following comments to offer on behalf of the Canadian Academic Accounting Association Exposure Draft Response Committee.

The Committee currently consists of the following CAAA members:

Joel Amernic
Jane Bowen
Irene Wiecek

If you have any questions regarding the attached comments, please do not hesitate to contact me at 905 828 3917 or wiecek@rotman.utoronto.ca.

Yours sincerely,

Irene Wiecek
Chair, Canadian Academic Accounting Association Financial Accounting Exposure Draft Committee
Faculty, Rotman School of Management
University of Toronto

Comments on International Financial Reporting Standard (IFRS) Exposure Draft
<u>*Share-based Payment*</u>
(issued November 2002)

By
Canadian Academic Accounting Association (CAAA)
Financial Accounting Exposure Draft Response Committee:
Joel Amernic, Jane Bowen and Irene Wiecek

The CAAA Financial Accounting Exposure Draft Response Committee has the responsibility of responding to CICA Exposure Drafts relating to Financial Accounting. The comments submitted are those of the committee and not necessarily those of the CAAA as a whole. Due to the relationship of the IFRS Exposure Draft with the CICA Exposure Draft issued in December 2002 <u>*Stock-Based Compensation and Other Stock-Based Payments*</u>, we have prepared this response and are responding directly to the IASB.

Our comments with respect to the IASB Exposure Draft are as follows:

General:

We commend the comprehensive and thorough nature of the Exposure Draft and the related Basis of Conclusions and Implementation Guide. In general, we agree with the proposed guidance and strongly support the cooperation of all countries in working towards achieving international harmony. This is especially important in the case of share-based payments since there is a perception (not necessarily well founded) that companies who do not fully recognize nor appropriately measure share-based payments will have a competitive advantage.

Rather than respond to the 25 questions presented in the Exposure Draft we have provided a response only to those matters where we have some concerns or comments.

Question 1
Paragraph 1-3 of the draft IFRS set out the proposed scope of the IFRS. There are no proposed exemptions, apart from for transactions within the scope of another IFRS. Is the proposed scope appropriate? If not, which transactions should be excluded and why?

We agree with the scope of the IFRS. The Canadian suggestion exempting those transactions where the discount is relatively small is not practical to apply, nor does it encourage consistency in the measurement of transactions, which should be based on their nature rather than their size. Even a “small” discount could have significant measurement implications and should not be excluded.

Question 3
For an equity-settled share-based payment transaction, the draft IFRS proposes that, in principle, the entity should measure the goods or services received, and the corresponding increase in equity, either directly, at the fair value of the goods or services received, or indirectly, by reference to the fair value of the equity instruments granted, which ever fair value is more readily determinable (paragraph 7). There is no exemption to the requirement to measure share-based payment transactions at fair value. For example, there are no exemptions for unlisted entities.

Is this measurement principle appropriate? If not, why not, or in which circumstances is not appropriate.

Our response also relates to Question 6.

The value of the goods or services received is normally more determinable for non-employees and subject to arm's length negotiation of value and should be used. However, the fair value of employee compensation, particularly for stock options is not subjected to the same arm's length negotiations. The recipients of the options and shares are the same individuals making the decisions, although at different levels of authority, so there is less market influence. This can be said for all compensation but since the stock options do not involve cash or direct income tax consequences in most jurisdictions, there is not the same constraints. The fair value of the equity instrument should be used to measure these transactions, and if not determinable, then the value of the employee services should be measured.

We agree that there should be no exemptions directly in this guidance. This will allow the individual countries to decide if the guidance can be modified in accordance with the local GAAP. In Canada, this could be accomplished by providing differential reporting options. We feel that a majority of Canadian entities are unlisted and do not have public accountability. With unanimous consent of the company's owners, companies may avoid the cost of compliance of the recommendations. Many of these types of entities would not enter into stock-based transactions, particularly employee stock based compensation transactions, however, when they do, the costs of recognizing and measuring these transactions might outweigh the informational benefits.

Question 5

If the fair value of the goods or services received in an equity-settled share based payment transaction is measured by reference to the fair value of the equity instruments granted, the draft IFRS proposes that the fair value of the equity instruments granted should be measured at grant date (paragraph 8).

Do you agree that this is the appropriate date at which to measure the fair value of the equity instruments granted? If not, at which date should the fair value of the equity instruments granted be measured?

Under the draft IFRS, the fair value of the equity instruments granted is measured at the grant date and this is seen as a surrogate measure of the goods or services rendered. Section 3870 specifies for non-employees, that they be measured at the earlier of:

(a) the date performance is complete;
(b) the date a performance commitment is reached; or
(c) the date granted if they are fully vested and non-forfeitable at that date.

We feel that the timing of the measurement should be tied to the same principles for measurement of any obligation or transaction and that the Section 3870 excerpt noted above (for transactions with non-employees) provides for this. The transaction should be measured when the economic value of the transaction is established. This is the point when both parties arrive at and agree on/commit to the exchange value.

Other:

It is important that the Exposure Draft provide guidance on the presentation of the amounts within the equity section of the balance sheet or the notes thereto. Current practice is varied, with the measured value of stock options being shown as a separate part of share capital, as part of contributed surplus, etc. Our preference is to keep the measured amount as a separate component of share capital since it has significant measurement uncertainty. As the options are exercised, and shares issued the related measurement amount can be transferred to share capital.

Should you have any questions, please do not hesitate to contact Irene Wiecek at wiecek@rotman.utoronto.ca.