Institute of
CHARTERED ACCOUNTANTS
of New Zealand

CL 132

9 March 2003

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

Dear Sir or Madam

ED 2 *SHARE-BASED PAYMENT*

The Financial Reporting Standards Board (FRSB) of the Institute of Chartered Accountants of New Zealand is pleased to submit its comments on Exposure Draft 2. The FRSB commends the IASB on tackling this controversial issue.

Overall the FRSB strongly supports the proposed IFRS, in particular the requirement to recognise share-based payments to employees as an expense. The expensing of share-based payments proposed in ED 2 brings about consistency in the accounting treatment of such payments with other forms of employee remuneration.

The FRSB sought and considered the views of New Zealand constituent's on ED 2. Where appropriate these views have been incorporated into the FRSB submission. Overall NZ constituents are supportive of the introduction of the proposed standard being adopted in New Zealand.

The FRSB submission focuses on the specific questions raised in the Exposure Draft. In addition, comments are also provided in respect of some of the proposals not specifically addressed by the questions.

If you have any queries, or require clarification of any matters in the submission, please contact me.

Yours faithfully

Tony van Zijl
CHAIR – FINANCIAL REPORTING STANDARDS BOARD

Question 1

Paragraphs 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?

The FRSB agrees that the proposed standard should be applied when accounting for any share-based payment transaction. However, the FRSB disagrees with the proposed scope exclusions. The FRSB considers that when a principle is set for the treatment of a specific type of transaction, there should not be any exemptions to such principle as it erodes the robustness of the principle.

In addition, if a specific transaction could be dealt with applying various standards, the outcome should not differ. The various standards should rather complement each other and therefore it would be more appropriate to refer to the other standards for additional requirements/guidance on the treatment of such transactions. If the treatment under different standards result in different outcomes, transactions could be engineered in order to apply the standard that would result in the desired outcome instead of the correct outcome.

Question 2

Paragraphs 4-6 of the draft IFRS propose requirements for the recognition of share-based payment transactions, including the recognition of an expense when the goods or services received or acquired are consumed. Are these recognition requirements appropriate? If not, why not, or in which circumstances are the recognition requirements inappropriate?

The FRSB strongly supports the expensing of share-based payments. It is important that all forms of employee remuneration are accounted for on a consistent basis. Inconsistencies in accounting treatment can distort management decisions, undermine the accountability of management, and adversely affect shareholder wealth. The proposed accounting treatment in ED 2 corrects a distortion that has existed in many jurisdictions for many years.

The FRSB agrees with the proposed recognition requirements. In addition, the FRSB considers that it would be helpful to link the proposed recognition criteria to the recognition criteria for the elements of financial statements set out in the IASB Framework for the Preparation and Presentation of Financial Statements (“probable” and “able to be reliably measured”).

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, whichever fair value is more readily determinable (paragraph 7). There are no exemptions 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 it not appropriate?

The FRSB agrees with the proposed principle to measure share-based payment transactions at fair value.

The FRSB considers that the IASB should establish a preferred principle (i.e. value given or value received) and require this to be applied consistently to all transactions. Accordingly, the FRSB is concerned with the proposal that the transaction is measured, either directly at the fair value of the goods or services received, or by reference to the fair value of the equity instruments granted, whichever fair value is more readily determinable. The FRSB also considers that the principle should be applied consistently across all pronouncements (refer requirements in ED 3). The proposal is inconsistent with other standards that require similar transactions to be measured at the value of the consideration given, i.e. the fair value of the equity instruments issued, and only if that is not clearly evident, the fair value of the goods or services acquired.

If the IASB retains the current proposal, the FRSB recommends that the term "readily determinable" be replaced with the phrase "measured with reliability". The FRSB considers that the proposed standard should be consistent with the IASB Framework and should emphasise the quality of the measurement rather than the measurement that involves the least effort to obtain.

Question 4

If the fair value of the goods or services received in an equity-settled share-based payment transaction is measured directly, the draft IFRS proposes that fair value should be measured at the date when the entity obtains the goods or receives the services (paragraph 8).

Do you agree that this is the appropriate date at which to measure the fair value of the goods or services received? If not, at which date should the fair value of the goods or services received be measured? Why?

The FRSB disagrees with the proposal to allow for different measurement dates depending on the "side of the transaction" that is being measured. The FRSB considers that a principle should be set for the measurement date that would be applicable irrespective of whether the goods or services or the equity instruments are measured.

The FRSB further considers that in a fair bargain situation the measurement of the transaction would not be materially influenced by the choice made of measuring either the goods or services received, or the equity instruments granted, i.e. there would be no material difference between the fair value of the goods or services and the fair value of the equity instruments. However, measuring the different sides of the transaction at different dates could result in significant differences between valuing what the entity receives or valuing what it provides as compensation.

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? Why?

The FRSB agrees that grant date is the most appropriate date at which the fair value of the share-based payment transaction should be measured.

Question 6

For equity-settled transactions with parties other than employees, the draft IFRS proposes a rebuttable presumption that the fair value of the goods or services received is more readily determinable than the fair value of the equity instruments granted (paragraphs 9 and 10).

Do you agree that the fair value of the goods or services received is usually more readily determinable than the fair value of the equity instruments granted? In what circumstances is this not so?

Although the FRSB agrees that for transactions with parties other than employees, the fair value of the goods and services received is normally more reliably measurable than the fair value of the equity instruments granted, the FRSB considers that it is inappropriate to include a rebuttable presumption. As mentioned earlier, the proposed standard should only reflect the principles to be applied when accounting for share-based payment transactions, and therefore the FRSB considers that the type of party that the entity is transacting with should not have an effect on the principles underlying measurement of the transaction.

Question 7

For equity-settled transactions with employees, the draft IFRS proposes that the entity should measure the fair value of the employee services received by reference to the fair value of the equity instruments granted, because the latter fair value is more readily determinable (paragraphs 11 and 12).

Do you agree that the fair value of the equity instruments granted is more readily determinable than the fair value of the employee services received? Are there any circumstances in which this is not so?

The FRSB considers that it is inappropriate for the standard to require an entity to estimate fair value by reference to the counterparty involved in the transaction. The FRSB does, however, agree that for equity-settled transactions with employees, the fair value of the equity instruments granted would normally be more reliably measurable than the fair value of the employee services received.

Should the IASB decide to continue with the proposal to measure the transaction at either the fair value of the good or services, or by reference to the equity instruments issued, and to include a rebuttable presumption in respect of transactions with parties other than employees (refer paragraph 9), the FRSB considers that paragraph 11 should not be a requirement, but should be changed to a rebuttable presumption.

It is important that the body of IFRSs is internally consistent. The FRSB recommends that the methodologies for determining the values of the shares or share options should be consistent with the requirements of IAS 39 Recognition and Measurement of Financial Instruments.

Question 8

Paragraphs 13 and 14 of the draft IFRS propose requirements for determining when the counterparty renders service for the equity instruments granted, based on whether the counterparty is required to complete a specified period of service before the equity instruments vest.

Do you agree that it is reasonable to presume that the services rendered by the counterparty as consideration for the equity instruments are received during the vesting period? If not, when are the services received, in your view?

The FRSB agrees with the proposal that the services rendered by the counterparty as consideration for the equity instruments are received during the vesting period.

Question 9

> If the services received are measured by using the fair value of the equity instruments granted as a surrogate measure, the draft IFRS proposes that the entity should determine the amount to attribute to each unit of service received, by dividing the fair value of the equity instruments granted by the number of units of service expected to be received during the vesting period (paragraph 15).
>
> Do you agree that if the fair value of the equity instruments granted is used as a surrogate measure of the fair value of the services received, it is necessary to determine the amount to attribute to each unit of service received? If not, what alternative approach do you propose? If an entity is required to determine the amount to attribute to each unit of service received, do you agree that this should be calculated by dividing the fair value of the equity instruments granted by the number of units of services expected to be received during the vesting period? If not, what alternative method do you propose?

The FRSB disagrees with the above approach. The FRSB considers that the approach set out in SFAS 123 would be more appropriate than the proposed approach, i.e. the options should be valued at grant date and the expense should be recognised based on the estimated total number of options that will ultimately vest; this estimate should then be adjusted as necessary when evidence becomes available that a different number of options is expected to vest. One of the consequences of the proposed approach is that it results in an effective double counting of the effect of estimated forfeitures.

Question 10

> In an equity-settled share-based payment transaction, the draft IFRS proposes that having recognised the services received, and a corresponding increase in equity, the entity should make no subsequent adjustment to total equity, even if the equity instruments granted do not vest or, in the case of options, the options are not exercised (paragraph 16). However, this requirement does not preclude the entity from recognising a transfer within equity, i.e. a transfer from one component of equity to another.
>
> Do you agree with this proposed requirement? If not, in what circumstances should an adjustment be made to total equity and why?

The FRSB considers that no cost should be recognised for options that do not vest. Therefore, the FRSB supports the approach in SFAS 123 – also refer question 9.

Question 11

The draft IFRS proposes that the entity should measure the fair value of equity instruments granted, based on market prices if available, taking into account the terms and conditions of the grant (paragraph 17). In the absence of a market price, the draft IFRS proposes that the entity should estimate the fair value of options granted, by applying an option pricing model that takes into account various factors, namely the exercise price of the option, the life of the option, the current price of the underlying shares, the expected volatility of the share price, the dividends expected on the shares (where appropriate) and the risk-free interest rate for the life of the option (paragraph 20). Paragraph 23 of the proposed IFRS explains when it is appropriate to take into account expected dividends.

Do you agree that an option pricing model should be applied to estimate the fair value of options granted? If not, by what other means should the fair value of the options be estimated? Are there circumstances in which it would be inappropriate or impracticable to take into account any of the factors listed above in applying an option pricing model?

The FRSB agrees that an option pricing model should be applied to estimate the fair value of options granted if traded options with similar terms and conditions do not exist. The FRSB also agrees that the option pricing model should take into account the factors set out in paragraph 20 and that adjustments should be made to the determined value in accordance with paragraphs 21 to 25.

Question 12

If an option is non-transferable, the draft IFRS proposes that the expected life of an option rather than its contracted life should be used in applying an option pricing model (paragraph 21). The draft IFRS also proposes requirements for options that are subject to vesting conditions and therefore cannot be exercised during the vesting period (paragraph 22).

Do you agree that replacing an option's contracted life with its expected life when applying an option pricing model is an appropriate means of adjusting the option's fair value for the effects of non-transferability? If not, do you have an alternative suggestion? Is the proposed requirement for taking into account the inability to exercise an option during the vesting period appropriate?

The FRSB agrees with the proposals in respect of the non-transferability and limitations on exercisibility of options.

Question 13

> If a grant of shares or options is conditional upon satisfying specified vesting conditions, the draft IFRS proposes that these conditions should be taken into account when an entity measures the fair value of the shares or options granted. In the case of options, vesting conditions should be taken into account either by incorporating them into the application of an option pricing model or by making an appropriate adjustment to the value produced by such a model (paragraph 24).
>
> Do you agree that vesting conditions should be taken into account when estimating the fair value of options or shares granted? If not, why not? Do you have any suggestions for how vesting conditions should be taken into account when estimating the fair value of shares or options granted?

The FRSB agrees that vesting conditions should be taken into account when estimating the fair value of options or shares granted. However, the FRSB considers that the IASB should, consistent with its decision to exclude prescriptive guidance on the estimation of the fair value of options (refer question 16), not include any detailed requirements on how vesting conditions should be taken into account when estimating the fair value of such options.

The FRSB also noted that the examples in Appendix B do not include adjustments for the capital structure effects of the share-based payment arrangements.

Question 14

> For options with a reload feature, the draft IFRS proposes that the reload feature should be taken into account, where practicable, when an entity measures the fair value of the options granted. However, if the reload feature is not taken into account in the measurement of the fair value of the options granted, then the reload option granted should be accounted for as a new option grant (paragraph 25).
>
> Is this proposed requirement appropriate? If not, why not? Do you have an alternative proposal for dealing with options with reload features?

Although it is not clear why reload features would not be taken into account in the measurement of the transaction at grant date, the FRSB agrees with the proposed treatment of options with reload features. However, the FRSB considers that it would be more appropriate to include a "catch-all" requirement that entity's should consider all features applicable to the various arrangements granted, instead of specifying requirements for one feature. The reload feature could be included as an example.

Question 15

The draft IFRS proposes requirements for taking into account various features common to employee share options, such as non-transferability, inability to exercise the option during the vesting period, and vesting conditions (paragraphs 21-25). Are there other common features of employee share options for which the IFRS should specify requirements?

The FRSB considers that the proposed standard should specify some requirements in respect of capital structure effects e.g. based on paragraph IG 39.

Question 16

The draft IFRS does not contain prescriptive guidance on the estimation of the fair value of options, consistently with the Board's objective of setting principles-based standards and to allow for future developments in valuation methodologies. Do you agree with this approach? Are there specific aspects of valuing options for which such guidance should be given?

The FRSB agrees that the IFRS should not contain prescriptive guidance on the estimation of the fair value of options. The FRSB considers that suitably qualified individuals would normally perform the calculations. The FRSB also considers that it is not appropriate for a financial reporting standard to be prescriptive with regard to the estimation of amounts.

Question 17

If an entity reprices a share option, or otherwise modifies the terms or conditions on which equity instruments were granted, the draft IFRS proposes that the entity should measure the incremental value granted upon repricing, and include that incremental value when measuring the services received. This means that the entity is required to recognise additional amounts for services received during the remainder of the vesting period, i.e. additional to the amounts recognised in respect of the original option grant. Example 3 in Appendix B illustrates this requirement. As shown in that example, the incremental value granted on repricing is treated as a new option grant, in addition to the original option grant. An alternative approach is also illustrated, whereby the two grants are averaged and spread over the remainder of the vesting period. Do you agree that the incremental value granted should be taken into account when measuring the services received, resulting in the recognition of additional amounts in the remainder of the vesting period? If not, how do you suggest repricing should be dealt with? Of the two methods illustrated in Example 3, which is more appropriate? Why?

The FRSB agrees that additional amounts should be recognised in the remainder of the vesting period when an entity reprices an option (or otherwise modifies the terms or conditions on which equity instruments were granted). The FRSB supports the approach set out in the proposed standard (and not the alternative approach whereby the two grants are averaged and spread over the remainder of the vesting period). The FRSB considers that the additional amounts recognised should only reflect the amended terms or conditions. If the original grant's vesting period has not specifically been extended, it would not be a true reflection of the amendments. In addition, it could lead to manipulation of the recognised amounts.

Question 18

> If an entity cancels a share or option grant during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied), the draft IFRS proposes that the entity should continue to recognise the services rendered by the counterparty in the remainder of the vesting period, as if that grant had not been cancelled. The draft IFRS also proposes requirements for dealing with any payment made on cancellation and/or a grant of replacement options, and for the repurchase of vested equity instruments.
>
> Are the proposed requirements appropriate? If not, please explain why not and provide details of your suggested alternative approach.

The FRSB considers that an entity should not continue to account for cancelled plans that have not been replaced, but any recognition of the arrangement should cease when the plan is cancelled. This would align the treatment with that of options that do not vest (refer paragraph 15) i.e. if no services are received, no expense is being recognised. In addition, continued recognition as an equity-based transaction would result in misleading information being reported.

The FRSB does, however, acknowledge that an entity might have an incentive to cancel a plan when it would otherwise have continued to account for it regardless of the fair value of the options, if there is no requirement to continue accounting for cancelled plans.

If new options are granted, irrespective of it being identified as replacement options, the entity should account for such options in the same way as a repricing of options.

Question 19

> For cash-settled share-based payment transactions, the draft IFRS proposes that the entity should measure the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the entity should remeasure the fair value of the liability at each reporting date, with any changes in value recognised in the income statement.
>
> Are the proposed requirements appropriate? If not, please provide details of your suggested alternative approach.

The FRSB agrees with the proposed approach to the treatment of cash-settled share-based payment transactions.

Question 20

> For share-based payment transactions in which either the entity or the supplier of goods or services may choose whether the entity settles the transaction in cash or by issuing equity instruments, the draft IFRS proposes that the entity should account for the transaction, or the components of that transaction, as a cash-settled share-based payment transaction if the entity has incurred a liability to settle in cash, or as an equity-settled share-based payment transaction if no such liability has been incurred. The draft IFRS proposes various requirements to apply this principle.
>
> Are the proposed requirements appropriate? If not, please provide details of your suggested alternative approach.

The FRSB considers it appropriate to have a single principle that relates to share-based payments with cash alternatives where either the entity or the counterparty has the choice. However, the FRSB considers that the principle as set out in paragraph 35 is not supported by the underlying requirements (set out in paragraphs 36 to 44) resulting in inconsistent application of the principle depending on whether the entity or the counterparty has the choice.

Where the counterparty has the choice, paragraph 36 requires recognition of a compound instrument (inconsistent with the principle) and where the entity has the choice, and no clear liability exists, paragraph 44 requires recognition of an equity instrument (consistent with the principle). The FRSB considers that paragraph 35 should either be deleted or moved before paragraph 42 if the IASB considers that it is appropriate to have different principles applying when either the entity or the counterparty has the choice.

The FRSB further considers that it would be more appropriate to require recognition as a compound instrument where either the entity or the counterparty has the choice and there is no clear indication that a liability exists.

The FRSB notes that no guidance is included in paragraph 44(a) in respect of the treatment of the amount of cash in excess of the equity interest recognised to date. The FRSB considers that such excess amount should be recognised as an additional expense.

In addition, the situation where the counterparty has irrevocably decided on the form of settlement is not considered in this section of the proposed standard.

Question 21

The draft IFRS proposes that an entity should disclose information to enable users of financial statements to understand:

a) the nature and extent of share-based payment arrangements that existed during the period,
b) how the fair value of the goods or services received, or the fair value of the equity instruments granted, during the period was determined, and
c) the effect of expenses arising from share-based payment transactions on the entity's profit or loss.

Are these disclosure requirements appropriate? If not, which disclosure requirements do you suggest should be added, deleted or amended (and how)?

The FRSB considers the disclosure requirements to be appropriate. The FRSB also considers it appropriate for the standard to require disclosure of whether the values were determined through external or internal valuations as this information could be some value to users in determining the reliability of the amounts reported.

Question 22

The draft IFRS proposes that an entity should apply the requirements of the IFRS to grants of equity instruments that were granted after the publication date of this Exposure Draft and had not vested at the effective date of the IFRS. It also proposes that an entity should apply retrospectively the requirements of the IFRS to liabilities existing at the effective date of the IFRS, except that the entity is not required to measure vested share appreciation rights (and similar liabilities) at fair value, but instead should measure such liabilities at their settlement amount (i.e. the amount that would have been paid on settlement of the liability had the counterparty demanded settlement at the date the liability is measured).

Are the proposed requirements appropriate? If not, please provide details of your suggestions for the IFRS's transitional provisions.

The FRSB considers the proposed transitional provisions to be appropriate.

The FRSB noted the IASB's decision to require entities to apply the draft proposals from the date of issue of the exposure draft to all share-based arrangements issued after this date that had not vested by the effective date of the new standard. Although, in general, the FRSB does not consider it appropriate to have an application date for a new standard before the standard is finalised, the FRSB acknowledges that in respect of share-based payment arrangements these provisions will be beneficial to users as entities only need to retrospectively apply the requirements of the standard to unvested arrangements at the effective date of the new standard.

Question 23

The draft IFRS proposes a consequential amendment to IAS 12 (revised 2000) *Income Taxes* to add an example to that standard illustrating how to account for the tax effects of share-based payment transactions. As shown in that example, it is proposed that all tax effects of share-based payment transactions should be recognised in the income statement.

Are the proposed requirements appropriate?

The FRSB agrees that all tax effects of share-based payment transactions should be recognised in the income statement.

Question 24

In developing the Exposure Draft, the Board considered how various issues are dealt with under the US standard SFAS 123 *Accounting for Stock-Based Compensation*, as explained further in the Basis for Conclusions. Although the draft IFRS is similar to SFAS 123 in many respects, there are some differences. The main differences include the following.

(a) Apart from transactions within the scope of another IFRS, the draft IFRS does not propose any exemptions, either from the requirement to apply the IFRS or from the requirement to measure share-based payment transactions at fair value. SFAS 123 contains the following exemptions, none of which are included in the draft IFRS:
- employee share purchase plans are excluded from SFAS 123, provided specified criteria are met, such as the discount given to employees is relatively small;
- SFAS 123 encourages, but does not require, entities to apply its fair value measurement method to recognise transactions with employees; entities are permitted to apply instead the intrinsic value measurement method in Accounting Principles Board Opinion No. 25 *Accounting for Stock Issued to Employees* (paragraphs BC70-BC74 in the Basis for Conclusions give an explanation of intrinsic value); and
- unlisted (non-public) entities are permitted to apply the minimum value method when estimating the value of share options, which excludes from the valuation the effects of expected share price volatility (paragraphs BC75-BC78 in the Basis for Conclusions give an explanation of minimum value).

(b) For transactions in which equity instruments are granted to employees, both SFAS 123 and the draft IFRS have a measurement method that is based on the fair value of those equity instruments at grant date. However:
- under SFAS 123, the estimate of the fair value of an equity instrument at grant date is not reduced for the possibility of forfeiture due to failure to satisfy the vesting conditions, whereas the draft IFRS proposes that the possibility of forfeiture should be taken into account in making such an estimate.
- under SFAS 123, the transaction is measured at the fair value of the equity instruments issued. Because equity instruments are not regarded as issued until any specified vesting conditions have been satisfied, the transaction amount is ultimately measured at the number of vested equity instruments multiplied by the fair value of

those equity instruments at grant date. Hence, any amounts recognised for employee services received during the vesting period will be subsequently reversed if the equity instruments granted are forfeited. Under the draft IFRS, the transaction is measured at the deemed fair value of the employee services received. The fair value of the equity instruments granted is used as a surrogate measure, to determine the deemed fair value of each unit of employee service received. The transaction amount is ultimately measured at the number of units of service received during the vesting period multiplied by the deemed fair value per unit of service. Hence, any amounts recognised for employee services received are not subsequently reversed, even if the equity instruments granted are forfeited.

(c) If, during the vesting period, an entity settles in cash a grant of equity instruments, under SFAS 123 those equity instruments are regarded as having immediately vested, and therefore the amount of compensation expense measured at grant date but not yet recognised is recognised immediately at the date of settlement. The draft IFRS does not require immediate recognition of an expense but instead proposes that the entity should continue to recognise the services received (and hence the resulting expense) over the remainder of the vesting period, as if that grant of equity instruments had not been cancelled.

(d) SFAS 123 does not specify a measurement date for transactions with parties other than employees that are measured at the fair value of the equity instruments issued. Emerging Issues Task Force Issue 96-18 *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services* requires the fair value of the equity instruments issued to be measured at the earlier of (i) the date a performance commitment is reached or (ii) the date performance is complete. This date might be later than grant date, for example, if there is no performance commitment at grant date. Under the draft IFRS, the fair value of the equity instruments granted is measured at grant date in all cases.

(e) SFAS 123 requires liabilities for cash-settled share appreciation rights (SARs) to be measured using an intrinsic value measurement method. The draft IFRS proposes that such liabilities should be measured using a fair value measurement method, which includes the time value of the SARs, in the same way that options have time value (refer to paragraphs BC70-BC81 of the Basis for Conclusions for a discussion of intrinsic value, time value and fair value).

(f) For a share-based payment transaction in which equity instruments are granted, SFAS 123 requires realised tax benefits to be credited direct to equity as additional paid-in capital, to the extent that those tax benefits exceed the tax benefits on the total amount of compensation expense recognised in respect of that grant of equity instruments. The draft IFRS, in a consequential amendment to IAS 12 (revised 2000) *Income Taxes*, proposes that all tax effects of share-based payment transactions should be recognised in profit or loss, as part of tax expense.

For each of the above differences, which treatment is the most appropriate? Why? If you regard neither treatment as appropriate, please provide details of your preferred treatment.[1]

Except for the proposals in (b) above, the FRSB considers that the requirements as set out in ED 2 are more appropriate – also refer questions 9 and 10.

Question 25

Do you have any other comments on the Exposure Draft?

Paragraph 14:
This paragraph only refers to recognition in respect of the receipt of services during the vesting period, but in order to be comprehensive, reference to recognition in respect of satisfying performance or other conditions should also be included.

Paragraph 31:
For consistency with paragraph 40 we propose the following amendment to this paragraph

…the entity shall remeasure the fair value of the liability at each reporting date <u>and at the date of settlement</u>, with any changes…

Definition of "fair value":
The FRSB considers it unnecessary and inappropriate to amend the generic definition for application in only one standard. The definition and concept of fair value are widely understood.

General
The FRSB considers that the Basis for Conclusions is an integral part of the proposed standard and vital to assist users to gain an understanding of the standard.

1 Further details of the differences between the draft IFRS and SFAS 123 are given in the FASB's Invitation to Comment.