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# Comments on proposal from the Board of International Accounting Standards, on accounting for share-based payment

The Swedish Shareholders' Association (SARF) is an independent organisation working in the interests of private individuals who invest in shares, mutual funds and other share-related securities.

SARF welcomes the proposal from the International Accounting Standards Board (IASB) on how entities should account for share-based payment transactions, including share options grants to employees. SARF consider it to be very important for increasing the involvement of employees, by making them long-term shareholders in the company.

The main proposals, which SARF would like to comment, are;

- all share-based transactions should be recognised in the financial statements, using a fair value measurement basis.
- to estimate the fair value of a share option, where an observable market price does not exist, an option-pricing model should be used.
- the exposure draft on how to account for cancellation of share or option plans and the repricing of options.

## To recognise share-based transaction in the financial statements

*The proposal suggests that all share-based transactions such as employee's stock-option plans should be recognised in the financial statement.*

The use of share-based payments has expanded greatly in recent years among the Swedish companies quoted on the stock market. Shares, options and other equity instruments are granted to employees. The share options have a value to the recipients and they are offered as part of the compensation package to the employees. Since share options are a form of compensation, which represent a value, they should be counted as an expence to the entity. Recognising share-based transactions in the financial statement should give the shareholders a more realistic picture of the business expenses.

*SARF is very much in favour of the proposal from the IASB that employees' stock-option plans should be recognised in the financial statements.*

## The measurement of equity-settled share-based payment transactions

*The IASB suggests that equity-settled share-based payment transactions should be measured at its fair value and that the grant date should be the appropriate measurement date. To estimate the fair value of a share option, where an observable market price does not exist, an option-pricing model should be used.*

As the IASB states in their proposal fair value is already used in other areas of accounting. Fair value is the amount at which an equity instrument granted could be exchanged in an arm's length transaction and captures both instinct value and time value. Therefore it provides a measure of the share-options total value. The proposal does not prescribe which option-pricing model to use. Instead the entities are free to select whichever model they find appropriate under the circumstances.

IASB also describe three possible measurement dates in the proposal; grant date, service date and vesting date. While share-based options are a form of salary it is better to measure their value when the entity and the employee enter into an agreement. On that date the employee is granted rights to the share option plan, provided that specified conditions are met. That right also represents a cost for the entity and should therefore be recognised as such in the financial statement from the day it is granted.

*SARF agrees with the IASB that if market prices are not available for employee share options it will be necessary to apply an option pricing model to estimate the fair value of the options. Since fair value is already well known and provides a good estimate of the equity-settled share-based payment SARF recommends that it should be used to measure the value.*

## The cancellation of share or option plans

*The exposure draft stipulate that, if an entity cancel an option during the vesting period the entity should continue to recognise the services rendered by the counterparty during the remaining part of the vesting period, in the same way as if the grant had not been cancelled.*

*Further, the exposure draft stipulate that, if an entity reprices an option or modify the terms on condition the proposal recommend 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 amount for services received during the remainder of the vesting period, i.e. additional to the amount recognised in respect of the original option grant.*

SARF does not agree with the proposal suggestion that if an entity cancel an option plan during the vesting period the entity should have to continue to recognise the services rendered by the counterparty during the remaining part of the vesting period. When the original transaction first occurred it represented a cost for the entity. But when an option plan is cancelled the employee is compensated by other means or both parties agree that there is no value to be received from the employees' services related to the rights to shares. As a consequence the entity should not continue to charge for cancelled option plan.

An entity might reprice an option plan or modify the terms and conditions on which the equity instruments once were granted. For example if the price of the underlying share falls. SARF consider the proposals suggestion to be complex. It would be much simpler if all changes in the original conditions and terms would have to be treated as a new grant of right to shares. For that reason, SARF recommend that changes of the original condition should result in them being treated as a new grant of rights.

*SARF recommend that entity should not continue to charge for cancelled options right. If the entity reprice an option or modify the terms and conditions SARF propose that changes of the original condition should result in them being treated as a new grant of rights.*

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