Kimberley Crook
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

CL 101

7 March 2003

Dear Ms Crook

ED2 Share-Based Payment

The Association of Chartered Certified Accountants (ACCA) is pleased to have this opportunity to comment on the above Exposure Draft (ED). The ED was considered by ACCA's Financial Reporting Committee and I am writing to give you their views.

We agree in the main with the ED's approach to the key matters. In particular we support the

- recognition of an expense for the goods and services obtained by share-based payment (SBP) and consumed in a period

- measurement of those at fair value, using the direct or indirect method as appropriate

- proposed method of attribution of the cost over time, including the prohibition on reversal of costs already charged when options lapse or are cancelled

  and

- treatment of obligations under cash-settled SBP as liabilities.

We have comments on some of the ED's requirements, which we have set out below, linked to the IASB's specific questions. We can be taken as otherwise agreeing with the questions in the invitation to comment in the ED.

The Association of Chartered Certified Accountants
29 Lincoln's Inn Fields London WC2A 3EE United Kingdom
tel: +44 (0)20 7396 7000 fax: +44 (0)20 7396 7070 www.accaglobal.com

Fair value (Question 3)

In transactions settled by SBP there is no cost that can be attributed to the transaction in the normal way and therefore the measurement of fair value is an appropriate substitute.

As far as unlisted entities are concerned, the material on the estimation of fair values in the implementation guidance and in the basis for conclusions should be helpful. IAS39 recognises, however, with unlisted equities that there may be cases where the range of possible fair values may be too great to allow that measurement base to be used. This ED is proposing that not only the fair values of the equities need to be estimated, but also an estimate of volatility of the fair value. The ED makes no comparable allowance for cases where the fair values or their volatility are not reliably measurable.

Measurement at grant date (Question 5)

The ED supports grant date measurement on the grounds that an equity instrument has been issued at grant date, but for deferred consideration (the service of the employees over a period) and subject to conditions. The shares or options have been given in exchange for the employee's service which has to be written off when received as it does not meet the recognition test of an asset. This reduction in assets gives rise to an expense. Grant date measurement is required in the US standard and in the German proposals.

The basis for vesting date measurement was put in the G4+1 paper on the subject. Up to vesting date the transaction is incomplete - the employee has not obtained the equity rights and the company has no obligation to issue shares until the conditions are satisfied. The issue of the equity instrument takes place when conditions have been met and the company therefore becomes obliged to fulfil its side of the contract at that point as well. Vesting date measurement would incorporate "truing up" to the number of options or shares actually issued. A common reaction to the ED's proposals is unease with the requirement that there would continue to be a cost even when the options have either become valueless, or never exercisable because the performance conditions have not been met or even have been cancelled altogether. Vesting date measurement would also have the advantage of dealing in a similar way with cash-settled and equity-settled SBPs (which can be very similar in economic effect for the recipient).

We continue to prefer vesting date in principle, but recognise that there are good arguments for grant date and that IASB have in the ED developed a coherent model around it. We therefore support grant date measurement as the answer that IASB should adopt on the grounds of increasing convergence.

Presumption for direct measurement (Questions 6 and 7)

There should be a general rule that direct measurement is to be preferred to indirect. We see no difference in principle whether employees or non-employees are concerned, though we would expect that in most cases transactions with employees would have to be measured indirectly.

There may be cases where both measurements are possible and significantly different valuations could be generated by one compared to the other. For instance on a flotation there may be equity-settled SBPs to the providers of professional services as well as a share option scheme for employees. The ED should indicate that the direct measurements at the least might be a form of cross-check against the values derived from the option pricing models.

Use of option pricing models (Questions 11, 14 and 16)

The general principle should be that a fair value of the options should be used and the best available method should be used to arrive at fair value. In the vast majority of cases this will mean an option pricing model and, if so, the factors listed should be taken into account. The guidance provided in the ED seems very helpful. There may be some cases where entities may be able to show that there are market values available and there seems no good reason to exclude this as a possible method.

We find the definitions of reload options and reload features unclear and therefore find it difficult to respond definitively. If new options are issued, then in principle accounting for them as new options would seem right.

We agree with the approach of IASB not to provide prescriptive guidance on option pricing models. Their wider use is likely to stimulate more development of the methodologies. It could be possible for the Board to issue non-prescriptive guidance either as an appendix or via some other form of publication.

Repriced and cancelled options (Questions 17 and 18)

Repriced options should be treated as entirely new ones (that is at fair value at the date of grant) and the original ones as cancelled. Cancelled options should result in no further cost to be charged from the date of cancellation as there is nothing to be given in return for the services rendered by employees. There should be no reversal of previous costs charged. This treatment would also have the advantage of simplifying the standard.

Disclosures (Question 21)

We propose the following additional disclosures:

- The information included in paragraph 46 needs to be provided on an individual basis for any key management personnel as defined in IAS24.

- In addition the current value of any unexercised options should be disclosed for such persons. Some users of accounts consider that the value of SBP should be trued up to exercise date so that the full final value can be assessed.

- The information in paragraph 52 concerning the cost in the current period of share-settled arrangements should be supplemented by disclosures of the cost in future periods expected from schemes already entered into, but not yet vested.

The disclosures in paragraph 48, on the other hand, seem excessive. They should be limited to showing the categories of SBP which have been measured directly and those measured indirectly, and in the latter case any model that has been used to accomplish that. The extent of the disclosures proposed is almost such as would allow the user of the accounts to reperform the calculations. We do not think this should be the yardstick for the extent of disclosure in financial statements in this case or in general.

Transitional arrangements (Question 22)

Objections to the proposed arrangements as backdating the standard before it has been approved, are in our view misplaced. In principle new accounting standards should result in a full restatement of prior periods, unless the costs of doing so appear excessive in terms of the benefits. We support the proposals to limit restatement in this case to schemes entered into after the date of the ED. Entities may not have collected fair value information on schemes in the past, but are now on notice that they may need to do so for any new schemes.

If entities wished, however, to carry out a full restatement then they should be free to do so. Comparability of an entity's results over time is more important than comparability between enterprises during a transitional period.

Differences with US GAAP (Question 24)

These differences with US GAAP are implicitly answered in the responses to the ED's proposals and earlier questions.

On the three matters of scope raised

- It is very difficult to define a category of employee share purchase plans that should be excluded from those that should not, even in terms of intent, let alone in terms of monetary limits. For example, most of these schemes are intended to confer a potential benefit of some sort on the employees involved

- An optional standard (like SFAS 123) would not be desirable

- In principle all entities should aim for fair value for SBPs.

The question of whether there should be adjustments to the cost of equity-settled SBP up to vesting date is the most difficult of these differences. As noted above "truing up" would be consistent with vesting date measurement, but does not seem compatible with the rationale that the ED has carefully constructed which supports grant date measurement.

As noted above, in our view IASB should reconsider the ED's treatment of cancelled options.

On the other items raised we consider that the ED's proposals are superior to those in US GAAP

- On measurement dates for SBPs with non-employees

- Fair values for share appreciation rights is more realistic and more consistent with the value of share options

  and

- Tax is not a transaction with investors and should not therefore be dealt with directly in equity

Other comments (Question 25)

The ED does not expand sufficiently on the treatment of the items within equity, including the reclassifications referred to in paragraph 16.

If there are any matters arising from the above which require further clarification please contact me.

Yours sincerely

Richard Martin
Secretary to the Financial Reporting Committee