FAR

FAR is the institute for the accountancy profession in Sweden

CL 51

The Director of Technical Services
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

6 March 2003

Dear Sir,

Exposure Draft *ED 2 Share-based Payment*

FAR, the institute for the accountancy profession in Sweden, has the pleasure to submit the following comments on *ED 2 Share-based Payment*.

Overall comments

We support including a deemed cost in the income statement where rights to shares are granted at less than fair value and agree with the principle of using a fair-value-based measurement for rights to shares. We also believe that grant-date measurement is a pragmatic and practicable approach.

We strongly recommend that the IASB and other standard setters resolve any differences in the measurement methodology and preferred option pricing models, so that consistent conclusions are reached on a global basis. The stated goal of IASB and FASB to achieve greater convergence should prompt the two Boards to release final standards on share-based payment without differences and with similar effective dates. This is of the utmost importance in order to achieve a level playing field in the world's capital markets.

We support a principles-based approach to standard setting. In that respect, the proposed standard can be improved in two areas:

- Any change in an existing share-based payment arrangement should be accounted for as a termination of the existing arrangement and an introduction of a new arrangement. This would result in fewer exceptions and would not necessitate distinctions such as that between reloads and repricing.
- A share-based payment arrangement that leaves a possibility for cash-settlement, irrespective of who controls the settlement, should be accounted for as a liability. A transfer from liability to equity should occur when, and only when, such liability is actually settled by the delivery or issuance of an equity instrument.

We agree that vesting conditions should be considered when estimating the fair value of options or shares granted. However, more guidance supporting this proposal should be provided in the standard. The examples given in the draft are options with simple vesting conditions (a period of service). In practice more complicated performance conditions are

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used and, as evidenced more recently, even required, from a stakeholders' point of view. We refer to our comments on Question 13.

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?

Yes, we agree with the proposed scope, for the reasons given in the Basis for Conclusions.

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?

Yes, they are appropriate.

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?

Yes, we consider measurement at fair value appropriate.

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?

We do not agree to measuring the fair value of the goods or services received at the date when the entity obtains the goods, or receives the services.

We recommend an accounting treatment consistent with the proposed principle for employee options, where the measurement treatment for employee awards is the grant date. For transactions with non-employees, grant date would be the date when the entity and its counter-party have agreed the terms and conditions of the arrangement. This is normally the date when a purchase order is accepted or a contract is signed. Recognition of the goods or services would follow the rules in other IFRS.

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?

We agree.

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?

Yes. Although we agree that in most cases the value of the services or goods provided is more readily (and reliably) determinable, one could question the need for different principles for the same accounting issue, depending on the counterparty. We would not object the Board requiring the same rebuttable presumption (fair value of the equity instrument) in all cases, thus enhancing the Boards view that IFRS is principle based accounting.

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?

Yes, in almost all circumstances. However, we recommend that the standard should have a rebuttable presumption that the fair value of the equity instrument is more readily determinable, with suitable disclosures in the event that the presumption is overcome. If, for instance, an employee (in practice, an executive) would reach an agreement to relinquish part of an agreed fixed salary in exchange for equity instruments, should the fair value be the amount agreed to be relinquished or the amount established under paragraph 11? See also our comment on Question 6.

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?

Yes. However, we refer to our comments on Question 13 with regard to vesting conditions other than the completion of a specified period of service.

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?

No, although we support the units of service approach as being reasonably representative of the economics of the share-based transaction, we would suggest a modification that takes account of whether or not the award ultimately vests. This modification is based on the same rationale that IFRS uses for other estimates, being that at each balance sheet date, management has to update its estimates. In our view, the example in scenario 1 would therefore be as follows:

Year 1		
467 x CU 1 500 x 1/3	233 500	
		233 500
Year 2		
433 x CU 1 500 x 2/3	433 000	
Less already expensed in year 1	233 500	
		199 500
Year 3		
400 x CU 1500	600 000	
Less already expensed year 1 and 2	433 000	
		167 000
Total expensed		**600 000**

We note that the above modification results in a similar expense as under FAS 123, which would result in greater convergence. We also are of the opinion that a charge should not be made in a period when the rights to shares are cancelled or withdrawn, as proposed in paragraph 29 (see also our answer to Question 18).

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?

We agree that the treatment proposed in paragraph 16 is appropriate when the services are received and that the amounts transferred to equity should not be reversed. We refer however to our comments on Question 13 with regard to vesting conditions other than the completion of a specified period of service.

The paragraph (as well as paragraph 41) mentions transfers within equity. We recommend that the implementation guidance should address such transfers. In our view it would be useful for an option reserve to be credited when services are received for options granted. When the shares are issued, the company should transfer the related amounts from that option reserve to paid-in capital, or to another reserve such as retained earnings when the rights are forfeited.

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?

For most employee options there will not be a ready market for these options or similar options that are being traded. We therefore agree that an option pricing model is generally the most appropriate method of determining a fair value. We would, however, not rule out the possibility that a market value could be found or that in special circumstances (refer to question 7) the value could be established in another way that makes the mandatory rule of indirect pricing questionable.

The draft IFRS does not prescribe the option pricing model that should be used, and we support that approach. However, different fair value models could produce very different results for comparable transactions. The objective should be an option pricing model that is robust and best reflects transactions that would take place in the market. We suggest that the implementation guidance is enhanced with examples of application of the models.

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?

Yes. We agree that replacing the contracted life with 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. However, this adds another factor of subjectivity in the fair value measurement. We therefore recommend that examples are included in the implementation guidance after consultation with valuation experts on these and other factors that would result in reliable fair value measures.

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?

Yes, we agree that vesting conditions should be considered when estimating the fair value of options or shares granted. However, we consider that more guidance to support this proposal should be given in the standard. The examples given in the standard are for options with relatively simple vestings conditions (a period of service). In practice more complicated performance conditions are used and, as evidenced more recently, even required from a stakeholders' point of view. Contacts with valuation experts prove that more complex calculations of fair value are necessary, as the risk/chance of forfeiture increases. The present guidance, for example in Appendix D with the complex calculation of a reload factor, seems to imply that enterprises only would disclose the existence of such complicated instruments. FASB has another possible solution that only accounts for these options when vested.
We recommend that the Board reconsider the option included in the last sentence, as this does not add to comparable and consistent application.

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?

No. We do not agree with the proposed requirement as it is overcomplicated and not principles based. We are of the opinion that a reload feature should be treated as a new grant.

We are not convinced that valuation techniques have evolved sufficiently to reliably value a reload option at the date of employment or on introduction of a scheme. Contacts with valuation experts support this view, as well as the disclosure in Appendix D under "Share options – Arrangement 2".

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?

We have not identified other common features that should be included. We also are of the opinion that if guidance is given for specific variants, new variants will be introduced which are not addressed in the standard and therefore the principles may be subject to abuse. Therefore the text should make clear that these are examples of applying the principles.

In Sweden, as well as in other countries, the effect of taxes and social security contributions payable by the entity on share-based programs is considerable. Although the accounting for such liabilities is the subject of other IAS, the implementation guidance could be improved with an example of the accounting for such charges.

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?

Yes, we support the approach of setting principles-based standards.

Question 17
If an entity re-prices 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?

No. We believe that all changes to schemes should result in them being treated as a new grant of rights to shares and no charge or release made for any amounts that would have been spread forwards under previous terms and conditions. We consider model 1 in Example 3 the appropriate treatment, as we do not believe that useful financial reporting is assisted by spreading forwards charges and costs associated with transactions that have expired or been cancelled.

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.

We do not agree with the proposal. Cancellation will arise because alternative compensation is being paid by other means or because both parties agree that there is no further value to be received from the employee's services related to the rights to shares. Consequently the company should not continue to charge for cancelled share or option grants as proposed in paragraph 29 (a). We note that the proposed approach also deviates from the treatment in FAS 123, which does not contribute to convergence.

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.

We agree with the proposed accounting.

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.

We agree in principle that an entity should account for cash-settled share-based payment transactions if the entity has incurred a liability to settle in cash and does not control whether it settles in cash or shares.

However, the proposals in the draft are complicated and we do not consider them to be principles-based. We would prefer a situation where any option for cash-settlement (whether the entity's or the counterparty's) is treated as a liability until settlement. That would constitute a clear principle that is easy to apply, results in comparable and consistent application and avoids possible abuses. We believe that the mere existence of the cash-settlement possibility is a clear indication that the entity has incurred a liability. We certainly do not believe that a history of settling in shares should be explicitly taken into account.

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 disclosure requirements are generally appropriate. However, certain disclosures appear particularly onerous and seem to address anti-avoidance issues rather than disclosures that enable the users of the financial statements to understand the impact of the share-based payment transactions in force. For example, the requirements of paragraph 48 for the historical comparisons of volatility, appear unnecessarily onerous. Under paragraph 48 (a) if the fair values disclosed are weighted averages, then the assumptions disclosed should be weighted or should be a range. Otherwise the requirements are very onerous for entities that issue a large number of grants during the year.

The requirement in paragraph 52 (b) to split out the cash and equity component of the expense should be withdrawn. We do not believe that "would have been" disclosures fulfil any purpose.

We do however think that disclosure of the amounts to be recognised as expense in future periods of share-based programs is important information for the users.

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.

We do not agree with the proposed transitional provisions.

The transitional provisions for equity-settled share-based payment transactions propose that the draft IFRS should be applied to all grants of shares or options after 7 November 2002 that have not vested at the effective date. We believe that in order for companies to determine the effect that the standard has on their overall incentive policy, and the information that they will need to collate to comply with the standard, they should be permitted to apply the requirements of the new standard to grants awarded on or after the first reporting period that the standard will apply.

The final standard needs to address what disclosures are needed for awards granted before whatever date is used in the transitional provisions. Currently paragraph 54 seems to exclude disclosures for options granted before 7 November 2002 but not yet vested at the effective date. Our reading is that for such options there would be no disclosure even under IAS 19, as the scope adjustment to IAS 19.1(b), set out in Appendix E3 of ED 2, does not seem to deal with such awards.

The transitional provisions for cash-settled transactions (paragraph 55) do not specify if the retrospective adjustment is made to retained earnings at the beginning of the year of implementation or to current year expense for that year. Given that the transitional provisions override the requirements of IAS 8, the Board should clarify that the adjustment should go to opening retained earnings.

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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?

We agree in principle with the proposed requirements as they follow the principle that all tax effects are recognised in the income statement except for items that are recognised in equity.

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

(Respondents may wish to note that further details of the differences between the draft IFRS and SFAS 123 are given in the FASB's Invitation to Comment)

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:

(1) employee share purchase plans are excluded from SFAS 123, provided specified criteria are met, such as the discount given to employees is relatively small;

We support the development of standards that are based upon principles and that contain few, if any exceptions. We therefore support the view expressed in the proposed IFRS that contains no exceptions for certain types of plans. Employee share purchase plans are programmes that are established in order to remunerate employees and should therefore be accounted for consistent with other share-based plans.

(2) 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

Guidance in which companies may choose between two methods of accounting for share-based awards hinders comparability. We support the fair value method since this will reflect the underlying economics of many share-based transactions with employees, particularly those involving share options and therefore will be the most relevant measure to users of financial statements.

(3) 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).

We believe that the IASB approach to require similar measurement methodologies – that is, at fair value – for both public and non-public companies is consistent with a principles-based approach. We agree with the Board's view as expressed in the Basis for Conclusions that the minimum value method is not an appropriate measure of fair value and therefore do not advocate its inclusion.

(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:

(1) 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.

We support the grant date model as proposed in the draft. This model includes that the fair value of the right to receive a share-based award should be measured at the grant date. We therefore believe that the effect of forfeitures must be taken into account in the measurement of fair value. We refer however to our comments on Question 13 with regard to more complex vesting conditions.

(2) 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.

We agree with the general principle (of both SFAS 123 and the proposed IFRS) that compensation cost is recognised as an expense over the period in which the employee provides service to the entity. We favour a model in which the entity recognises the value of service rendered (IFRS), but suggest that such model should take into account whether or not an award vests (FASB). Accordingly, we believe that the model in the proposed IFRS should be adjusted as proposed in our answer to question 9.

(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**

We support the approach for settlements of unvested awards set forth in FAS 123, wherein the settlement of an unvested award is considered to be a deemed acceleration of that award's vesting and a simultaneous repurchase. We would view a settlement transaction as similar to a new grant date, in that the entity and the counterparty reach a new agreement as to the terms of the award. In addition, because further service by the counterparty is not required, continued recognition of compensation expense should likewise not be required.

(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.**

We support a single model that will be applied consistently to both classes of service providers. We noted in our answer to Question 4 that the terms of an award are negotiated at the inception of an exchange transaction. Accordingly, we believe that a model that measures the fair value of the services based upon the initial terms of the award more accurately reflects the economics of the transaction.

(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).

As expressed earlier, we support a principles-based approach and therefore valuing all share-based awards, including SARs, at 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.

We refer to our answer to Question 23.

Question 25
Do you have any other comments on the Exposure Draft?

In Sweden, as well as in other countries, the effect of taxes and social security contributions payable by the entity on share-based programs is considerable. Although accounting for such liabilities is the subject of other IAS, the implementation guidance could be improved with an example of the accounting for such charges.

Editing issues:

- Paragraph 4 (debt or equity) should be subject to paragraph 35 (hybrids), otherwise paragraph 4 appears to override the need to consider paragraph 35.
- Paragraphs 9 and 11 should be black letter.

Yours sincerely,

Jan Buisman
Chairman, Accounting Practices Committee

Björn Markland
Secretary General