



6<sup>th</sup> March, 2003

Kimberley Crook,  
Project Manager,  
International Accounting Standards Board,  
30 Cannon Street,  
LONDON,  
EC4M 6XH

Dear Kimberley,

Exposure Draft Number 2  
Share-based payments

I welcome the proposal in ED2 requiring recognition of an expense based on date of grant fair value for share-based payments. However, the application of different measurement principles depending on cash or equity settlement, while consistent with the IASB's conceptual framework, gives rise to an accounting outcome that is of poor quality and falls short of the stated objective for the provision of transparent and comparable information to users of financial statements.

Compared to accounting for stock appreciation rights, the treatment of equity settlement is incomplete and asymmetric. Recognition of the value of equity issued in settlement of an option at the value of the consideration received (exercise price) does not accord with the principle of fair value accounting. Recognition of the market value on the date of exercise would accord with fair value accounting and provide consistency with the treatment of stock appreciation rights. It would also serve to provide a transparent account to shareholders of the effect of managements' choice of the share-based method of payment by recognising the full cost (gain) associated with the exercise (lapsing) of share-based payments. In a comprehensive income statement, valuation changes after the date of grant would be reported separately from the date of grant measure of the expense.

Consider the case of the acquisition of a tangible asset acquired in exchange for issued shares where the value of the asset is equal to the nominal value of the shares and this is less than the market value of the shares. Would not the members of the IASB regard valuation of the shares issued at the consideration received, the nominal value, as a case of bad accounting? Recourse to the conceptual framework to justify 'bad' accounting for equity settled share-based payments is unsatisfactory and unworthy of a body charged with improving the quality of accounting regulation.

Yours sincerely,

John Forker  
Professor of Accounting