Response to ED2 Share-Based Payment

Question 1. **Scope**. The key issue as explained in the reasons (BC1) are all stated in part (a), paragraph 1. Case settlements are not the issue nor are purchases of goods or services using either cash or issuance of shares. In fact, the word "transactions" can be deleted from the whole draft without any effect on its understandability. Establishing a standard for recording transactions is too elementary. In fact, the title of the standard should more clearly be specified by using the term "Equity Instruments". This term has precedent and parallels the term "financial instruments".

Question 2. **Recognition**. Recognition should be tied to accrual accounting rather than the manner by which it is paid.. See response to Question 10 below for suggested wording.

Question 3. **Expense accrual of goods sold or services rendered**. By eliminating the redundant introductory phrase "For equity-settled share-based payment transactions" of paragraph 7, the primary issue is comprehensively stated, However, the whole paragraph might be considered redundant because of its coverage under accrual concepts.

Questiona 4 and 5. **Measurement of expense accruals or asset acquisitions by issuance of shares or rights to shares**. Pargarph 8 might be bold faced and reads well as it is. This is the key issue for this standard.

Questions 6 and 7. **Measuring either non-employee or employee expense accruals or asset acquisitions.** This issue appears to met by the bold-facing paragraph 8. Paragaphs 9, 10, and 11 can than be eliminated as self-evident.

Question 8**. Measurement of Accrued Employee Service (Compensation) Expense related to granted equity instruments..** This is the key issue for this standard. Paragraphs 9, Paragraphs 12, 13, and 14 explain the issues very well and can be considered intact as is.

Question 9**. Allocation of Accrued Employee Service**. This would be a professional judgment and using units of service to determine the allocations is really the only rational method. Paragraph 15, with its bookkeeping rules, is instructional but self-evident for the sophisticated accountant. The paragraph can be deleted

Question 10. **Recognition of equity increase related to expense accruals.** This relates to recognition (Question 2) is really the key issue in this standard. A suggested rewording of bold-faced paragraph 4 to integrate paragraph 16 might be

"**An entity shall recognize the goods or services received or acquired through issuance of shares or equity instruments when it obtains the goods or as the services are received. At that time, the entity shall recognize the corresponding increase in equity. When services received are recognized with the corresponding increase in equity, the entity shall make no subsequent adjustment to total equity, even if the**

equity instruments granted are later forfeited or, in the case of options, the options are not exercised. However, this requirement does not preclude the entity from recognizing a transfer within equity, that is, a transfer from one component of equity to another."

Question 11. **Recognition**. Paragraph 17 is a repeat of paragraph 7 and can be deleted along with paragraph 18. However, an introductory phrase may be necessary fpr transition to the explanatory paragraph 19-. For example, paragraph 19 may be linked by a introductory phrase such as follows: "When the fair value of the equity instrument granted for recognition measurement, they shall be at the market price…" Refer also to comments related to Questions 4 and 5 above.

Question 12, 13, 14. and 15. **Recognition** (continued). The answers to Questions 12, 13, and 14 are arguably positive. Paragraphs 20-25 are explanatory in nature and may well be kept intact. These may be considered rather complete, but further additions may be appropriate if another respondent answers positively to Question 15.

Question 16. **Recognition** As the draft presently stands, it very rule-based, even to the point of providing instructions for recording entries. The suggestions provided herein are hopefully towards the goal of a principles-based approach, an approach that has heretofore been a strong characteristic of the International Accounting Standards, particularly, after the completion of the "core standards" project.

Question 17 and 18. **Modifications to Equity Instruments Granted**. These are explanatory paragraphs which may well be considered appropriate. However, as explanatory paragraphs, (1) the word "shall" should not be used in these paragraphs but rather wording might be inserted such as "in such case, paragraph "xx" is applicable. (2) the Example 3 might be too detailed for a principles-based approach and should be excluded, and (3) certain references to making entries could well be deleted such as the last three sentences in paragraph 28, the last two sentences of paragraph 29(c), and all of paragraph 30.

Question 19. **Share Appreciation Rights**. The term " Cash-Settled Share-Based Payment Transactions" is awkward and intrinsically illogical. Further, there is no need for the bold-faced paragraph 31 since all the concepts therein are already stated in previous bold-faced standards paragraphs. Nevertheless, some explanation appears appropriate and paragraphs 31-34 should be streamlined into one explanatory paragraph. This can be done by eliminating "For example" from paragraph 32, followed by an introductory phrase to paragraph 33 "In such case," and eliminating the sentence Thus, the entity shall recognize immediately the services received and a liability to pay for them", and the part of the last sentence "and a liability to pay for them", and possibly deleting paragraph 34 completely as too mundane.

Question 20. **Compound Financial Instruments** Again, the term "Share-Based Payment Transactions with Cash Alternatives" is awkward and incomprehensible and no need exists for the bold-faced paragraph 35. This issue can probably be explained sufficiently in one paragraph including those with a cash/equity choice. The key explanation is in paragraph 36 with additional information from paragraph 42. Most of the remaining paragraphs 37-41 and 43-44 can be readily deleted because the issues are understandably forthright for a professional accountant.

Question 21. **Disclosures**. The disclosure requirements seem to be appropriate. To be consistent with proper terminology and to eliminate redundancy, the word "payment" should be deleted from paragraphs 46, 47(a) and 47(d), the words "pursuant to a cash-settled share-based payment or a share-based payment arrangement with a cash alternative" should be deleted from paragraph 48(c), and paragraphs 51 and 52 be simplified by using the following wording: "An entity shall disclose information for users of the financial statements that the amount of expenses deriving from issuance of shares or rights to shares that affect the entity's profit or loss for the period."

Question 22. **Transitional Provisions**. The requirements are appropriate. In consonance with the suggestions given in response to previous questions, the wording can be streamlined by eliminating the phrase "For equity-settled share-based payment transactions from paragraph 54 and "For liabilities arising from share-based payment transactions existing at the effective date of this draft, the entity shall apply restrospectively the requirements of this draft, except".

Question 23. **Amendments** In all the suggested amendments, once more the term "share-based payment transactions" should read " equity share or equity instruments"/ See the resonse to Question 1.

Question 24. No problem seems to exist in comparing this draft with SFAS 123. However, it would seem appropriate to compare this standard with standards in Canada, UK. Australia, continential Europe, and other key countires from the over 150 nations represented in the IASC Foundation. Reporting only the comparison with US GAAP makes the IASB seem to appear now as merely a branch of the FASB. Hopefully, the IASB can keep its reputation as being a highly developed issuer of high quality International Accounting Standards.

Question 25. For the past 30 years, the IASC is performed heartily with a resulting recent reputation of having the highest quality standards in the world. Yes, after the core standards project, the International Accounting Standards are respected and being adopted around the world, in many cases, as a better result than using national standards of any particular country. The high regard for IAS was recently highlighted in the NASD Symposium at Harvard University on February 3, dealing with the adoption of IAS. Now, my understanding is that the IASB wants, or plans to issue a new series of standards called International Financial Reporting Standards in order to follow the US development from APBs to FASBs. Once the initial IFRS? Standard is issued, all in the world will ponder whether the FASB has really overpowered the IASB and now we are all on the road towards having to deal with the issuance of hundreds of new international standards.

Prof. Norlin Rueschhoff

309 Mendoza College of Business

University of Notre Dame

Notre Dame, Indiana 46556