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To IASB

Re: Share Based Payment Exposure Draft

The proposed exposure draft on share based payments would, if adopted, cover all share based payments. Presumably, this would include employee stock ownership plans (ESOPs) in the U.S. and statutory and case-law employee share ownership plans (also called ESOPs) in the UK and Ireland.
These plans are not to be confused with a generic description of employee ownership plans. They refer instead to very specific programs created by statute or case law with very specific rules about tax treatment, vesting, allocation of benefits, distributions, and voting rights. Under these plans, employers set up a trust (called an employee stock ownership trust) to receive corporate contributions of stock or cash to buy stock. The trusts can also borrow money to purchase shares, with the company making contributions to the trust to repay the loan. The shares are held by the trust and released to employee accounts pro-rata to the repayment of the loan.

In the U.S., the accounting rules for ESOPs that do not borrow money are straightforward. There is a charge to compensation in the year in which shares or cash to buy shares are contributed, based on the fair market value (FMV) of the stock or the amount of cash. ESOPs that borrow money are more complicated. There is a charge to earnings as shares are released from the suspense account in the trust to individual employee accounts, based on the FMV of the shares at the time they are released.

In all cases, once the shares are contributed, they are the property of the trust to be allocated to employees. The shares are usually subject to vesting, and unvested shares are returned to the trust and reallocated to remaining participants. Previous accounting rules in the U.S. charged compensation only the cost basis of the shares, but this was changed in 1992.

The IASN exposure draft does not discuss this kind of arrangement, but nonetheless seems to cover it. It would seem that the requirement for grant date accounting would suggest that the prior accounting treatment for ESOPs that borrow money would now again prevail, because the future stock price cannot be predicted, and the shares in the plan stay in the plan. It would be impractical to account for a unit of service of an employee as the shares vest because unvested shares, unlike an option, do not vanish (and thereby impose no cost) but instead get allocated to other employees.
Vesting is thus largely irrelevant to the compensation cost.

I am writing not to suggest any particular treatment, but rather to query as to what the standard would be with respect to these plans. Some specific guidance would be very useful.

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