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30 Cannon Street
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Re. ED-2 Share-Based Payment

Dear Sirs,

On behalf of Royal Philips Electronics N.V., I am pleased to respond to the invitation of the International Accounting Standards Board, to comment the Exposure draft 2 *Share-based payment* (from here onwards referred to as the draft IFRS) of the International Accounting Standards Board. We will first present a number of general comments and observations and subsequently address the questions for respondents in an Appendix.

Convergence

As an organization we endeavor to find the appropriate balance between providing relevant and meaningful information to our stakeholders and limiting the cost for collecting and reporting this information, a cost that is ultimately borne by our shareholders. In addition we are conscious of the, in itself deplorable, fact that accounting standards across the world are not harmonized. This may result in distortions in the level playing field for international companies when new standards are introduced in a certain jurisdiction that are fundamentally different from those applicable in other jurisdictions. Not only does this reduce comparability; it potentially can create a competitive disadvantage for companies that are forced to disclose more or different information than their competitors reporting under a different GAAP.

For the subject of this draft IFRS the level playing field concern is highly relevant. As you know the subject of share-based payments has resulted in major controversies in the United States and the resulting US standards are far from perfect or complete. It is to be welcomed that IASB deals with the widespread use of share options and proposes a high quality global accounting standard to deal with the issue. In view of the importance of share-based payments for reporting organizations across the world, it is of paramount importance that any solution proposed by IASB is supported and implemented by the accounting standards setters in the major western economies. If this is not realized the introduction of a standard will lead to serious distortions of the level playing field for international companies. We therefore urge the IASB to put its best efforts into achieving convergence on this matter, principally between IAS and US GAAP. We support the view of the IASB that expensing at grant date is the most appropriate method of accounting for share-based payments. In our view it offers the best representation of the economic reality and is in accordance with the way that users of financial statements view the economic substance of these items.

The moment in time when expensing becomes compulsory under IAS should be the same as the moment that the same occurs for companies reporting under US GAAP to ensure that the level playing field objective is met. This leaves the option of early adoption for companies - like ours - that determine that their stakeholders are better served by expensing from an earlier date. In this respect we can inform you that Royal Philips Electronics N.V. has decided and announced that it will adopt the provision of Statement of Financial Accounting Standards 123 as of 1.1.2003.

In view of the technical complexity of the issues involved and the controversies that exist on the pricing models and the technicalities of expensing, it is important that the detailed provisions of the International Accounting Standard are convergent with US GAAP to the highest possible level. Please note in this respect that a number of choices are arbitrary because a complete conceptually justified answer is not always available. When that is the case it will not help either users or preparers of financial statements when divergent views are brought forward by accounting standard setters.

Employee share purchase plans

We have concern with respect to the apparent inclusion of employee share purchase plans in the scope of the ED. This is not in accordance with the purpose and nature of these plans and they should either be exempted form the standard or, preferably, they should receive a different accounting treatment. We will elaborate on this point when we address question 24.

Unlisted companies

Although it does not directly have relevance for Philips as a listed company with a long history on various stock markets, we do have practical concern with the way that unlisted companies are dealt with in the draft IFRS and the proposals for measuring the share-based payments granted by these companies.

In addition to the above we share a number of concerns that have been raised by EFRAG in their draft comments with respect to:

Mixed measurement approach

Under the current proposal in para 8, the fair value of the goods or services received in an equity-settled share-based payment transaction should be measured at the delivery (service) date when applying the direct measurement method. Consequently, depending on whether the fair value of the goods or services received is measured directly or not, the draft standard prescribes that the measurement shall be done at delivery (service) date or grant date, respectively. We do not support this mixed approach and believe that the fair value of the goods or services received should consistently be measured at grant (contract) date, which is the date when the two parties agree on the value of the goods or services to be provided.

Determination of the service period

We believe it is not always appropriate to presume that the services rendered by the counter party are received during the vesting period. For instance, a grant for past performance will sometimes have additional vesting conditions such as employment during the next three years. In such a case, we believe that the service has been (substantially) received and therefore should be recognized at grant date. We ask the Board to consider amending para 14 so that it requires consideration of the substance of the share-based payment transaction in order to determine whether the services of the counter party have been (substantially) received or not. If the vesting depends solely on future performance, we agree that it is reasonable to presume that the services rendered by the counter party are received during the vesting period.

Reflection of vesting conditions

We agree that vesting conditions should affect the expense recognized. However, we believe it would be more logical (and less confusing) not to include these in the calculation of the fair value of the option but instead require an adjustment to the value produced by such a model. Such an “adjusted” fair value best reflects the fair value of the services expected to be received at grant date.

Furthermore we recommend that reporting entities are allowed to register compensation costs as of the grant date on the basis of their estimate of the number of options that are going to vest and to revise that estimate if subsequent information indicates that actual vesting will deviate from the initial estimates, or as an alternative to initially accrue the costs for all instruments and subsequently recognize forfeitures when they occur during the vesting period. For performance related options the best estimate of the outcome of the performance condition should be used by an entity to determine the initial expense. Subsequently the expense should be adjusted for expected or actual outcome of the performance-related conditions.

Excessive disclosure requirements

We believe the minimum disclosure rules as set out in para 46, 48 and 52 are burdensome for the preparers and might obscure the key messages to the users of financial statements. Therefore, they should be illustrative of the sort of disclosure needed to meet the requirements set out in the bold paragraphs and not compulsory.

We further note that the draft IFRS suggests principles and definitions that appear to be divergent form the Framework. We recommend that the Framework be updated to accommodate the principles introduced by this draft IFRS.

Our replies to the questions raised in the draft standard are provided in Appendix I to this letter. We expect that they will receive careful consideration from the Board and that the subjects discussed will be addressed in the final standard. In summary we support the Board in its proposal to introduce expensing but we urge you to work toward maximum convergence with US GAAP in this area, both to avoid that the level playing field is disturbed and to ensure reliability and comparability of the clarity of accounting standards.

In case that you would like to have further clarification or additional information of the points addressed in our letter please do not hesitate to contact me.

Kind regards,

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Manager Policies & Directives
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Q1. 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?

We disagree with the inclusion of share purchase plans in the scope of the draft IFRS. They should either be removed form the scope or, preferably, be addressed separately. See our comments to question 24.

Q2. 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?

We agree with the IASB proposal for the reasons given in the Basis for Conclusions. Nonetheless, we believe the Board should consider clarifying the definition of an expense in the Framework so that no reference needs to be made to pronouncements of other standard-setting bodies as it is currently done in BC 42.

In addition, we suggest to the Board to reconsider whether the proposed *unit of service* received approach is not unduly cumbersome and costly.

Q3. 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?

We agree with the principles of the proposal but we are of the opinion that it is not justified to include unlisted companies in the way that is currently proposed. The fact that the minimum value method produces lower costs compared to option pricing models in-itself is not a sound reason to reject it (BC 138). In addition, the proposals in BC 139 with regard to alternative ways for the determination of volatility by unlisted companies are unrealistic and unreliable. In view of these considerations and in the interest of convergence we recommend to the Board to allow the minimum value method under clearly defined circumstances.

Q4. 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?

No, we do not agree that the delivery (service) date is the appropriate date at which the fair value of the goods or services received should be measured. We do not support this mixed approach and believe that the fair value of the goods or services received should consistently be measured at grant (contract) date, which is the date when the two parties agree on the value of the goods or services to be provided. We therefore ask the Board to reconsider the wording of para 8 and the arguments supporting the conclusion.

Q5. 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 with the IASB proposal for the reasons given in the Basis for Conclusions.

Q6. 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?

We agree with the approach as explained in para 10.

Q7. 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?

We believe that the requirement for transactions with employees “to measure the fair value of the employee services received by reference to the fair value of the equity instruments granted” is appropriate in most cases. However in some cases the fair value of the services granted may be more readily determinable and therefore the preferred way forward would be the inclusion of a rebuttable presumption in the final IFRS.

Q8. Paragraphs 13 and 14 of the draft IFRS propose requirements for determining when the counter-party renders service for the equity instruments granted, based on whether the counter-party 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 counter-party as consideration for the equity instruments are received during the vesting period? If not, when are the services received, in your view?

No. We believe it is not always appropriate to presume that the services rendered by the counter-party as consideration for the equity instruments are received during the vesting period. For instance, a grant for past performance will sometimes have additional vesting conditions such as employment during the next three years. In such a case, we believe that the service has been (substantially) received and therefore should be recognised at grant date. (Where there are also future conditions it may be appropriate to apportion the grant between its various components.) We ask the Board to consider amending para 14 so that it requires consideration of the substance of the share-based payment transaction in order to determine whether the services of the counter-party have been (substantially) received or not. If the vesting depends solely on future performance, we agree that it is reasonable to presume that the services rendered by the counter-party are received during the vesting period.

Q9. 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?

It is not necessary to determine the amount to attribute to each unit of service received. As an alternative we recommend a simplification to a straight-line depreciation of the fair value of the services received/instrument granted.

Q10. In an equity-settled share-based payment transaction, the draft IFRS proposes that having recognized 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 recognizing a transfer within equity, ie 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?

No we disagree. Forfeitures until the moment of vesting and non-vesting should be reflected in a reduction of equity and only vested options that expire unexercised should remain in equity.

Q11. 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?

We agree with the IASB proposal for the reasons given in the Basis for Conclusions, with the exception of its applicability for unlisted companies as explained before.

Q12. 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?

We agree with the IASB proposal for the reasons given in the Basis for Conclusions.

Q13. 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?

We agree that vesting conditions should affect the expense recognized. However, we believe it would be more logical (and less confusing) not to include these in the calculation of the fair value of the shares or options but instead require an adjustment to the value produced by such a model.

We recommend that reporting entities are allowed to register compensation costs as of the grant date on the basis of their estimate of the number of options that are going to vest and to revise that estimate if subsequent information indicates that actual vesting will deviate from the initial estimates, or as an alternative to initially accrue the costs for all instruments and subsequently recognize forfeitures when they occur. For performance related options the best estimate of the outcome of the performance condition should be used by an entity to determine the initial expense. Subsequently the expense should be adjusted for the expected or actual outcome of the performance-related conditions.

Q14. 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?

We agree with the IASB proposal for the reasons given in the Basis for Conclusions. However, we believe that the definition of reload feature in the Glossary is unclear and should therefore be reworded by the Board.

Q15. 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 any other common features of employee share options for which the standard should specify requirements.

Q16. 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?

We support the Board's approach not to prescribe in detail how the fair value of options should be estimated, provided that the position that the Board takes is also supported and implemented by the Financial Accounting Standards Board of the United Sates. As there are no perfectly accurate models available, choices in this area are to some extent arbitrary and it would be detrimental to comparability of financial statements when preparers can choose from different options under different GAAP's.

Q17. If an entity reprices 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 recognize additional amounts for services received during the remainder of the vesting period, i.e. additional to the amounts recognized 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?

We agree that if an entity reprices a share option, or otherwise modifies the terms or conditions on which equity instruments were granted, it should measure the incremental value granted upon repricing and include that incremental value when measuring the services received during the remainder of the vesting period. We believe that treating the incremental value as a new option grant is the most appropriate because it reflects economic substance of the transaction.

Q18. 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 recognize the services rendered by the counter-party 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.

Such a requirement is counterintuitive and not logical. When the Board expects that cancellation will only occur in combination with cash payment or another form of compensation for the employee than it needs to address these situations.

Q19. 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 recognized in the income statement.

Are the proposed requirements appropriate? If not, please provide details of your suggested alternative approach.

We agree with the IASB proposal under the condition that convergence with US GAAP is realized.

Q20. 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.

Q21. 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)?

We support the disclosure principles set out in paras 45, 47 and 51 but believe the minimum disclosure requirements set out in detail, and most particularly in para 48, are excessive. After all, the disclosures should support the understanding and interpretation of the amounts recognized. They should not be considered as stand-alone information. The detailed disclosures are expected to obscure the key messages to the users of financial statements. It would be better therefore to treat para 46, 48 and 52 as illustrative of the sort of possible disclosures to meet the requirements set out in the bold paragraphs rather than minimum disclosure rules.

Q22. 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 (ie 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 disagree with the IASB proposal because it would constitute a retrospective introduction of new accounting principles, which we find insupportable. The requirements of the IFRS should become effective prospectively for awards granted after the introduction of the standard. The moment of introduction should be aligned with the moment that expensing becomes obligatory for US GAAP reporting entities.

Q23. 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 recognized in the income statement.

Are the proposed requirements appropriate?

We agree with the IASB proposal, except for the treatment of excess tax deductions that exceed the amount of compensation expense recognized. These may occur under certain tax regimes and should be recognized in equity and not flow though the income statement.

Q 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. 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:

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

  In our view a similar exemption should be included in the draft IFRS.

- SFAS 123 encourages, but does not require, entities to apply its fair value measurement method to recognize 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

  Expensing share-based payments should also become an obligation under US GAAP and the moment of initial application of the draft IFRS should be aligned to expensing

becoming compulsory under US GAAP. When convergence is taken seriously this is the only possible solution.

- 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).

See Q 3.

(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:

- 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 have no strong preference for either method but they should be the same for the sake of convergence.

- 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 recognized 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 recognized for employee services received are not subsequently reversed, even if the equity instruments granted are forfeited.

We have no strong preference for either method but they should be the same for the sake of convergence.

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 recognized is recognized 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 recognize 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 have no strong preference for either method but they should be the same for the sake of convergence.

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 agree with the draft IFRS but that would require that a similar treatment is introduced for companies accounting under FAS 123.

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).

We agree with the draft IFRS but that would require that a similar treatment is introduced for companies accounting under FAS 123.

f. For a share-based payment transaction in which equity instruments are granted, SFAS 123 requires realized 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 recognized 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 recognized in profit or loss, as part of tax expense.

See Q 23.

We believe the draft IASB should be aligned to US GAAP and therefore the two Boards have more work to do to come to actual conversion. Our comments on the various differences have been provided in the text of the question in bold print.

Q25. Do you have any other comments on the Exposure Draft?

No.