CL 121

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

In Prague, 7th March 2003

Re: Comment Letter on IASB ED2 Share-based Payment

The Chamber of Auditors of the Czech Republic welcomes the opportunity to submit its comments to the International Accounting Standards Board regarding the Exposure Draft ED2 Share-based Payment, published by the International Accounting Standards Board for comments in November 2002.

We have reviewed the Exposure Draft and generally we support the approach described in the above document. However, there is the number of specific issues raised in the Exposure Draft we have any comments or take the different view of them.

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?

We do not understand the reasons why transfers of an entity´s equity instruments by its shareholders are considered share-based payment transactions. There is mentioned in BC17 that such arrangement could be viewed as being two transactions but in our opinion such transaction have nothing to do with the entity itself at all (it is only transaction between shareholder and employee). Moreover, such transaction should have anyway a nil consequence from the entity´s equity point of view (reacquired equity instruments – that have not been reacquired in fact – should be treated as a grant that is consequently eliminated in the entity´s financial statements by the recognition of services received).

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 believe it is not necessary to use the different dates for measurement depending on whether the fair value of the goods or services is measured directly or indirectly. We support the Board´s conclusion mentioned in BC104 and, in our opinion, the paragraph 8 should be therefore reconsidered in a view of the above conclusion.

<u>*Question 18*</u>

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.

In our opinion the entity should not recognise the expenses related to the services rendered if a share or option grant is cancelled. Any compensation that is mentioned in BC220 with respect to the cancellation should be accounted for separately subject to its nature.

<u>*Question 24c)*</u>

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:

……….

(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.

With reference to our comment to question 18 we do not consider neither the draft IFRS or SFAS 123 treatment appropriate.

We hope you´ll find our comments helpful and we would be pleased to discuss any aspect of this letter you may wish.

Yours sincerely,

ing. Ladislav Langr
Vice-president of the Chamber of Auditors of the Czech Republic