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

# Comments on ED2 Share-Based Payment

Dear Sir or Madam:

We, the Japanese Institute of Certified Public Accountants, are pleased to provide comments on ED2 SHARE-BASED PAYMENT (the "Exposure Draft"). We, in general, support the Exposure Draft's proposal for the criteria for measuring equity instruments and its recognition. However, we have outlined below certain specific concerns and recommendations with respect to the Exposure Draft.

## Overview

The Exposure Draft proposes that fair value should be measured at the date when an entity obtains the goods or receives the services, if the fair value of the goods or services in an equity-settled share-based payment transaction is measured directly.

We, however, understand that the date of measurement of the fair value of the goods or services is not the date when an entity obtains the goods or receives the services under present accounting practice. For instance, if the entity enters into a contract to purchase inventories over one year, the inventories are to be measured at the purchase cost agreed upon in the contract rather than at the fair value of the inventory at the time of recognition, i.e., purchase. Under this method, the fair value, which increases subsequent to the (cancelable) contract date and exceeds the contract amount, does not affect the measurement of the inventories.

Thus it should be stated that fair value should be measured at the date when the entity *enters into a contract* to obtain the goods or receives the services, even if the contract is revocable. This measurement date is consistent with that for measuring the fair value of equity instruments as a surrogate measure.

## Modifications to the terms and conditions on which equity instruments were granted

If an entity reprices a share option, or modifies the terms or conditions on which equity instruments were granted, the Exposure Draft proposes that the entity should measure the incremental value granted upon repricing, and include that incremental value when measuring the services received. We agree with this proposal.

As an illustration of this requirement, Example 3 in Appendix B shows that the incremental value granted on repricing is treated as a new option grant, in addtion 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. We believe that the first method in Example 3 is more appropriate, since it treats the incremental value granted on repricing as a new option grant, in addition to the original option grant and this treatment reflects the substance of the transaction. However, there may be cases where application of the first method would involve undue cost or effort. Therefore, we suggest that the alternative approach illustrated in Example 3 be permitted, if calculation by the first method requires undue cost or effort.

**Cancellation of a grant of shares or options during the vesting period**

If an entity cancels a grant of shares or options during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied), the Exposure Draft proposes that the entity continue to account for services rendered by the counterparty in the remainder of the vesting period, as if that grant had not been cancelled. We disagree with this proposal. In our view, it is more appropriate to reflect the substance of the transaction which is that the counterparty terminates provision of all services for consideration of the cash settlement when the share-based payment plan is legally terminated. We support the accounting treatment that the equity instruments are regarded as having been immediately vested when an entity settles a grant of equity instruments in cash and the underlying plan is terminated for accounting purposes. This is because the counterparty would have no obligation to return the cash received even if it were to terminate its services subsequently by retiring from the entity. Our counterproposal is the same as the applicable provision of the US standard, SFAS 123.

**Disclosures**

The number of options in the disclosure items stated in Paragraph 46 (b) of the Exposure Draft should be read as "the number of shares under options," because the options are linked with the underlying shares.

In the disclosure items listed in paragraph 48 (a) (i) of the Exposure Draft, an entity should disclose not only the weighted average fair value of the options, but also the weighted average figures for the exercise price, expected volatility, expected or contracted life, expected dividends and risk-free interest rate.

**Other**

We agree with the proposal of the Exposure Draft that a consequential amendment to IAS 12 be made to add an example to the standard illustrating how to account for the tax effects of share-based payment transactions. Incidentally, it should be noted that the figure 33,333 shown in the column headed “Year 2 Deferred tax (income)” of the summary in Appendix E, E5 is incorrect and should read 62,667.

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We would be pleased to discuss any aspect of this letter with the IASB or its staff at your convenience.

Very truly yours,

Michiyoshi Sakamoto
Chairman
Technical Committee for IASB