CL 112

7th March 2003

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

Dear Sir David

Share-Based Payment – ED 2

The Accounting Committee of the Institute of Chartered Accountants in Ireland (AC) fully supports the work being undertaken by the IASB and welcomes the opportunity to offer its comments. AC's answers to the specific questions contained in the Exposure Draft ED 2 *'Share-Based Payment'* (ED) are set out in Appendix 1 to this letter.

AC is supportive of the principle set out in the ED that a charge should be taken to the P&L account of a company that issues share options in return for services or goods. There are, however, some key issues that AC wishes to highlight:

1. The overall approach taken in the ED has not been reconciled with the IASB's own Framework. There is very limited explanation in the ED linking the reasoning to the Framework. In particular, there is some lack of consistency in the definition of a "loss" in the Framework compared with the ED. It is AC's view that the ED should explain its position in terms of the Framework.

2. AC is concerned about the proposed method of accounting for cancelled and out-of-the-money options. In particular, AC is concerned about the provisions of para 29 regarding a continuing charge to the P&L for options schemes that have been cancelled and para 16 regarding the continuing charge to the P&L for options that are no longer realistically of any exercisable value.

   AC considers that the cancellation of equity instruments during a vesting period is effectively a renegotiation between the service provider (the employee) and the service recipient (the employer). Generally the cancellation will only occur where the circumstances of the entity have drastically changed. AC believes that the changed circumstances should be reflected in the profit and loss account charge. AC does not envisage any adjustment being made to prior periods but believes that the subsequent periods should reflect the effective 'renegotiation'.

AC believes that there is little practical difference between a cancelled share option scheme and a scheme where the shares are so out-of the money that there will be no alternative than for the Board to cancel a scheme. The economic reality is that there is no difference between these two situations, just a timing difference in the decision process by the Board. There might be good reasons why a Board could not publicly cancel a scheme if its share price was significantly or permanently depressed. Please see our answer to questions 9 and 18 for the full details of our arguments on these points.

3. The valuation models that are given as examples in the ED are primarily suited to traded options and are not suited to all employee share options. AC has a particular concern about the lack of guidance provided for the valuation of share options in <u>unlisted companies</u> for which much of the information required by a detailed model such as Black Scholes does not exist. For such companies, many of the input parameters will require significant estimation and judgement. The ED suggests that the assumptions made will navigate around these issues, but AC is concerned that using such uncertain inputs with a detailed model will produce an unreliable output. Since reliability is one of the recognition criteria in the IASB's Framework, AC does not believe that using such models for unlisted companies is appropriate. AC would wish to see detailed guidance for non-listed companies included in the ED and suggests that the best way to achieve this is for IASB to consult widely in industry about the most common valuation methods used and use the results of this consultation process to provide enhanced guidance to users.

4. Some of the Committee have reservations about the potential economic consequences of the ED, in particular:

    a) the possibility that the proposed standard will lead to the cessation of broad based employee share ownership schemes. This would be contrary to the original intention to give employees a stakeholding and ownership in the company.
    b) the impact of the ED on cost sharing agreements e.g. R&D agreements. Expensing of share options will drive up the costs of such agreements and may adversely impact economics of such partnerships/joint ventures
    c) issues for companies that may be unable negotiate increased prices to pass on the associated expense. This may cause significant difficulties for many companies in pricing services, contracts and products going forward as customers may not accept the changed cost basis.

However, these reservations do not change the majority of the members of the AC's overall support for the proposed standard.

If you require any clarification or further details on any of the points raised in the response please contact the Secretary to the Committee, Alix Brebbia on +353 1 6377316 or at alix.brebbia@icai.ie .

Yours sincerely

Alix Brebbia
Secretary
Accounting Committee
Institute of Chartered Accountants in Ireland

APPENDIX 1
Answers to Specific Questions asked on ED 2 – Share-Based Payments

1. ***Paragraphs 1-3 of the draft IFRS set out the proposed scope of the IFRS. There are no proposed exemptions, apart from transactions within the scope of another IFRS? Is the proposed scope appropriate? If not, which transactions should be excluded and why?***

Agree.

2. ***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 circumstance are the recognition requirements inappropriate?***

Agree.

3. ***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 goods or services received, or indirectly, by reference to the fair value of the equity instruments granted, whichever fair value is more readily determinable.***

Agree.

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 proposed that fair value should be measured at the date when the entity obtains the goods or received 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?***

AC would prefer to see one measurement date for all equity-settled share based payment transactions. AC disagrees that the measurement date for goods and services should always be the date of receipt of service. In many cases the negotiated price for goods or services may be some time in advance of the receipt of those goods and services. Consequently, AC considers the appropriate measurement date to be the date of grant of the equity instrument. That is the date on which the value of the agreement to purchase the services is set between the 'willing buyer and willing seller'.

5. ***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?

AC agrees that the measurement date should be the grant date of the options regardless of whether the transaction is being measured by reference to the fair value of the goods or services or the fair value of the equity instrument.

6. ***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?***

AC had some concerns with this rebuttable presumption. There was general consensus that 'goods' would have a more readily determinable fair value than the equity instruments. However, the discussion concluded that the types of 'services' that were likely to be provided in return for equity instruments were more likely than not to be relatively unique and specific to the circumstances of the entity receiving them. Consequently, it was considered that they were unlikely to have a readily determinable fair value. AC considered that it would be more appropriate to have a rebuttable presumption that the fair value of goods received would be more readily determinable than the equity instruments but that all services (whether from third parties or employees) would have a rebuttable presumption that the fair value of the equity instrument would be more readily determinable.

7. ***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?***

Consistent with the answer to question 6 above, the consensus of the AC was that for all services received, the fair value of the equity instruments was likely to be more readily determinable than the fair value of the services received. It was considered that this should be a rebuttable presumption in the case of non-employee services.

It was also considered that there may be circumstances where the fair value of the service received from an employee may be determinable by some other means. For example, if a specific salary amount is foregone in order to obtain options because of, say, a more advantageous tax treatment for the individual, the cash alternative would be the best measure of the fair value. It would be important to circumscribe the 'cash alternative' approach in order to ensure that the arrangement was commercially realistic (perhaps evidenced by the fact that a portion of employees choose options and a portion of employees choose the salary amount)

8. ***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?***

Agree.

9. ***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 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 units of service expected to be received during the vesting period? If not, what alternative method do you propose?***

AC agreed with all the specific questions asked above. Paragraph 15 of the IFRS also states that the amount to be charged in each period during the vesting period should be the service units received times the value of each service unit determined at date of grant. AC also agreed with this general principle.

However, there was a concern expressed with regard to equity instruments cancelled during the vesting period (see answer to question 18) and also where equity instruments were significantly 'out of the money'. As explained in the answer to question 18, AC considers that the cancellation of equity instruments during a vesting period is effectively a renegotiation between the service provider (the employee) and the service recipient (the employer). Generally the cancellation will only occur where the circumstances of the entity have drastically changed. AC believes that the changed circumstances should be reflected in the profit and loss account charge. AC does not envisage any adjustment being made to prior periods but believes that the subsequent periods should reflect the effective 'renegotiation'.

In many circumstances the cancellation of share options will occur because they are so far out of the money that they are of no benefit to the employee and this will normally have occurred because the entity will be facing significant difficulty. The cancellation of the options will often be accompanied by other renegotiations with employees involving pay freezes, reductions in salary levels, etc. It seems inappropriate that an entity would be able to renegotiate all other elements of the 'remuneration' package to employees and recognise these adjustments in their profit and loss account but would have to continue to charge for employee options at an inflated rate which both parties have conceded (by the cancellation) no longer represents the fair value of the service being received. It could also be argued that once equity instruments go ‘out of the money’ profit and loss account charges should cease. In many situations, the cancellation of out of the money options is merely a question of timing and because they are not worth anything to the employee they have been in substance cancelled.

AC fully supports the grant date measurement argument that it is at this date the employee and employer contract at fair value for services to be rendered during the vesting period. However, AC does not accept that this negotiated value continues to apply where the equity instrument is cancelled or significantly repriced. AC believes that such occurrences are renegotiation of the fair value of the subsequent services to be received from the employees and that the future periods should be charged with the renegotiated fair value.

AC believes that there is little practical difference between a cancelled share option scheme and a scheme where the shares are so out-of the money that there will be no alternative than for the Board to cancel a scheme. The economic reality is that there is no difference between these two situations, just a timing difference in the decision process by the Board. There might be good reasons why a Board could not publicly cancel a scheme if its share price was significantly or permanently depressed.

10. ***In an equity-settled share-based payment transaction, the draft IFRS proposes that having recognised 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 to 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, i.e. a transfer from one component of equity to another. Do you agree with this proposed requirement? If no, in what circumstances should an adjustment be made to total equity and why?***

AC supports the fact that the past should not be revisited and that once a charge for the service has been made and the corresponding increase in equity recognised no changes should be made to total equity.

11. ***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 that an option-pricing model should be used in the case of quoted companies. We also agree with the approach of the standard in not defining the specific model to be used.

AC has a particular concern about the lack of guidance provided for the valuation of share options in unlisted companies for which the information required by a model such as Black Scholes is not only unavailable but any estimates used will be extremely judgemental. There are many entities that regularly value unlisted entities and there are various approaches in practice, such as, net asset value, multiple of profits, etc. AC believes that IASB should consult widely in industry about the most common valuation methods used and give guidance in the draft IFRS on the most appropriate methods to value the equity instruments of unlisted entities.

12. ***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 ?***

Agree.

13. ***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).***

Agree. There is a general agreement in AC with the principles involved.

However there are some concerns over how the principle might be applied in certain instances. For example, in "big-ticket" conditions, such as where an agreement exists that if there is an IPO within a specified timeframe, employees will receive 100 options. Should this be treated as a contingent grant and not recognised until there is probability at least that the IPO will happen. If so, should measurement be back-dated to the date of the agreement? The ED should include more guidance on how such contingencies should be factored into the equation. At the moment the ED merely states that these matters should be taken into account. This is insufficient guidance for those charged with applying the standard.

14. 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?

AC finds this a difficult area to comment on, due to a lack of practical experience with this sort of feature. AC believes that this sort of feature is very difficult to fit into the original model.

With respect to the specific reload feature some members of AC were of the opinion that the 'reload' feature should be a factor in valuing the initial option and also have its own separate value applied to any new options issued

15. 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?

AC would like the IASB to provide guidance on contingent grants as mentioned above.

16. ***The draft IFRS does not contain prescriptive guidance on the estimation of the fair value of options, consistent 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 agree with the approach whereby the ED does not contain prescriptive guidance. We recommend disclosure of the model used.

However, as outlined above, AC would like to see detailed guidance for non-listed companies included in the exposure draft.

17. 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 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 recognised 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 believe the incremental value method is preferable to the average method as it better measures the cost as it is incurred. However, see answer to question 9 and 18 where the repricing is effectively a renegotiation of fair value than the subsequent periods should only bear the renegotiated fair value.

18. 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.

See answer to question 9. If options are cancelled, then in our opinion the profit and loss account charge should cease, but the previously incurred profit and loss charge should not be reversed. Effectively and economically, if options have been cancelled this is equivalent to the economic payment to the counter-party or employee being reduced from that point forward and therefore in our opinion the profit and loss account charge should also cease.

Clearly if the options are repriced or replaced then the value of the new options should be included within the profit and loss account from that date forward. A subsequent grant of replacement options should be treated as a new grant, and the options accounted for in the normal fashion at the new price from the date of grant.

19. ***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 recognised in the income statement. Are the proposed requirements appropriate? If not, please provide details of your suggested alternative approach.***

Agree.

20. 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.

Agree.

AC considers that IASB should identify the circumstances in which the entity has 'incurred a liability'. AC considers that where the option is with the holder, the entity has incurred a liability. It also appears to have incurred a constructive liability where the option is with the entity but by its past practice it has indicated that it will settle in cash.

21. 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) ?

A majority of the AC agreed with the ED level of disclosure. An alternative view expressed is that there is too much mandatory disclosure and more scope should be given to the exercise of judgement in relation to the amount of disclosure, which is necessary. In particular, some of the statistical disclosures required by paragraph 48 may be lengthy and confusing, and are unlikely to add significant value.

However, consideration should be given to providing the disclosures in paragraph 46(b) separately in respect of equity instruments (i) held by employees (ii) held by providers of goods and services and (iii) held by shareholders.

22. ***The draft IFRS proposes that the 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 (i.e. the amount that would have been paid on settlement of the liability had the counter party 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.

The transitional provisions need to be considered carefully. AC supports the practical reasons behind the decision to apply the ED going forward only, with no retrospective application beyond the date of publication of the ED (which should be expressed as a specific date). However, a significant minority of the AC would prefer to see a requirement for full retrospective application to all share options that had not vested at the start of the financial year and prior year – or as a minimum that this should be an option.

23. ***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 should be recognised in the income statement. Are the proposed requirements appropriate ?***

Agree.

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 124 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 ;***
- ***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***
- ***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).***

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

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 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.***

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.

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.***

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 recognised 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 recognised in profit or loss, as part of tax expense.***

For each of the above differences, which treatment is the most appropriate ? Why ? If you regard neither treatment as appropriate, please provide details of your preferred treatment*

(a) AC agrees with the proposal in the ED not to allow any exemptions. AC does not believe that the exclusion of certain employee share purchase plans as allowed in SFAS 123 is appropriate, nor is the SFAS 123 option to allow entities to apply an intrinsic value measurement method to employee transactions. AC believes (see answers to Question 11 and introductory comment 3 above) that further guidance is required on how to obtain an approximation to fair value for unlisted companies, but does not believe that the use of a SFAS 123 minimum value method is necessarily an appropriate substitute.

(b) A majority of the AC agree with SFAS 123 whereby it does not reduce the fair value of the equity instrument at grant date for the possibility of forfeiture due to failure to satisfy the vesting conditions. This is too subjective and will eliminate the use of a consistent measure throughout entities. A minority of the AC consider this to be appropriate

AC agrees with the ED not to reverse the deemed fair value of service received if the equity instruments are subsequently forfeited. However, as mentioned in AC's answers to Questions 9 and 18 and introductory comment 2, the accrual of the fair value of the service should cease when the possibility of the vesting of the option ceases. AC does not support the position under SFAS 123 whereby amounts previously recognised for forfeited options are reversed.

(c) AC supports the position under SFAS 123

(d) AC supports the position set out in the ED to use the grant date in all cases. AC considers the appropriate measurement date to be the date of grant of the equity instrument. That is the date on which the value of the agreement to purchase the services is set between the 'willing buyer and willing seller'. AC does not agree with the position set out in SFAS 123 to allow a choice of measurement dates.

(e) AC supports the position set out in the ED.

(f) AC supports the position set out in the ED.

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

None.