

Fédération des Experts Comptables Européens FEE  
Rue de la Loi 83  
1040 Brussels  
BELGIUM

Sir David Tweedie  
Chairman  
International Accounting Standards Board  
30 Cannon Street, 1st floor  
GB - LONDON EC4M 6XH

Email: [commentletters@iasb.org.uk](mailto:commentletters@iasb.org.uk)

Dear Sir David,

Re: Exposure draft ED 2: Share-based payment

FEE is pleased to submit its comments on the Exposure Draft of Share-based payment. FEE as a founding organisation of EFRAG has also contributed to the EFRAG commenting process by submitting our views on their preliminary comments. Where we are in agreement with the EFRAG comments we refer to these comments, where we are in disagreement our own views are put forward. In addition we raise some additional comments.

We support the objective of the proposed standard to recognize an expense when the goods or services received or acquired under a share-based payment transaction are consumed.

*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 support EFRAG's comments. Furthermore, regarding the paragraph 2 of the ED, we believe that transfers from shareholders to employees should be accounted for differently because this operation does not affect the company's equity. Such a transaction should have a nil impact for the entity. Further guidance is required on the application of this standard in the case of transfer of shares from shareholders to employees. (Refer also to our comments on Question 25)

*Question 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 circumstances are the recognition requirements inappropriate?*

We agree with the IASB proposal. We believe however that the Board should clarify the definition of a liability to include share-based payment arrangement or expand the concept of services received as assets in the Framework, as explained in FASB Statement no. 6 (BC42).

*Question 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 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 EFRAG's answer and with the IASB proposal.

*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 disagree with EFRAG's comments and with IASB proposal.

The measurement at grant date is more appropriate than at delivery (or service) date. Measurement at grant date is coherent with the normal price when measuring goods of service based on an order (contract date). The service date could be an approximate. For both measurements at fair value of goods or services received or fair value of equity instruments granted we believe the grant date to be more appropriate. The fair value of the goods or services received should be consistently measured at grant date. The measurement at grant date should be considered as the principle and not the exception to the general rule (service date) since transactions with employee are the most common situation for share-based payment. We agree with BC 84 and BC 104 that "grant date is the appropriate measurement date" no which no matter which side of the transaction one focuses upon (services received or equity instrument granted) and recommended that paragraph 8 of the ED be reconsidered to reflect the Board's conclusions.

*Question 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?*

We agree with EFRAG's answer and with the IASB proposal.

*Question 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?*

We agree with EFRAG's answer and with the IASB proposal.

*Question 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?*

We agree with the IASB proposal. We feel it is preferable to have one measurement method for transactions with employees because it ensures consistency and comparability of financial statements and avoids different practices or abuses. FEE supports the indirect method.

Question 8: *Paragraphs 13 and 14 of the draft IFRS propose requirements for determining when the counterparty renders service for the equity instruments granted, based on whether the counterparty 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 counterparty as consideration for the equity instruments are received during the vesting period? If not, when are the services received, in your view?*

We support EFRAG's comments on this issue and agree with IASB. Furthermore we believe it is preferable to have a straightforward, simple standard. If the vesting conditions imply past and futures services, the future services still represent an advantage for the entity and therefore the entity should recognize the services as they are rendered during the vesting period. Otherwise, if the conditions imply only past services, there is no vesting period and the equity instruments are vested.

Question 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 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 by estimating the number of units of services expected to be received. The Board's method could result in very different expenses depending on the estimation of the vesting conditions which is not the primary objective of ED 2. Measurement of the actual services received is not achieved in ED 2 and is the main limitation of this draft standard in our view.

We support the alternative approach proposed by EFRAG because it reflects better the fair value of the equity instrument at grant date without adjusting for expected forfeiture and it respects the concept of recognition of actual service received without subsequent adjustment to equity. We regard this approach as less complex and practically easier to implement. We recommend the Board to consider the EFRAG's proposal.

Question 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 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 recognising 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?*

We agree with EFRAG and the IASB proposal. There should be no subsequent adjustment to

equity to be logical with measurement at grant date, and to respect the principle that the transaction to be accounted for is the service received rather than the equity instrument granted. In accordance with our comments on Question 9 we would however prefer a method in which the expected forfeiture is adjusted to reflect the actual service received. The alternative method proposed by EFRAG achieves this objective.

*Question 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 with the IASB proposal and support the comments raised by EFRAG on the reference to any specific model and the concerns on expected volatility when no past information is available.

*Question 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?*

We agree with EFRAG's answer and with the IASB proposal.

*Question 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). 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?*

As mentioned in our answer to Question 9, we believe that the IASB proposed method in appendix B – example 2 does not achieve the main objective to recognize the actual service received because the expected outcome of the performance condition is not reflected. We support the EFRAG's alternative approach proposed in their letter to IASB in this respect. As a result the main objective of ED 2 is achieved. We disagree with IASB and believe that the vesting condition cannot be taken into account when estimating fair value of options or shares granted.

We support the other comments raised by EFRAG.

*Question 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?*

We agree with EFRAG's answer and believe that the definition of reload feature is unclear. However, a minority within FEE disagree with EFRAG and the proposed treatment of IASB as it is overcomplicated and not principles based. The IFRS should focus on principles to be applied, not on extensive application guidance.

*Question 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?*

We have not identified any other common features.

*Question 16:* *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 agree with EFRAG's answer and support the Board's approach. However in order to improve the reliability of financial statements additional non-prescriptive guidance with regard to the application of option pricing models should be given.

*Question 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 granted upon repricing, and include that incremental value when measuring the services received. This means that the entity is required to recognise 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 agree with EFRAG and IASB that the effects of repricing should be recognized during the remainder of the vesting period. However, we disagree with EFRAG and believe that the first approach illustrated in Example 3 is the most appropriate because it reflects better the treatment of repriced option as a more valuable option and the recognition of the incremental value separately from the original option as additional services to be received.

*Question 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 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.*

We disagree with the IASB proposal. The entity should not continue to recognize expenses if options are cancelled. If the entity acknowledges the fact that the share-based payment arrangement does no longer ensure consideration to its employees, it cannot any longer expect services to be rendered. Therefore no amount should be expensed in relation to the initial grant. Furthermore, the recognition of an expense is linked to the existence of an arrangement. The cancellation of the arrangement should lead to the end of the recognition of the expense. The Board's proposed requirements do not take into consideration the new legal situation occurring when the options are cancelled.

Also we support the comment of EFRAG on the problem of double recognition of expense in case share options are replace by salary increase.

However, we believe the compensation paid on the cancellation of unvested equity should be accounted for as an expense, and not as a debit to equity, since it represents the cost of cancellation for the entity. In the case of vested equity, we agree with paragraph 30 of the ED. The payment made to repurchase vested equity should be accounted for as a deduction to equity.

Also, we disagree with BC 220 and believe that it is possible that a share or option grant would be cancelled without some compensation and therefore cancellation should not be treated like repricing. The Board should take into consideration situations where the entity cancels share or option without given any compensation or new equity instrument.

*Question 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.*

We agree with EFRAG's answer and with the IASB proposal.

*Question 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.*

We agree with the IASB proposal.

*Question 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)?*

We disagree with EFRAG and believe the disclosure requirements are appropriate. It is

appropriate to show the information on how the expense is calculated to the users, specially the assumptions taken on the estimations of sensitive amounts. Furthermore, we suggest to include in the disclosure the estimation of the amount of future expenses to be recognized in the income statement for the next periods.

*Question 22: 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 support EFRAG's comment to require only prospective application for share-based payment transaction entered into after the date of issuance with the option to apply the standard also for plans existing at the date of issuance. We believe that, as a matter of principle, IASB should not move away from the normal requirement to apply a standard from the date of issue.

*Question 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. As shown in that example, it is proposed that all tax effects of share-based payment transactions should be recognised in the income statement. Are the proposed requirements appropriate?*

We agree with IASB to recognize all tax effects in the income statement. Income taxes are not transactions with owners so they should not be reflected directly in equity.

*Question 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;*
- €€€€SFAS 123 encourages, but does not require, entities to apply its fair value measurement method to recognise 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 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.*

*(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 realised 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) We believe IASB proposed treatment is more appropriate. We refer to our answer to Question 1.

b) We support EFRAG's alternative approach proposed, which is a combination of the ED 2 and SFAS 123 method. We refer to our answers to Question 9, 10 and 13. The amount recognised for services received should not be subsequently reversed. However, the estimate of the possibility of forfeiture should be adjusted to reflect the actual conditions.

c) We believe neither IASB or FASB treatments are appropriate for unvested equity because, as we suggest in Question 18, the entity should not record for unrecognised future services and should only accounted for the compensation given. No further expense should be recognized for unvested equity.

d) We believe IASB proposed treatment is more appropriate.



e) We believe IASB proposed treatment is more appropriate.

f) We believe IASB proposed treatment is more appropriate to recognize the tax effects of the deduction of an employee remuneration expense in the income statement, as required under IAS 12.

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

We support the other comments raised by EFRAG, specially on the transfer of equity instruments to employees. We agree with EFRAG and disagree with BC 17 on the concept of receiving shares for nil consideration. Such a transaction should have a nil impact on the entity's income statement. The reacquisition should be treated as a grant and valued at fair value together with the recognition of the services received as expense, so that the net effect of the transfer of shares is nil for the entity.

We have additional comments:

- The standard does not give guidance on the component or type of equity possible to designate share-based payment. It may be helpful to require guidance from IASB on the designation within equity, since it is not covered by any standard.
- Editorial comments: We believe, in the definition of share-based payment arrangement (glossary), the verb "to receive" is missing before "equity instruments of the entity, provided the..."

We would be pleased to discuss any aspect of this letter you may wish to raise with us.

Yours sincerely,

David Devlin  
President