

March 7, 2003

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
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United Kingdom
VIA FAX 011 44 207 246-6411

Dear Sir David:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (Standing Committee No. 1) thanks you for the opportunity to provide our thoughts regarding Exposure Draft 2 Share-Based Payment.

IOSCO is committed to promoting the integrity of international markets by supporting the establishment of high quality accounting standards that are properly applied and rigorously enforced. Members of Standing Committee No. 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of financial reporting on a global basis. Our comments reflect a general consensus among the members of Standing Committee No. 1 and are not intended to include all the comments that might be provided by individual members on behalf of their respective jurisdictions.

We commend the IASB for undertaking this project to develop much-needed standards in an area that is not addressed currently in International Financial Reporting Standards and is not addressed satisfactorily in many national accounting standards. The accounting for issuance of stock, the granting of stock options and stock appreciation rights, and other forms of equity-based compensation granted to employees and others in return for the provision of goods or services is an important subject area. Investors need a high quality accounting standard that will ensure they receive relevant and reliable information that facilitates investment decisions.

Rather than inject the individual views of some or all members of Standing Committee No. 1 into the debate on particular technical aspects of the recognition, measurement and disclosure issues involved in share-based payments, we offer the following general comments:

- 1.) Share-based payments, whether to employees or non-employees, represent a form of compensation that should be recognized in the financial statements.
- 2.) A fundamental issue is whether amounts recognized in financial statements with respect to a share-based payment should be determined on a once and for all basis solely by reference to the facts

and circumstances known at the time of the agreement to make the share based payment, or whether the estimated value of the rights offered should be adjusted over time to take into account experience subsequent to the date of the original agreement.

- 3.) A high quality accounting standard should be neutral in the sense that it does not create incentives to use one form of share-based payment in preference to another because it creates a more favorable accounting result. In particular the standard should not penalize the use of performance-based options that many corporate governance experts argue are more consistent with soundly based compensation design.
- 4.) Another fundamental issue is whether a single model or method of valuing stock options should be prescribed, or whether reporting companies should be permitted to select from a range of possible methods the one considered most appropriate to the individual facts and circumstances. If the latter approach is followed, the Board should consider providing criteria that will guide the choice of method. In addition, the Board should consider the nature and extent of disclosure required.
- 5.) The Board should provide appropriate implementation guidance for valuation methods.
- 6.) As with any accounting standard, the Board should provide a comprehensive explanation of how the accounting model conforms to the IASB Framework.

In conclusion, we again commend the IASB for undertaking this critical project. The Board appears to be making good progress, and we offer the full support of securities regulators in moving the effort to a successful conclusion.

Sincerely,

Jackson M. Day, Chair
IOSCO Standing Committee No. 1