Smith & Williamson response – Share based payment (FRED 31)

The following sets out our responses to the questions raised by the ASB

1 *The ASB is proposing to require the adoption in the UK of a standard based on the proposed IFRS from the effective date in the IFRS (which is expected to be accounting periods beginning on or after 1 January 2004). Do you agree with this approach?*

Subject to the reservations set out below with respect to the application of the proposed standard to unquoted companies, we are in agreement with the proposal to introduce a standard based on the proposed IFRS into the UK. We acknowledge that for true comparability between entities making use of compensatory share based payments and those who do not there is a need for financial statements to reflect the cost of those share based payments. We also believe that it is important for the methodology of determining the cost to be applied consistently across capital markets.

2 *The IASB has concluded that its standard should apply to all entities. The ASB does not believe there are any conceptual or practical reasons why that conclusion should not apply equally in the UK. It is therefore proposing that all UK entities, other than those that are applying the FRSSE, should be required to prepare their financial statements in accordance with the proposed standard. Do you agree with this proposal?*

We have significant reservations with respect to the application of the proposed standard to unquoted companies. These are as follows:

- The principle underlying the proposals is that options granted to employees form part of their compensation and for this to be the case they must have a value. We have doubts as to whether share-based payments to the employees of unquoted companies have any 'real' value and are, therefore, not compensatory. In the case of a quoted company, in theory, an option could be sold and the employee might, if offered, be prepared to give value for it as part of an investment portfolio. In unquoted companies we consider it is unlikely that an employee would be prepared to give any value for the options when the same money could be invested in the market in general. We do not think that, in general, the employees of unquoted companies view options as part of their compensation due to the absence of any market in the employing company's shares.

- There are, in our view major issues in relation to the application of any option pricing model to the options of unquoted companies. The models are designed for quoted companies and the specific circumstances relating to an external market. The assumptions are not readily transferable to unquoted entities. There are particular difficulties with respect to the adjustments in respect of volatility.

- The disclosure requirements with respect to the assumptions made in determining the fair value would result in unquoted companies having to disclose a valuation of their shares. This information is both commercially sensitive and potentially damaging, particularly if the company is contemplating a sale of the business in the near future.

We also note the proposed exemption for UK entities applying the FRSSE, which is consistent with the exemption contained in all UK accounting standards. The process of updating the FRSSE usually incorporates the principles of new standards to the extent they are considered appropriate to smaller entities and does not, therefore, result in an automatic exemption for smaller entities. Whilst the incidence of share based payments is not wide-spread in these smaller entities, we would hope that those responsible for updating the FRSSE would not seek to impose the principles of any standard based on FRED 31 on smaller entities.

3 *The IASB has concluded that its standard should apply to all types of share-based payment transactions, including SAYE-type share purchase plans. The ASB does not believe there are any additional UK considerations that would justify a different conclusion being reached in the context of UK accounting. Therefore, like the IASB the ASB is proposing that the standard should apply to all types of share-based payment transaction. Do you agree with this proposal?*

We are in agreement with this proposal and see no reason to exempt any particular type of share scheme.

4 *The IASB is proposing that its standard should apply equally to all individual entity financial statements and consolidated financial statements, regardless of whether for example the reporting entity is a wholly-owned subsidiary of a group that prepares consolidated financial statements or a parent company that also prepares consolidated financial statements. The ASB does not believe there are any additional UK considerations that would justify a different conclusion being*

reached in the context of UK accounting and is therefore proposing to adopt the same approach as the IASB. Do you agree with this proposal?

We are in agreement with this proposal and see no reason to adopt a different position in the UK from that contained in any International Standard.

5 *The ASB is proposing that, when the share-based payments standard is implemented in the UK, the ASB should withdraw UITF Abstract 10 'Disclosure of directors' share options' (if it has not already been withdrawn by then), UITF Abstract 13 'Accounting for ESOP Trusts', and UITF Abstract 17 'Employee share schemes'. It also acknowledges that consequential amendments may need to be made to UITF Abstract 32 'Employee benefit trusts and other intermediate payment arrangements'.*

(a) Will these amendments to existing UK requirements be sufficient to enable entities to adopt the proposed standard without being in breach of an existing requirement?

We have concerns that UITF Abstract 13 covers areas of accounting which are not dealt with within FRED 31. Firstly it deals with the recognition of the assets and liabilities of the employee share trust within the accounts of the reporting entity. We note that this area is dealt with within the proposed amended IAS 32, but unless that standard applies before or at the same time as the standard on share based payments, there would be a gap in UK accounting.

Secondly, we note the comments of the ASB in paragraph 60 to the preface to FRED 31 with respect to the guidance contained within UITF Abstract 13 on the application of FRS 5 to ESOPs. FRS 5 is a standard which has made a valuable contribution to the quality of UK accounting and is one for which there is no international equivalent. We would be concerned at the loss of any reference to FRS 5 in this context.

An alternative approach might be to expand the scope of UITF 32 to explicitly cover ESOPs.

(b) Are any of the amendments unnecessary for this purpose?

Subject to our comments above, we do not consider any of the amendments to be unnecessary.

6 *The FRED proposes that entities should be required to apply the requirements of the standard to equity-settled share-based payment transactions that were granted*

after the publication date of the FRED but had not vested at the effective date of the standard. Full retrospective application would not be permitted (unless it can be achieved through early adoption) and nor would prospective application. Do you agree with this proposal?

(IASB Question 22 also focuses on the transitional requirements set out in the proposed standard.)

We consider that comparability between reporting entities is essential and, therefore, fixing a date after which application will be required is vital. The fact that the date of the FRED coincides with the date of ED2 should maximise comparability. Our main concern is the possibility of implementation of a standard based on FRED 31 being delayed beyond 1st January 2004. The proposals have excited considerable comment – both positive and negative and analysing and resolving the very different views expressed could take some time, potentially delaying the issue of a standard. In addition, whilst there are many similarities with the US standard, FAS 123, there are also a number of differences. Given the US are also seeking alignment with IAS, this could result in further changes to the IAS. We are aware that the ASB have indicated they will only introduce an IAS into the UK when they are satisfied it will not undergo further changes. This could be another factor in delaying introduction of the standard.

If the period between implementation and the date of the exposure draft is too great there could be a considerable burden on companies in carrying out retrospective calculations. In the event of a delay in introducing the new accounting standard, an alternative date would be more appropriate. The most appropriate date would probably be based on some anniversary of the date of the exposure draft (three months, six months or whatever appears to be an appropriate date).

The following sets out our responses to the questions raised by the IASB

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 agree that it is appropriate for the standard to apply to all share based payments. As set out in our response to question 2 raised by the ASB, we have significant reservations as to the application of the proposed standard to unquoted entities

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 are in agreement with the principle that there should be recognition of compensatory share-based payment transactions. It is important that financial statements reflect the full cost of supplying goods or services. Share based payments have become an increasingly common method of paying for goods and services, in particular employment through the use of share option schemes. However, they are not used to the same extent by all organisations making it difficult to compare performance between those companies who use them widely and those who do not use them or use them to a lesser extent. On balance, the proposed standard will considerably improve comparability.

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 the principle that fair value to the recipient is the most appropriate measure for share-based payments. See our response to ASB question 2 and our reservations as to the applicability to unquoted companies.

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 consider that this is the most appropriate date at which fair value should be measured as it reflects the conditions in existence at the date the goods are received or services are rendered.

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 consider that this is the most appropriate date at which fair value should be measured.

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 generally agree that the fair value of the goods or services are usually more readily determinable as there will usually be a market price for the goods or services.

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 not so?

We agree that the fair value of the equity instrument is more readily determinable than the value of the employees' services. Whilst there will be agreed wage or salary rates for employees, the nature of equity-settled transactions is more akin to a discretionary bonus and, as such, cannot be measured directly by reference to agreed wage and salary rates.

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 consider that it is reasonable to presume that the services rendered are received during the vesting period.

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?

We consider that this is an appropriate way to perform the calculations.

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 are in agreement with this proposal as a subsequent adjustment to total equity implies an adjustment to revenue which would not be within the spirit of the proposed standard. We do, however, consider that there should be more guidance as to the components of equity to which it would be appropriate to make the transfer. It may, however, be more appropriate to leave individual standard setters to provide this guidance in order to take account of differences in national legal structures.

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 consider that an option pricing model is the most appropriate method to estimate the fair value at least for quoted companies. We do, however, consider that there are significant issues attached to applying an option pricing model to unquoted companies. In respect of quoted companies certain components of the model will be able to be determined by reference to market statistics. However, in the case of unquoted companies, if the standard is to be applied, there will be considerable subjectivity in determining all of the components of the model. Accordingly, it must be questioned whether the application of a complex (and expensive) model will result in more meaningful information in the accounts than if a simpler approach was adopted.

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 accept that, in theory, use of expected life better reflects the nature of a non-transferable option subject to valuation. There are, however, practical difficulties in determining the expected life and use of the earliest possible date may result in a more consistent application. In practice, it is probable that most entities will take the earliest date as the expected life.

We consider that the proposed requirements for taking into account the inability to exercise the option during the vesting period are appropriate.

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?

We agree that vesting conditions should be taken into account when estimating the fair values of options or shares.

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 consider that it is appropriate to take into account reload features as the fair value must reflect all aspects of the option.

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?

Non-diversification on the part of the individual investor.

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 the absence of prescriptive guidance is consistent with the principles-based approach. We do, however, consider that the requirements of the proposed standard involve the use of more complex estimation techniques than those previously seen in accounting standards. They also require the management of entities required to apply the standard to understand concepts and techniques which will be new to most of them. In this context we consider that it would be appropriate for the standard to include as an appendix (but not forming part of the standard) an explanation of the principles underlying option pricing models and the meaning of the major assumptions.

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, ie 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 that the incremental value should be taken into account in order to reflect the true fair value of the services being provided.

We consider that the second method illustrated in Example 3 (average value) is more appropriate as it better reflects the value of the services provided over the remaining period.

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 do not consider that it is appropriate to continue to recognise the services rendered by the counterparty in the remainder of the vesting period. The purpose of the proposed standard is to reflect the cost of the services being provided by reference to the value of the consideration given. If the share or option is cancelled this would, by implication, mean that the consideration had no value. In addition, employees might well be compensated for the cancellation of the option in other ways (e.g. increased salary) and this would result in the value of the service being double-counted.

The exposure draft is also silent on whether or not the amounts already charged to profit and loss are a permanent reduction in distributable profits or whether a transfer can be made back to reserves. It would seem that in these circumstances the company has incurred no cost and the employee gained no benefit and, therefore, there is no overall effect on distributable profits.

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 consider that these requirements are appropriate and consistent with the requirements of IAS 37.

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 consider that this is an appropriate way to deal with these options as it most closely reflects the substance of the transactions.

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 consider that the disclosure requirements are in general adequate. We do, however, have significant concerns about the disclosure of the assumptions used to determine fair value in the accounts of unquoted companies. If the standard is to be applied to all entities, there should be an exemption for unquoted companies from the disclosure of share price information.

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.

See answer to ASB question 6 above

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 consider these amendments are appropriate. It should be noted, however, that some jurisdictions may treat the expense as allowable for tax at a date earlier than that suggested in the example.

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).*

Please see our responses above with respect to the applicability of the proposed standard to unquoted companies. The use of minimum value could be an appropriate compromise for unquoted companies.

(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.*

We consider that the proposals in the IFRS are more appropriate as they take into account one of the specific risks attached to employee share options – the possibility that they will not be exercised.

- *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.*

We prefer the approach adopted by the IFRS as we consider it gives a better reflection of the service cost of the employees concerned.

(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.

We consider that the US approach is more appropriate as it reflects the cost of the services supplied by reference to the actions of the employer.

(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.

We consider that grant date is more appropriate and will give a more consistent presentation.

(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).

We consider that fair value is more appropriate and consistent with treatment within the remainder of the standard.

(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.*

We consider that the approach proposed in the new IFRS are preferable as we do not consider that the tax benefits represent an additional amount of equity.

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.[1]

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

We consider that any new accounting standard should include further guidance on the accounting treatment of the 'credit' entries involved in the accounting. At present the only guidance is to say that the entry goes to equity. No suggestions are given as to the description of any such account. Whilst varying legislation means that it may be more appropriate to be dealt with by local standard setters we consider it essential that this guidance be included.

1 In the IASB's Invitation to Comment, it points out that "further details of the differences between the draft IFRS and SFAS 123 are given in the FASB's Invitation to Comment."