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Forwarded by e-mail to: CommentLetters@iasb.org.uk

Dear Ms Crook

Request for Comment on IASB ED 2 Share-based Payment

Thank you for the opportunity to provide comments on the above Exposure Draft. We have also provided comments to the Australian Accounting Standards Board (AASB).

In general, the Australian Bankers Association (ABA) supports the concepts proposed in IASB ED 2, however, there are several issues we believe need to be addressed.

1. Methodology of recognising expense in profit and loss account

Where there is no direct measure of fair value of an employee share-based payment, the draft standard 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).

We believe the proposed requirements:

- may result in an entity incurring more (or less) expense over the total vesting period, than the estimated fair value of the equity instruments at grant date when it is questionable that the entity has received correspondingly more (or less) service.
- add a further level of judgement to the total fair value calculation that already includes a considerable degree of judgement and subjectivity in calculating the value of the equity instrument using an option pricing model;
- will be burdensome due to the added level of record keeping and calculation required; and
- may not result in a materially different result to using a straight-line basis where there is historically a low level of attrition through resignation.

We acknowledge the draft standard places a greater level of importance on the objective to account for services rendered rather than to account for the fair value of the equity instruments granted. We believe the objective should be to reliably measure the fair value of the equity instruments granted as this represents the best surrogate for the value of the compensation. Differences in the pattern of consumption of services should only result in differences to the timing of the expense recognised, not the total amount of the expense recognised.

For this reason, we recommend the entity determine the method of allocation as one that best reflects the pattern of consumption of the services acquired. Such an approach would be consistent with that applied when determining depreciation of plant and equipment. For example, in some cases the units of service method may be appropriate while in others a straight-line allocation may be appropriate.

We recommend that the standard explicitly permit reporting entities to use a straight-line basis of expense recognition where they can demonstrate historically low levels of staff attrition.

2. Vesting period

The draft standard provides little, if any, guidance on the practical application of determining the vesting period over which the share-based payment expense should be recognised.

The draft standard does not directly specify whether the period for recognition of the expense is the maximum period over which the vesting conditions may be satisfied or the period over which it is probable that the vesting conditions may be met.

The draft standard requires that for non-transferable options, the options' expected life rather than its contracted life shall be used in applying an option pricing model (paragraph 21). Logic would suggest the expected life of the option is the appropriate period over which the fair value of the share-based payment expense should be recognised, as this is the period over which the entity expects to receive the economic benefit from the employee. The draft standard in its present form could potentially allow an entity to recognise the expense over the contract life of the option while using the expected life of the option in the option pricing model calculation. We do not believe this is the intention of the draft standard.

We recommend the draft standard be clarified to assist practical application when determining the vesting period over which the share-based payment expense should be recognised. We also believe this will encourage consistency of application and reduce the potential for inappropriate application of the standard.

3. Grant date

The draft standard proposes (paragraph 8) that fair value of a share-based payment transaction should be measured at the date when the entity obtains the goods or services where the fair value of the goods or services received is measured directly. If the fair value of the goods or services received is measured indirectly, the draft standard prescribes that the measurement shall be performed at grant date. We do not support this mixed approach and believe that the fair value of the goods or services received should consistently be measured at grant date (i.e. contract date), which is the date when the two parties agree on the value of the goods or services to be provided. Such a true grant date model is consistent with the measurement basis of other executory contracts and is consistent with the conceptual framework under both Australian and International GAAP.

4. Disclosures

The draft standard 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.

In addition to these disclosure principles, the draft standard sets out detailed disclosure requirements. While we support the disclosure principles, we believe the minimum disclosure requirements set out are very detailed and burdensome and may obscure the key information being communicated to users of financial statements. We believe the disclosures should concentrate on the key factors and principles on which the estimated amounts are most sensitive to, particularly if they relate to an assumption that is essentially subjective. This approach, while reducing the burden on preparers, would also mean users of the financial statements are able to clearly understand the key factors impacting the calculations. In our view, the objective should not be for users to check the calculations. We believe it would be more appropriate to treat paragraphs 46, 48 and 52 as illustrative of the type of disclosure needed to meet the requirements set out in the principle paragraphs of 45, 47 and 51.

We also believe the following disclosures set out in paragraph 48 should be deleted or amended:

- Paragraph 48 (a)(iv) – amend to read: "….any other key inputs to the model."
- Paragraph 48 (a)(ii) – delete
- Paragraph 48 (a)(iii) – delete
- Paragraph 48 (a)(iv) – amend to read: "the key assumptions made…"

The following are our responses to the requests for comment made by the IASB.

SPECIFIC MATTERS FOR COMMENT – 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 with the proposed scope for the reasons given in the Basis for Conclusions.

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 proposed recognition requirements for the reasons given in the Basis for Conclusions.

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 proposed measurement principle for the reasons given in the Basis for Conclusions.

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 do not agree that the delivery (service) date is the appropriate date at which the fair value of the goods or services received should be measured. Depending on whether the fair value of the goods or services received is measured directly or not, the draft standard prescribes that the measurement shall be performed at delivery (service) date or grant date, respectively. We do not support this mixed approach and believe that the fair value of the goods or services received should consistently be measured at grant (i.e. contract) date, which is the date when the two parties agree on the value of the goods or services to be provided. Such a true grant date model is consistent with the measurement basis of other executory contracts and is consistent with the conceptual framework under both Australian and International GAAP.

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 that grant date is the appropriate date at which to measure the fair value of the equity instruments granted for the reasons stated in 4 above and those given in the Basis for Conclusions.

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 deteminable than the fair value of the equity instruments granted? In what circumstances is this not so?

   We 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 and support the existence of a rebuttable presumption.

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 that the fair value of the equity instruments granted is in the majority of situations more readily determinable than the fair value of the employee services received. We understand that some are of the view that this basis is too restrictive and that some entities start from the total remuneration of an employee when allocating the value of share-based payments. However, we believe providing such an alternative in the standard may open valuation to abuse and may lead to inconsistent valuation techniques and non-comparability between entities.

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 do not believe it is always reasonable to presume that the services rendered by the counterparty as consideration for the equity instruments are received during the vesting period. There may be instances where a grant for past performance will have additional vesting conditions (which may be tax driven), such as remaining in employment by the relevant entity during the next three years. In such a case, we believe that the service has been substantially received and therefore should be recognised at grant date.

   We recommend that paragraph 14 be amended so that it requires consideration of the substance of the share-based payment transaction in order to determine whether the services of the counterparty have been substantially received or not. If the vesting depends solely on future performance, we agree that it is reasonable to presume that the services rendered by the counterparty 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 do not 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.

   We believe the proposed requirements:

   - may result in an entity incurring more (or less) expense over the total vesting period, than the estimated fair value of the equity instruments at grant date when it is questionable that the entity has received correspondingly more (or less) service.
   - add a further level of judgement to the total fair value calculation that already includes a considerable degree of judgement and subjectivity in calculating the value of the equity instrument using an option pricing model;
   - will be burdensome due to the added level of record keeping and calculation required; and
   - may not result in a materially different result to using a straight-line basis where there is historically a low level of attrition through resignation.

We acknowledge the draft standard places a greater level of importance on the objective to account for services rendered rather than to account for the fair value of the equity instruments granted. We believe the objective should be to reliably measure the fair value of the equity instruments granted as this represents the best surrogate for the value of the compensation. Differences in the pattern of consumption of services should only result in differences to the timing of the expense recognised, not the total amount of the expense recognised.

For this reason, we recommend the entity determine the method of allocation as one that best reflects the pattern of consumption of the services acquired. Such an approach would be consistent with that applied when determining depreciation of plant and equipment. For example, in some cases the units of service method may be appropriate while in others a straight-line allocation may be appropriate.

We recommend that the standard explicitly permit reporting entities to use a straight-line basis of expense recognition where they can demonstrate historically low levels of staff attrition.

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 this proposed requirement and believe the transaction should not be subsequently remeasured. We also support that the requirement does not preclude the entity from recognising a transfer within 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 applied to estimate the fair value of options granted where market prices are not available. We are not aware of any 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.

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 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. The proposed requirement for taking into account the inability to exercise an option during the vesting period is 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 value of options or shares granted. We recommend that further guidance be provided in the standard for determining the vesting period. This would facilitate practical application, particularly where there are multiple vesting periods.

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 the IASB proposal for the reasons given in the Basis for Conclusions.

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 are not aware of any other common features of employee share options for which the proposed standard should specify requirements.

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 support this approach.

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 that if an entity reprices a share option, or otherwise modifies the terms or conditions on which equity instruments were granted, it should measure the incremental value granted upon repricing and include that incremental value when measuring the services received during the remainder of the vesting period (i.e. prospectively). We believe that the alternative method illustrated in example 3 of Appendix B is the most appropriate method. Under this method, the total expense of the services received is more accurately matched with the periods in which the service is actually received (ie. year 3 and 4 in example 3).

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 believe the proposed requirements are appropriate. In addition, we recommend that the explanation provided in the Basis for Conclusions (BC 220) be included in paragraph 29(a) as further guidance. BC 220 states that it is considered very unlikely that a share or option grant would be cancelled without some compensation to the counterparty, either in the form of cash or replacement options. A requirement to continue to account for a transaction that no longer exists would be considered highly unusual and inappropriate.

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 believe the proposed requirements are appropriate.

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 believe the proposed requirements are appropriate.

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)?

While we support the disclosure principles set out in paragraphs 45, 47 and 51, we believe the minimum disclosure requirements set out are very detailed and burdensome, but might also obscure the key information being communicated to users of financial statements. We believe the disclosures should concentrate on the key factors and principles on which the estimated amounts are most sensitive to, particularly if they relate to an assumption that is essentially subjective. This approach, while reducing the burden on preparers, would also mean users of the financial statements are able to clearly understand the key factors impacting the calculations. The objective should not be for users to check the calculations. We believe it would be more appropriate to treat paragraphs 46, 48 and 52 as illustrative of the type of disclosure needed to meet the requirements set out in the principle paragraphs of 45, 47 and 51.

We also believe the following disclosures set out in paragraph 48 should be deleted or amended:

- Paragraph 48 (a)(iv) – amend to read: "….any other <u>key</u> inputs to the model."
- Paragraph 48 (a)(ii) – delete
- Paragraph 48 (a)(iii) – delete
- Paragraph 48 (a)(iv) – amend to read: "the <u>key</u> assumptions made…"

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 believe the proposed requirements are appropriate.

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 believe the proposed requirements are appropriate.

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.

We believe the proposed treatments by the draft IFRS is the most appropriate with respect to the above differences.

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

In addition to the specific matters for comment, the AASB also requested comment on certain items. We reproduce our response, below, for your reference.

(a) whether the proposed interim restriction of application to share-based payments for employees (until the Australian equivalents of the other IASB Standards become operative) is appropriate and workable;

We believe the proposed interim restriction of application to share-based payments to employees is appropriate due to the further harmonisation required of certain accounting standards. In addition, we believe the proposed accounting for share-based payment transactions for employees is workable within current Australian GAAP, subject to the issues we have highlighted in this letter.

(b) whether the consequential dual application of the Australian standard and AASB 1028 Employee Benefits for the interim year is too onerous or whether the relevant parts of AASB 1028 should be amended? If amendment is favoured, should AASB 1028 be re-issued or would it be sufficient to incorporate an interim 'override' in the new standard on share-based payment;

We believe the dual application of AASB 1028 and the proposed standard would mean a duplication of disclosure requirements for aspects of employee share option plans and would therefore be onerous to preparers of financial statements identifying any inconsistencies and ensuring compliance with both standards. We believe an interim 'override' in the new standard would be appropriate. As the adoption of the relevant IASB standard is anticipated to occur in a relatively short period of time after the application of the share-based payment standard, we do not consider that reissue of AASB 1028 is warranted.

(c) whether the date of measuring the fair value of equity instruments proposed in ED 2, grant date, should be used as the measurement date for disclosures of equity compensation proposed in ED 106 Director, Executive and Related Party Disclosures, instead of vesting date (as proposed in ED 106);

We believe measuring the fair value at grant date as proposed in ED 2 should be used in ED 106 Director, Executive and Related Party Disclosures to ensure consistency of disclosures and measurement method. We support the use of grant date as the appropriate measurement date for the reasons provided in the Basis for Conclusions.

(d) whether the method of determining the expense related to unvested equity-settled share-based payment transactions to be recognised in an accounting period (based on units of service received times the expected value for units of service expected to be provided during the vesting period) is an appropriate method for determining the amount of equity compensation (as an element of remuneration) of an individual to be disclosed as proposed in ED 106 (in ED 106 Part 1, it is proposed that disclosure in respect of each director and specified executive of a disclosing entity be based on vesting date);

In general, we support the proposed method of determining the expense related to unvested equity-settled share-based payment transactions to be recognised in an accounting period. We also believe it appropriate that this method be used for determining the amount of equity compensation of an individual to be disclosed, to ensure consistency.

(e) whether the proposals are in the best interests of the Australian economy;

We support the general principles of the proposed standard and believe the proposals are in the best interests of the Australian economy.

(f) any issues relating to not-for-profit entities, including public sector entities, that may affect the implementation of the proposals; and

We are not aware of any issues.

(g) any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals.

Taxation:

It is our understanding that the recognition of share options as an expense may lead to the tainting of share capital for taxation purposes. We strongly believe that this issue must be resolved or further clarified before implementation of the standard.

It is also our understanding that share options expense may not be an allowable income tax deduction. We strongly believe that this issue must be resolved or further clarified before implementation of the standard.

Transitional rules on introduction:

The draft standard is proposed to apply in Australia to employee share-based payments for reporting periods beginning on or after 1 January 2004. Where comparative information is presented for the previous period(s), the draft Australian standard would need to be applied in presenting information for those comparative years. As a number of banks in Australia are US SEC registrants, they are required to provide two years of comparative information in their financial statements on the same basis as the year being reported, which is an onerous requirement.

Further, the AASB has not yet proposed transitional rules on how the initial effect of the proposed standard will be reflected in Australian financial statements. Normally, new standards in Australia require the initial effect to be adjusted against opening retained profits in the year the standard is adopted. Under IAS, the approach is different, with the comparative years being restated to accord with the presentation requirements of the new standard, with an adjustment to the earliest year's comparative retained profits.

We recommend the AASB incorporate the current Australian approach to transitional adjustments, which do not require restatement of comparatives, which will ease the onerous requirement to produce comparative financial information for two preceding financial years for Australian entities that are US registrants.

If you have any questions, or would like to discuss further, please don't hesitate to contact me.

Yours sincerely

Louise Thomson
Chairman, ABA Accounting Committee