CL 197

Ms K Crook
Project Manager
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

25 March 2003

Dear Ms Crook,

Comments on ED 2 'Share-based payment'

We regret that we were not able to send this letter by the due date of 7th March. Nevertheless, we would like to take the opportunity to provide our comments on Exposure Draft 2.

The appendix attached to this letter provides responses to the questions set out by the International Accounting Standards Board in its invitation to comment on ED 2.

Yours sincerely,

Mr PF Blackburn
Corporate Financial Controller
GlaxoSmithKline plc

IASB 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?

Response

The proposed scope is appropriate with respect to the transactions included. However, we do not believe that the IFRS should apply to the separate financial statements of wholly-owned subsidiaries which are members of a group whose consolidated financial statements apply with the IFRS. As the subsidiary is not the issuer of the equity instruments, it is inappropriate for that entity to recognise an expense. Nor do we believe that the IFRS should apply to parent company financial statements where the parent company complies with the IFRS in its consolidated financial statements. Whilst the parent company is often the issuer of the equity instruments it may not be the employing company for which services are received.

There is no guidance on the accounting for 'parent-subsidiary share-based payment arrangements' in the ED. We would comment that, if the IFRS is to apply to all individual entity financial statements, guidance on the accounting entries for parent-subsidiary arrangements should be provided within the IFRS to assist preparers of financial statements.

IASB 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?

Response

The recognition requirements are appropriate.

IASB 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?

Response

We agree that fair value is the appropriate measurement principle. We also agree that, in the interests of comparability, there should be no exemptions from the requirement to measure at fair value.

***IASB 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?

Response

We do not agree that the delivery (service) date is the appropriate date at which to measure the fair value. We believe that the grant (contract) date should be used in order to be consistent with the measurement date used for those equity-settled share-based transactions measured indirectly.

IASB 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?

Response

We agree that grant date is the appropriate date at which to measure the fair value of equity instruments granted.

IASB 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?

Response

We agree that, for equity-settled transactions with parties other than employees, the fair value of the goods or services received is usually more readily determinable.

IASB 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 not so?

<u>Response</u>

We agree that for the majority of equity-settled transactions with employees the fair value should be measured by reference to the fair value of the equity instruments granted as this is usually more readily determinable and in many cases no employee service is received in return for the grant of the equity instrument. However, companies may offer part of the employee's salary in the form of share options or cash. Provided it can be demonstrated that the choices given are genuine alternatives (ie some employees do take the cash alternative), in such circumstances the value of the cash foregone may be a better indicator of the fair value of the options granted. We would therefore recommend that there be a rebuttable presumption, rather than an absolute assumption, that the fair value of the equity instruments granted is more readily determinable than the fair value of the employee services received.

IASB 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?

<u>Response</u>

In principle we do not agree that all employees render services as consideration for equity instruments. Many employees will render the same service whether equity instruments are awarded or not. However, accepting that the standard is based on this premise, we agree that, in general, the services rendered by the counterparty as consideration for the equity instruments are received during the vesting period. However,

this may not be appropriate for all circumstance and we would therefore recommend that this be a rebuttable presumption, allowing scope for an alternative phasing of the charge to profit or loss where appropriate. In other instances specific cases may require special treatment. For example, options may be given to employees as reward for past service. Where there is a vesting period, a proportion of the total charge should certainly be spread over this period in recognition of the risk that the employees will leave before the options vest, but it may also be appropriate to charge an element to profit or loss immediately on grant.

IASB 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?

<u>Response</u>

We believe that it is appropriate to charge the cost to profit or loss in line with units of service, and to attribute a fair value to each expected unit of service. However, the proposed method of calculating the actual number of units of service received is unduly onerous. The method also produces an anomaly in that the total expense charged to profit or loss over the vesting period is not trued up to reflect the actual units of service received. A simple alternative method would be to amortise the fair value of the options granted over the vesting period on a straight line basis, trued up at each reporting date for the actual units of service

received. Another more workable alternative would involve treating option lapse data as a substitute measure for units of service received (see our response to question 25).

IASB 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?

<u>Response</u>

We agree with the proposed treatment but as referred to in IASB Question 9 there is an anomaly in that the expense charged to profit or loss is never trued up. We would propose that, during the vesting period, there should be a truing up at each reporting date for the adjustment to equity.

IASB 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?

Response

As discussed in IASB Question 7 we believe that there should be a rebuttable presumption that the fair value of the equity instruments granted is more readily determinable than the fair value of the employee services received if, indeed, any service is actually received. Where the presumption holds, we agree that the option pricing model should be applied to estimate the fair value of options granted.

IASB 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?

Response

We agree that it is appropriate to use the option's expected life and to take account of any inability to exercise an option during the vesting period when applying an option pricing model.

IASB 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?

Response

We agree that vesting conditions should be taken into account. However we do not agree with the proposed approach of estimating the probability of vesting at the time of grant with no subsequent truing up, particularly if the vesting conditions comprise performance conditions. The process of estimating the probability of achieving performance conditions is subjective. An alternative approach would be to assess at each reporting date whether the performance conditions would have been achieved as if that was the end of the measurement period and to measure the charge for that period accordingly. If this approach were adopted, no retrospective adjustment to this charge should be made in future periods for subsequent changes in expectations of achieving the performance conditions.

IASB 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?

Response

We agree that the proposed requirement is appropriate.

IASB 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?

Response

In some cases, performance conditions are rolled over and re-tested if they are not achieved in one period. If the approach we propose in response to question 13 were to be adopted, guidance would be needed in this area.

IASB 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?

Response

We agree that a principles-based approach is appropriate.

IASB 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, 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?

Response

We agree that the incremental value granted should be taken into account when measuring the services received. Of the two methods presented we prefer the more straightforward method in which the incremental value granted on repricing is treated as a new option grant over the alternative approach set out in Example 3 in Appendix B.

IASB 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.

Response

We do not agree with the proposed approach. Where an entity cancels a share or option grant we believe that it is incorrect to continue to record a charge for the services received as no further value is exchanged.* **If** *the entity makes a cash payment to cancel shares or options granted, then any incremental value associated with the cash payment should be charged immediately to profit or loss.

IASB 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.

Response

We agree with the proposed treatment.

IASB 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.

Response

We agree with the proposed treatment.

IASB 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)?

<u>Response</u>

We do not agree with the extent of the proposed disclosures. The extensive disclosures required are not appropriate given that an accounting charge is to be recognised in the financial statements of entities. We also believe that certain of the required disclosures add little value to the understanding of the charge to users of the financial statements. For example:

- ***the requirement to disclose the weighted average market price of options exercised during a period.***

- ***the requirement to disclose, for cash-settled share-based payment transactions, the portion of the expense recognised for the period that is attributable to the transaction having been measured as a cash-settled transaction rather than as an equity-settled transaction.***

- ***the requirement to disclose commercially sensitive information (such as the estimated probability of meeting performance conditions).***

IASB 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.

<u>Response</u>

We would prefer to adopt the IFRS with full retrospective application in order to preserve the comparability of trend data in financial statements. We acknowledge that it may not be possible for all entities to obtain retrospectively all the information required, so we suggest that full retrospective application be permitted as an alternative to the transition arrangements in the IFRS, but not mandated. Full retrospective application would necessitate making assumptions regarding expected units of service and option life at a grant date in the past, but we do not believe that the accounting would be invalidated in any way by use of expected values derived with the benefit of hindsight.

Furthermore, in the interests of worldwide convergence of accounting practice and of encouraging a "level playing field", we believe it may be appropriate to delay implementation of the IFRS until recognition of share-based payments in profit or loss is implemented as a mandatory rather than voluntary requirement in the USA. We would therefore ask the IASB to encourage the FASB to add this topic to its agenda under the current joint convergence programme of international and US GAAP.

IASB 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?

<u>Response</u>

We agree with the proposed requirements.

IASB 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.[1]

Response

(a) We agree that there should be no exemption from the proposed standard, except as outlined in our response to question 1 with regard to wholly-owned subsidiaries and parent companies of groups whose consolidated financial statements are prepared in accordance with the IFRS.

(b) We broadly agree with the approach as set out by the proposed standard, and we support the approach that the cost charged should not be reversed as a result of subsequent forfeiture of the equity instrument.

However, we are of the opinion that the accounting charge to the profit and loss account should be trued up at the end of each reporting period for the actual number of units of service received

[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."

(or similar measure). We also believe that the requirement to calculate total cost as the number of units of service received during the vesting period multiplied by the deemed fair value per unit of service is unduly onerous (see our response to question 25 below).

(c) ***We do not agree with the approach adopted in SFAS 123 or the approach in the IFRS. Please see our response to question 18.***

(d) ***We agree that the fair value should be measured at grant date.***

(e) ***We agree with the proposed treatment, but seek guidance as to how the fair value of the cash-settled appreciation rights should be calculated. In particular, we assume that the expected life of the SARs should be reduced at the end of each reporting period, but this is not clearly stated in the draft IFRS.***

(f) ***We agree with the proposed treatment.***

IASB Question 25

Do you have any other comments on the Exposure Draft?

Response

As set out in our response to question 9 we believe that the proposed method of calculating the cost based on units of service received in consideration for share-based payments to employees is unduly onerous. The administrative requirements of tracking employee movements in conjunction with options are substantial and we believe the costs to exceed the benefits. However, we do support the view articulated in the Board's basis of conclusions that the fair value of the options granted is in consideration for the units of service to be received from employees.

An alternative approach would be to use the number of options granted to employees as a measure of the units of service to be received. The actual number of units of service received over the vesting period would therefore equate to those options granted that do not lapse prior to vesting. The information for this is readily available from existing options' databases and would avoid the considerable administrative

burden of matching options data to employee numbers and movements. This method would produce results consistent with that of the proposed standard but avoid certain anomalies that do arise.

Under the proposed method the fair value is determined by taking into account the expected forfeiture of options due to employees leaving. There is a clear assumption here that once an employee leaves their options are forfeited. However, if the employee is deemed a 'good leaver' the options remain exercisable following their departure. Under the IFRS, no further charge would be recognised for these options even though the entity has determined that the level of service provided by the employee was sufficient to continue to receive the benefit of the options. By using the number of options granted as a measure of the units of service to be received, the company would continue to receive an appropriate charge for options held by good leavers.

Another anomaly arises under the proposed approach in respect of certain all-employee savings-related share plans commonly provided in the UK. Under these plans an employee makes regular savings over the vesting period in order to purchase the employing entity's shares at a discount to the share price at the date of grant at the end of the vesting period. Such plans are typically offered each year, but the amount an employee may save in total is restricted. An employee may elect to come out of one plan in order to save the maximum monthly amount in a later plan. In such circumstances the employee receives back the amount of savings invested to date and starts a new savings contract. As the employees have not left the company, and this is not a modification to the terms and conditions of the plan, under the IFRS as currently drafted there would still be a charge to profit or loss over the remaining vesting period for employees no longer within the original plan. If the share price were to continue to fall, there is potential for a treble charge to arise for the same units of service (assuming a three-year vesting period), as the employee twice leaves a yearly plan in order to invest in a later plan with a more attractive exercise price. By using the number of options outstanding as a measure of continuing units of service, once the options had lapsed as a result of the employee leaving one plan, no further charge would arise for that plan. If the employee joined another plan year, this would be treated as a new grant and the associated fair value would then be charged over the vesting period of this plan.

Accordingly, the potential for a double or even treble charge for the same units of service would not arise.

We therefore seek clarification from the Board as to whether it would be acceptable to use the number of options lapsing as a measure of units of service ceasing to be received, as an alternative to tracking employees leaving the entity.