CL 202

LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA
MALAYSIAN ACCOUNTING STANDARDS BOARD

28 March 2003

The Chairman
International Accounting Standards Board
30 Cannon Street
LON DON EC4M 6XH
U ITED KINGDOM

Dear Sir David,

IASB ED 2, SHARE BASED PAYMENT

The Malaysian Accounting Standards Board (MASB) is pleased to provide its comments on IASB Exposure Draft 2, Share Based Payment, as set out in the accompanying pages.

The Board hopes that the IASB will find the comments useful in their deliberation to finalise the Standard.

We thank you for the opportunity to give our comments.

Yours sincerely.

Raja Arshad-Uda
Chairman

Question 1

Paragraphs 1-3 of the draft IFRS set out the proposed scope of the IFRS. There are no proposed exemptions, apart from the transactions within the scope of another IFRS. Is the proposed scope appropriate? If not, which transactions should be excluded and why?

Yes, the MASB supports the proposal that there should be no exemptions to the Standard except for those transactions within the scope of another Standard is appropriate.

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 appropriate?

Yes the proposed recognition requirements are appropriate.

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 approximate

Yes, the measurement principle is appropriate.

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 gross 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?

Yes the proposed date is appropriate

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 no at which date should the fair value of the equity instruments granted be measured?

Ye the proposed date is appropriate.

Question 6

For equity-settled transactions with parties other than employees, the draft IFRS poses a rebuttable presumption that the fair value of the goods or services received is ore readily determinable than the fair value of the equity instruments granted (paragraph 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?

Yes

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 received? Are there any circumstances in with this is not so?

Yes

Paragraphs13 and 14 of the draft IFRS propose requirements for determining when the 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 counter party as consideration for the equity instruments are received during the vesting period? If not, when are the services received, in your view?

Yes

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 be 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 served during the vesting period (paragraph 15). Do you agree that if the fair value of equity instruments granted is used as a surrogate measure of the fair value of these 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 service expected to be received during the vesting period? If not, what alternative method do you propose?

The MASB has no objection to the proposal

Question 10

In an equity-settled share-based payment transaction, the draft IFRS proposes that having recognised the services received and a corresponding increase in equity, the equity should make no subsequent adjustment to total equity, even if the equity merits 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 recognizing 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?

The MASB has no objection to the proposal.

Question 11

Do you agree that an options pricing model should be applied to estimate the fair value of s granted? If not, by what other means should be fair value of the options be estimated? Are there circumstances in which it would be appropriate or impracticable to into account any of the factors listed above in applying an option pricing model?

Yes, However, the MASB suggests that the IASB undertakes a field test of the practicality of the use of the options pricing models for non-listed companies in both developed as well as developing countries,

Question 12

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 no, do you have an alternative suggestion?

Is e proposed requirement for taking into account the inability to exercise an option during the vesting period appropriate?

The MASB has no objection to the proposal. However, the IASB may wish to include a definition on the term "contracted life" since paragraph 21 makes reference to the terms.

Question 13.

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?

Yes, vesting conditions should be taken account when estimating the fair value of options.

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 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?

The MASB supports options with a reload feature to be accounted as a new option grant. The Standard should not permit a "choice" to allow the reload feature to be taken into account, where practicable, at the initial measurement of the fair value of option granted. By permitting the choice the comparability criteria would be compromised.

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?

No the MASB is not aware of other common features of employee share options for which the IFRS should specify.

Question 16

The draft IFRS does not contain prescriptive guidance on the estimation of the fair value of 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?

Yes the MASB supports the approach adopted.

Question 17

If 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 incremental value granted should be taken into account when measuring the services received, resulting in the recognition of additional amounts in the remainder of vesting period? If not, how do you suggest repricing shall be dealt with? Of the two illustrated in Example 3, which is more appropriate? Why?

Incremental value is more appropriate.

Question 18

If entity cancels a share or option grant during the vesting period (other than a grant by forfeiture when the vesting conditions are not satisfied), the draft IFRS that the entity should continue to recognise the services rendered by the counter party 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.

The MASB has no objection to the proposal

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 statement (paragraphs 31-34).

Are the proposed requirements appropriate? If not, please provide details of your suggested alternative approach.

Yes, cash-settled share based payment transactions should be measured at the fair value of the liability.

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 share-based payment transaction if no such liability has been incurred (paragraph 35). The draft IFRS proposes various requirements to apply this principle (paragraphs 36-44).

Are the proposed requirements appropriate? If not please provide details of your suggested alternative approach.

The MASB believes that the proposed requirements ate appropriate.

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 (paragraphs 45-46),
(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 (paragraphs 47-50) and
(c) the effect of expenses arising from share-based payment transactions on the entity's profit or loss (paragraphs 51-53).

Are these disclosure requirements appropriate? If not which disclosure requirements do you suggest should be added, deleted or amended (and how)?

Yes

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 and had not vested at the effective date of the IFRS (paragraph 54). It also proposes that an entity should apply retrospectively the requirements of the IFRS to have entities 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) (paragraph 55).

Are the proposed requirements appropriate? If not, please provide details of your suggestions for the IFRSs transitional provisions.

The MASB suggests that the Standard should make reference to IAS 8 (revised XXXX). Accounting Policies, Changes in Accounting Estimates and Errors[1] rather to provide specific transitional provisions.

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 based payment transaction (Appendix E). As shown in that example, it is proposed that all tax effects of share-based payment transactions should be recognised in income statement.

Are the proposed requirements appropriate?

Yes, the proposed tax effects of share-based payment transactions should be recognised in the income statement

Question 24

In developing the Exposure Draft, the IASB 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.

For each of the differences, which treatment is the most appropriate? Why? If you regard neither treatment as appropriate, please provide details of your preferred treatment (Respondents may wish to note that hither details of the differences between the daft IFRS and SFAS 123 are given in the FASB's Invitation to Comment)

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. SEAS 123 contains the following exemptions, none of which are included in the draft IFRS

(1) employee share purchase plans are excluded from SFAS 123, provided specified criteria are met, such as the discount given to employees is relatively small;

Yes, the MASB supports IASB's approach that apart from transactions within the scope of another IFRS the Standard should not provide any exemptions.

(2) 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 IASB Opinion *No 25 Accounting for Stock Issued to Employees* (paragraphs BC70-BC74 in the Basis for Conclusions give an explanation of intrinsic value) and

Yes, the MASB supports IASB's approach to require the measurement of share-based payment transactions at fair value,

(3) 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).

Yes, the MASB supports the IASB's approach.

(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:

(1) 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.

Yes, the MASB supports the IASB's approach that the possibility of forfeiture should be taken into account in estimating the fair value of an equity instrument grant date.

(2) 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 seats 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.

Yes, the MASB supports the IASB's approach.

(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 vestal, 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.

The MASB has no section to the IASB's approach.

(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.

Yes the MASB supports the IASB's approach

(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).

Yes, the MASB supports the IASB's approach to require fair value measurement of cash settled share appreciation rights.

(e) 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

Yes, the MASB supports the IASB's approach to require all tax effects of share-based payment transactions to be recognised in profit or loss, as part of tax expense. (See *response to question 23.)*

Question 25

Do you have any other comments on the Exposure Draft?

No