EFRAG
European Financial Reporting Advisory Group

March 22, 2005

Kevin Stevenson
Chairman IFRIC
30 Cannon Street
London EC4M 6XH
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Dear Kevin,

Re: IFRIC Draft Interpretation 11 *Changes in Contributions to Employee Share Purchase Plans*

On behalf of the European Financial Reporting Advisory Group (EFRAG) I am writing to comment on IFRIC Draft Interpretation 11 *Changes in Contributions to Employee Share Purchase Plans* (IFRIC D11). This letter is submitted in EFRAG's capacity of contributing to IASB's and IFRIC's due process and does not necessarily indicate the conclusions that would be reached in its capacity of advising the European Commission on endorsement of the definitive IFRIC on the issue.

In the context of Employee Share Purchase Plans (ESPPs), which are within the scope of IFRS 2 *Share-based Payment*, questions have been raised with regard to how an entity should account for situations where:

a) an employee ceases to contribute to an ESPP and, as a consequence, is no longer able to buy shares under the plan (henceforth 'an employee withdrawal'), and
b) as described in a), except that the employee then starts to contribute to another ESPP, i.e. the employee changes from one ESPP to another.

We agree with the proposed consensus under situation b) that if an existing ESPP is replaced by a new ESPP the entity shall account for this replacement as a modification of the original plan in accordance with IFRS 2 paragraph 28(c).

However, we disagree with the proposed consensus provided by IFRIC D11 for employee withdrawals. The proposed solution for employee withdrawals is to account for them as a cancellation according to IFRS 2 paragraph 28(a), meaning that vesting should be accelerated and therefore the amount that otherwise would have been recognised for services received over the remainder of the vesting period should be expensed immediately. This proposal is derived from the IFRIC's view that IFRS 2.28(a) applies to situations when an employee ceases to contribute to an ESPP and, as a consequence, is no longer able to buy shares under the plan. In our view there is a fundamental difference in substance between an employer cancellation and an employee withdrawal. An employer can cancel a plan only with the agreement of the counterparty, and that agreement will usually be forthcoming if the employer has agreed to pay some kind of compensation. As such, the cancellation can be viewed as an accelerated vesting, thus justifying the accounting treatment required by IFRS 2.28(a). On the other hand, employees are usually free to decide whether to cease contributing to a plan and they may choose to do so for a whole host of reasons unrelated to the value of the plan at the time. Such action is therefore not akin to an accelerated vesting.

Bearing this in mind, we had expected the Basis for Conclusions to provide a convincing explanation as to why, even though it is not an accelerated vesting, an employee withdrawal should still be accounted for under IFRS 2 as if it is. However, we do not find the arguments provided convincing: the first part of D11.BC4 seems to be arguing that there is little difference between an employer cancellation and an employee withdrawal—a view that we believe is wrong—and the second part announces, but does not justify, the IFRIC's consensus decision.

We have also considered whether, regardless of the concern described above, the accounting that results from D11 is satisfactory. We note that, under the proposed solution, an employee withdrawing from an ESPP shortly before the end of the savings period would be accounted for differently from an employee that chooses not to exercise the option to purchase shares. This concerns us because we do not think the two events are different in substance. This causes us to question the accounting treatment. We have also considered what users are to make of financial statements in which there has been an acceleration of expense recognition because an employee has withdrawn from an ESPP, and we struggle to see how the resulting information will be relevant for users.

We recommend the IFRIC reconsider the arguments used in the Basis for Conclusions and revisit alternative accounting treatments. We are not convinced by the arguments used in the Basis for Conclusions rejecting alternative accounting methods.

If you would like further clarification of the points raised in this letter I would be happy to discuss these further with you.

Yours sincerely

Stig Enevoldsen
EFRAG, Chairman