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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 30.11.2004

Draft

COMMISSION REGULATION (EC) No .../..

amending Regulation (EC) No 1725/2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards IFRS 2

(Text with EEA relevance)

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Community.

Having regard to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards¹, and in particular Article 3 (1) thereof,

Whereas:

- (1) By Commission Regulation (EC) No 1715/2003², certain international standards and interpretations that were extant at 1 September 2002 were adopted.
- (2) On 19 February 2004, the International Accounting Standards Board (IASB) published International Financial Reporting Standard (IFRS) 2 *Share-based Payment*. IFRS 2 requires for the first time that companies reflect in their income statements the effects of share-based payment transactions, including expenses associated with transactions in which share options are granted to management and employees. In the past, transactions in which share options were granted to employees were not recognized in the company's income statements but were disclosed in the notes not affecting reporting of earnings to capital markets.

¹ OJ L 243, 11.09.2003, p.1

² OJ L 261, 13.10.2003, p.1. Regulation as amended by Regulation (EC) No 707/2004 (OJ L 111, 17.4.2004, p. 3).

- (3) The consultation with technical experts in the field confirms that IFRS 2 meet the technical criteria for adoption set out in Article 3 of Regulation (EC) No 1606/2002, and in particular the requirement of being conducive to the European public good.
- (4) IFRS 2 does not specify which valuation models should be used. Instead, it only describes the factors that should be at least taken into account when estimating the *fair value* of share based payments. This was done on purpose in order not to prevent the development of appropriate measurement techniques which hitherto do not exist for all forms of share based payments (e.g. non tradable long term employee stock options). Share options are currently valued using the *Black-Scholes model*, the *Binomial model*, the *Monte-Carlo model* or the *intrinsic value method*. However, alternative methods might be developed in the future to accommodate the needs of companies, auditors and investors. In particular, newly listed companies or companies without a sufficient track record might have difficulties to estimate future share prices.
- (5) The Commission took note of the criticism about the complexity of *IFRS 2 Share-based Payment* that were advanced from several concerned parties during the consultation process. The Commission is aware of the remaining technical issues of this standard and the related concerns regarding their economic impact. While it might be debatable whether expensing share-based payments would be an advantage or a disadvantage for European companies when their competitors in other parts of the world are still exempted from this requirement, endorsement is in the interest of European capital markets and European investors. The Commission will therefore monitor the future effects of IFRS 2 on European companies and review the applicability of the standard by July 2007 at the latest.
- (6) The Commission recalls that Regulation (EC) No 1606/2002 (the IAS Regulation) of 19 July 2002 requires that for each financial year starting on or after 1 January 2005, companies governed by the law of a Member State shall prepare their consolidated accounts in conformity with the international accounting standards adopted in accordance with the procedure laid down in Article 6(2) if, at their balance sheet date, their securities are admitted to trading on a regulated market of any Member State within the meaning of Article 1(13) of Council Directive 93/22/EEC of 10 May 1993 on investment services in the securities field. Given the above mentioned remaining issues on *IFRS 2 Share-based payments*, the Commission invites Member States to consider these issues when deciding as to whether this standard should be applicable also for unlisted companies.
- (7) Regulation (EC) No 1725/2003 should therefore be amended accordingly.
- (8) The measures provided for in this Regulation are in accordance with the opinion of the Accounting Regulatory Committee,

HAS ADOPTED THIS REGULATION:

Article 1

The Annex to Regulation (EC) No 1725/2003 is amended as follows:

- (1) International Financial Reporting Standard (IFRS) 2 *Share-based Payment* is inserted in the Annex to Regulation (EC) No 1725/2003
- (2) The text for insertion is set out in the Annex to this Regulation

Article 2

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

It shall apply from 1 January 2005 at the latest.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, [...]

For the Commission
Charlie McCREEVY
Member of the Commission

ANNEX

INTERNATIONAL FINANCIAL REPORTING STANDARDS	
No	Title
IFRS 2	Share-based Payment

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