

Brussels, 7 February 2005

Accounting: Commission endorses international standard on accounting for share-based payments (IFRS 2)

The European Commission has adopted a Regulation endorsing International Financial Reporting Standard (IFRS) No. 2 on Share-based Payment. IFRS 2 means companies will need to reflect share-based payments, including stock options for staff, more clearly in their accounts. The text was supported almost unanimously by the Member States at the Accounting Regulatory Committee (ARC) on 20 December and by the European Parliament. This standard belongs to the so-called stable platform of accounting standards which all listed European companies will need to use, as they move to international accounting standards from January 2005.

Internal market and services Commissioner Charlie McCreevy said: "Endorsement of IFRS 2 is very much in the interest of European capital markets and European investors. Granting stock options can be a very effective way for companies to motivate managers and staff, but like any other form of remuneration, it has to be considered as an expense. IFRS 2 will improve the quality of financial reporting by giving financial markets a clearer and more complete picture of a company's transactions.

IFRS 2 requires for the first time that companies reflect in their income statements the effects on their profit of share-based payment transactions, including expenses associated with granting stock options to management and employees. In the past, those transactions were not recognized in the company's income statements but were only disclosed separately in the notes to the accounts. In future, "expensing" stock options in the income statement will have some impact on reported earnings.

IFRS 2 does not specify which valuation models for stock options should be used. As a principle-based standard, it only describes the factors that should be at least taken into account when estimating the *fair value* of share based payments. The Commission will monitor the future effects of IFRS 2 on European companies and review the applicability of the standard by July 2007 at the latest.

For more information on the application of International Accounting Standards in the EU, see:

http://www.europa.eu.int/comm/internal_market/accounting/ias_en.htm