



International Accounting Standards Board®

Press Release

For Immediate Release

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IASB INVITES ADDITIONAL COMMENT ON DISCUSSION PAPER ON SHARE-BASED PAYMENT

At its September 2001 meeting, the International Accounting Standards Board (IASB) decided to invite additional comments on the July 2000 Discussion Paper, *Accounting for Share-based Payment*.

Sir David Tweedie, IASB Chairman, said: “The wide-spread use of share options to pay employees, external advisors, and others; the calls from users of financial statements for improvements in accounting for these transactions; and the differing proposals emanating from national standard-setters demonstrate the importance of developing a high quality global accounting standard on share-based payment. There are, however, complex issues for the Board to consider – in particular, how we can measure the value of employee share options? The Board hopes that inviting additional comment on the Discussion Paper, published by our predecessor organisation, will provide the Board with further insight into these issues. We also expect that it will be useful to constituents as they focus on the accounting issues involved.”

Comments on the July 2000 IASC Discussion Paper, produced in collaboration with other leading national standard-setters, were received from constituents around the world during the original comment period, which ended 31 October 2000. Like the other standard-setters, the IASB deemed the Discussion Paper to be the first step in the Board’s due process in considering this topic. However, the IASB is concerned that some constituents might not have responded to the Discussion Paper, perhaps not realising the growing international importance of the issue, at that time. The Board’s desire to ensure that it receives comments on the Discussion Paper from all constituents who would wish their views to be considered has prompted it to re-open the comment period and invite additional comments.

Additional comments on the Discussion Paper are invited by **15 December 2001** to IASB’s E-mail address: commentletters@iasb.org.uk. Respondents should focus their attention on the

questions for respondents set out in the Discussion Paper, in particular, the questions relating to measurement issues.

Given the worldwide concern over the subject, the Board will be discussing various issues relating to the project over the next few months. Any conclusions reached, however, will be tentative and subject to reconsideration in the light of additional comments received.

The current objective of the project is to develop an Exposure Draft (ED) of an International Financial Reporting Standard (IFRS), which the IASB hopes could be ready for publication by mid 2002. The IASB will invite comments on the ED, which will then be analysed and considered before the IFRS is finalised.

Copies of the Discussion Paper, *Accounting for Share-based Payment* (ISBN 0 905625 83 8), is available direct from Publications Department, International Accounting Standards Board, 166 Fleet Street, London EC4A 2DY, United Kingdom. Telephone: +44 (0) 20 7427-5927. Fax: +44 (0) 20 7353-0562, E-mail: publications@iasb.org.uk Internet: <http://www.iasb.org.uk> at a price of £15 (US \$23) each.

Press Enquiries:

David Tweedie, Chairman, IASB, Telephone: +44 (0) 20 7246 6420, E-mail: dtweedie@iasb.org.uk

James Saloman, Technical Director, IASB, Telephone: +44 (0) 20 7246-6460, E-mail: jsaloman@iasb.org.uk

Wayne Upton, Director of Research, IASB, Telephone: +44 (0) 20 7246-6429, E-mail: wupton@iasb.org.uk

Kimberley Crook, Project Manager, IASB, Telephone: +44 (0) 20 7246-6434, E-mail: kcrook@iasb.org.uk

NOTES TO EDITORS

The International Accounting Standards Board based in London, UK, was instituted earlier this year. It is funded by contributions from central banks, the major accounting firms, financial institutions and industrial companies throughout the world. Its 14 Board Members (12 of whom are full time) come from nine countries and have a variety of functional backgrounds. The Board is committed to developing, in the public interest, a single set of high-quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the Board cooperates with national accounting standard setters to achieve convergence in accounting standards around the world.

Background to the IASB project

Companies often issue shares or share options to employees or other parties. Share schemes are now a common feature of employee remuneration, not just for directors and senior executives, but for many other employees as well. Some companies issue shares or share options to pay suppliers, such as suppliers of professional services.

Despite the increasing use of share-based payment, there is no existing International Financial Reporting Standard (IFRS) on how to account for these transactions and few countries have standards on the topic. This is of particular concern in Europe, where the use of share-based payment has increased significantly in recent years and continues to spread, yet little accounting guidance exists. European standard-setting bodies have been working on this issue and three have recently issued proposals, as outlined below.

In accordance with the IASB's Constitution, the goal of the project is to develop a high quality global accounting standard, i.e. a standard based on the best solution. Matters that the Board will take into account in developing the standard include the following:

- To develop a high quality global accounting standard, the IASB must consider accounting developments and the needs of users of financial statements around the world.
- Although few countries have standards on accounting for share-based payment, various standard-setting bodies have recently been working on this topic. To date, all have concluded that all share-based payment transactions should be recognised in the financial

statements, resulting in an expense in the income statement when the goods or services are consumed. This includes:

- The July 2000 Discussion Paper, which was developed by G4+1, a group of representatives of the national standard-setting bodies in Australia, Canada, New Zealand, the UK and the USA, and the International Accounting Standards Committee (the IASB's predecessor body).
- A draft accounting standard published by the German Accounting Standards Board earlier this year.
- A Discussion Paper issued by the Danish Institute of State Authorised Public Accountants (FSR) in April 2000. The FSR is currently awaiting international developments before proceeding further with this proposal.
- An accounting standard, SFAS 123, *Accounting for Stock-Based Compensation*, issued by the US Financial Accounting Standards Board (FASB) in 1995. The standard requires recognition of share-based payment transactions with parties other than employees, based on the fair value of shares or options issued. Companies are also encouraged, but not required, to apply the same accounting method to share-based payment transactions with employees. If that method is not applied, the standard requires disclosures of pro forma net income and earnings per share, as if the method had been applied. However, SFAS 123 states that the FASB did not regard a disclosure-based approach as the best way to improve financial reporting. The FASB stated in SFAS 123 that it believed financial statements would be more relevant and representationally faithful if the estimated fair value of employee stock options was included in determining an entity's net income, just as all other forms of compensation are included.
- Users of financial statements are calling for improvements in the accounting treatment of share-based payment. For example, the proposal in the July 2000 Discussion Paper that share-based payment transactions should be recognised in the financial statements, resulting in an expense in the income statement when the goods or services are consumed, received substantial support from the UK investment community. This included the support of two investor bodies that represent investors who collectively control over half of the UK share market. The primary objective of financial statements is to provide high quality, transparent and comparable information to help users make

economic decisions. The purpose of setting accounting standards is to ensure that, wherever possible, financial statements meet that objective. If the users of financial statements consider that improvements are required, this suggests that existing accounting guidance does not represent the best solution and there are issues that need to be addressed.

- When national standard-setters have attempted to introduce new standards on accounting for share-based payment, a common concern of their constituents has been that companies in their country would be competitively disadvantaged if the national standard-setter were to introduce changes in isolation from other standard-setting bodies. Their constituents have emphasised the need to deal with this topic at an international level. Responding to this concern, the IASB has a unique opportunity to provide leadership on accounting for share-based payment, by developing a high quality accounting standard that will provide a basis for international convergence of standards in this area of accounting.
- Preparers of financial statements, in responding to recent proposals by standard-setters, such as the July 2000 Discussion Paper, have raised a variety of significant concerns about the recognition and measurement of share-based payment transactions. This indicates that there are complex issues for the Board to consider in developing an International Financial Reporting Standard on share-based payment.

Key proposals in the July 2000 Discussion Paper

The July 2000 Discussion Paper proposed:

- a transaction whereby an entity obtains goods and services from other parties, including suppliers and employees, with payment taking the form of shares or share options issued by the entity to those other parties, should be recognised in the financial statements, with a corresponding charge to the income statement when those goods or services are consumed (Chapter 3)
- such a transaction should be measured at the fair value of the shares or options issued. In most cases, an option pricing model should be applied to estimate the fair value of an option (Chapter 4)

- the measurement date, being that date at which the fair value of the shares or options issued is estimated, for the purposes of measuring the transaction amount, should be vesting date. Vesting date is the date at which the other party (the employee or supplier), having performed all of the services or provided all of the goods necessary, becomes unconditionally entitled to the options or shares (Chapter 5)
- where performance by the other party occurs between grant date, being the date at which the contract between the entity and the other party (the employee or supplier) is entered into, and vesting date, an estimate of the transaction amount should be accrued over the performance period (Chapter 6).

Other issues discussed include the treatment of lapsed options, options that are repriced or otherwise modified, employee share plans with cash alternatives, and share appreciation rights (Chapter 7).