

JPC/CA/nd/22.7/8/1

24 February 2003

Dear Mr Van Helleman,

RE: SHARE-BASED PAYMENT

UNICE would like to take this opportunity to offer the following comments on the IASB share-based payment exposure draft.

UNICE notes that the objective of this exposure draft is to recognise an expense when goods or services (including employee services) received or acquired under a share-based payment transaction are consumed.

UNICE only supports this objective provided a worldwide level playing-field on accounting for share-based payment, which addresses the measurement concerns outlined below, can be achieved.

This worldwide level playing-field is essential for acceptance of the exposure draft proposals of the IASB by the European business community. Significant differences between IFRS-based results and US GAAP-based results should be avoided. Such a level playing-field would not obtain as long as it is not required under US GAAP to expense the fair value of granted share-based payments to employees in the profit and loss account.

Therefore it is disappointing to observe that IASB and FASB, having started their Convergence Project, have not yet scheduled 'Share-based Payment' for discussion in this Project. UNICE strongly supports inclusion of 'Share-based Payment' on this agenda.

In this respect, it is UNICE's strong opinion that the timing of the implementation of the exposure draft should also be in line with the implementation of any amended accounting treatment under US GAAP.

This condition is of the utmost importance in the European endorsement process and should in any case be taken up in EFRAG's letter to IASB.

In UNICE's opinion also, the measurement issue should be a subject matter of the 'Share-based Payment' Convergence Project of IASB and FASB.

On the measurement issue, UNICE supports the declared aim that the exposure draft should set out the principles to be applied and not a detailed set of rules. Companies should therefore be free to establish valuations of the granted awards in the most appropriate way. However, UNICE notes that defining option value as a surrogate measure of services rendered is a matter of convention.

The measurement requirements included in this exposure draft to provide a reliable value of an expense give cause for concern. This concern is caused by the fact that the measurement requirements in this exposure draft do not necessarily always provide reliable, transparent and comparable information because:

- valuing options using option pricing models cannot always be deemed reliable,
- option pricing may, under certain circumstances, yield inconsistent valuations, and
- valuation of options is a matter for specialists and is dependent on assumptions used, especially for non-listed companies; therefore valuations obtained are not evident to an ordinary user of financial statements.

Furthermore, in UNICE's opinion, IASB should clarify the accounting treatment of employee share schemes which are significantly financed by employees. In practice companies often provide a discount, where the accounting of this discount should be based on the intrinsic value rather than fair value.

In addition, when reviewing the exposure draft, UNICE identified that definitions and principles in the Framework are not always appropriate or applicable in this proposed Standard. UNICE stipulates that the IASB Framework should be reviewed to cover all relevant principles required to apply in the existing and future Standards.

We remain at your disposal to discuss this matter further.

Yours sincerely,

(original signed by)
Jérôme P. Chauvin
Director, Company Affairs Department