

22.7/8/1

13 April 2004

Mr Patrick Mommens
Project Manager
EFRAG
41 Avenue des Arts
1040 Brussels

Dear Mr Mommens,

RE: DRAFT EFRAG LETTER ON THE ADOPTION OF IFRS 2

In response to your consultation on the draft EFRAG letter regarding adoption of IFRS 2 as published by the IASB on 19 February 2004, UNICE would like to offer the following remarks.

The majority of UNICE members concur with the positive endorsement advice that is formulated in the draft letter. On balance, we are of the opinion that the proposed new standard is suitable for application in the European Union, since it is widely recognised as being useful to the users' community.

However, the measurement issues that raised concerns among our constituents have not been completely resolved. In particular, we believe it would be useful to bring to the attention of the European Commission the following:

- the measurement at fair value of shares or options granted is not verifiable, since there is no observable active market of equity instruments bearing the same long term holding or performance-linked vesting constraints. Some European authorities have lately considered fair value a reliable measurement attribute only when fair value is verifiable;
- it is widely acknowledged that no truly appropriate option pricing model is available at present that could secure the valuation of options that fits the "true and fair view" accounting basic requirement.

We therefore strongly believe that the valuation requirements included in the standard cannot be regarded as inducing a true and fair representation of the underlying economic reality. Due to the conventional features of these valuation requirements, convergence between IFRS and US Gaap is a key issue in the share-based payment area. It is therefore worthwhile that EFRAG strongly points out to the Commission that:

- the FASB has recently issued an exposure draft whose proposed requirements are very similar to those included in IFRS 2. At this stage, there is no certainty whatsoever that the final standard will reflect the same level of convergence;
- the Norwalk Agreement of October 2002 embodied a commitment that FASB and IASB would take suitable action in order to reach convergence. Convergence would have required to ensure the issuance of convergent standards be implemented simultaneously.

Also, UNICE fully supports the reference in your draft letter to the issuance of IFRS 2 in spite of its inconsistency with the existing IAS framework. This letter should be an opportunity to insist to the Commission that no further amendment to existing standard or new standard can be considered acceptable for application in Europe, before going through the adequate due process of changing the framework.

As a conclusion to the above, UNICE recommends that EFRAG closely assesses on balance:

- the impact that postponing the adoption of IFRS 2 until the FASB issues a similar standard might have on the credibility of European financial markets or on the conversion to IFRS process of European companies,
- the economic impact of the loss of competitiveness that European businesses might endure, should IFRS 2 not be followed by similar requirements in US Gaap,
- the economic impact that IFRS 2 might have on SMEs.

We hope that the above-mentioned concerns are taken into account and remain at your disposal should you need further clarification or background information.

Yours sincerely,

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