UNICE
THE VOICE OF BUSINESS IN EUROPE

22.7/8/1

28 June 2005

Mr Stig Enevoldsen
EFRAG
Avenue des Arts, 41
1040 Bruxelles

Dear ~~Sir~~ Stig,

RE: UNICE COMMENTS ON DRAFT EFRAG LETTER CONCERNING IFRIC D16, SCOPE OF IFRS 2

D16.9 implies that, where the fair value of the equity instruments granted or liability incurred is greater than the identifiable consideration received (if any), there is a presumption that some further unidentified goods or services are being received. In this case, IFRS 2 would result in every share-based payment being accounted for as an expense valued on the basis of the fair value of the instruments granted.

This was clearly not intended at the time IFRS 2 was issued. The "Scope" section (paragraphs 2-6) is all predicated on the supply of goods and services, and even where paragraph 3 says, "…transfers of an entity's equity instruments by its shareholders to parties that have supplied goods or services to the entity are share-based payment transactions, unless the transfer is clearly for a purpose other than payment for goods or services supplied to the entity", the implication of the emphasis on suppliers is that some goods or services not covered by the identified goods and services have in fact been supplied by them as part of a package but not otherwise specifically reflected. It is therefore clear that D16 would go beyond the original scope of IFRS 2.

However, D16 appears to try to answer a different question. Rather than, "What do we do when we cannot identify the service paid for?", the question is, "What do we do when what we paid for cannot be regarded as a service – and therefore is outside of the scope of IFRS 2?" The South African BEE scheme problem outlined in the Illustrative Example is such a case, as what is paid for has been identified but it is not a good or service in the generally accepted use of the term. The difficulty lies then in transfers to other parties (other than shareholders and investors) where benefits for the entity are acquired which cannot be clearly identified as a good or service. We believe that, for such cases, it would be more appropriate to stipulate that, where the benefit acquired through the granting of the entity's equity instruments is not a good or service but would be expensed if the payment were made in cash or other financial assets, it should also be treated as an expense where a share-based payment is made (e.g. donations). This would of course also go beyond a pure interpretation of IFRS 2.

Best regards,

J. Ch

Jérôme P. Chauvin
Director, Legal Affairs Department