



International Accounting Standards Board®

Press Release

7 November 2002

IASB PUBLISHES PROPOSALS ON ACCOUNTING FOR SHARE-BASED PAYMENT

The International Accounting Standards Board (IASB) today published for public comment proposals on how entities should account for share-based payment transactions, including grants of share options to employees. The proposals are set out in exposure draft ED 2 *Share-based Payment*, on which the IASB invites comments by 7 March 2003.

There is no existing International Financial Reporting Standard on share-based payment. This gap in international accounting standards has become a cause for concern, because the use of share-based payment has expanded greatly in recent years. The objective of the proposals in ED 2 is to ensure that entities recognise share-based payment transactions in their financial statements, so as to provide high quality, transparent and comparable information to users of financial statements. In developing its proposals, the IASB concluded that share-based payment transactions involving grants of shares or share options to employees should be accounted for in the same way as other transactions in which an entity receives resources as consideration for its equity instruments. The proposals therefore include recognising an expense for the consumption of the resources received, whether in the form of employee services, other services, or goods.

Introducing the exposure draft, Sir David Tweedie, IASB Chairman, said:

“These proposals are very timely, given the demand for greater transparency in financial reporting, particularly with regard to employee share options. Typically, transactions in which share options are granted to employees are not recognised in an entity’s financial statements. As a result, the entity’s expenses are understated and its profits are overstated. The time has come to close this gap in accounting standards.

The IASB has taken a leadership role, with support from its partner national standard-setters, to develop a high quality accounting standard that will provide a basis for international convergence of standards in this area of accounting.”

Copies of the exposure draft ED 2 *Share-based Payment* (ISBN 1-904230-12-1) are available, at £15 each (€24/US\$23) including postage, from:

IASB Publications Department, 30 Cannon Street, London EC4M 6XH, United Kingdom.

Tel: +44 (0)20 7246 6410, Fax: +44 (0)20 7332 2749,

email: publications@iasb.org.uk. Web: www.iasb.org.uk

Subscribers to the IASB’s *Comprehensive Subscription Service* can view the exposure draft from the secure subscriber area of the IASB’s Website. From 18 November the complete text of the exposure draft will be freely available from the Website.

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NOTES TO EDITORS

1. There is no existing International Financial Reporting Standard on share-based payment. The proposals in ED 2 would replace the disclosure requirements in IAS 19 *Employee Benefits* which deal with equity compensation benefits.
2. In July 2000, IASC (the IASB's predecessor body), along with other members of the G4+1 group,* published for public comment a Discussion Paper *Accounting for*

* The G4+1 comprised members of the national accounting standard-setting bodies of Australia, Canada, New Zealand, the UK and the US, and IASC.

Share-based Payment. In July 2001, the IASB added a project on share-based payment to its agenda, and agreed that the product of this stage of the project should be the development of an Exposure Draft of an IFRS. In September 2001, the IASB invited additional comments by 15 December 2001 on the IASC/G4+1 Discussion Paper. The IASB considered the comments received when developing the exposure draft and received input from its Standards Advisory Council. Furthermore, the IASB was assisted by the project's Advisory Group, consisting of individuals from various countries and with a range of backgrounds, including people from the investment, corporate, audit, academic, compensation consultancy, valuation, and regulatory communities. The IASB received further assistance from other experts at a panel discussion held in New York City in July 2002.

3. The main proposals in the exposure draft ED 2 are:
 - All share-based payment transactions should be recognised in the financial statements, using a fair value measurement basis. An expense should be recognised when the goods or services received are consumed. There are no proposed exemptions from these requirements.
 - In principle, transactions in which goods or services are received as consideration for equity instruments of the entity should be measured at the fair value of the goods or services received, or the fair value of the equity instruments granted, whichever is more readily determinable. For transactions measured at the fair value of the equity instruments granted (eg transactions with employees), fair value should be estimated at grant date. For transactions measured at the fair value of the goods or services received, fair value should be estimated at the date of receipt of those goods or services.
 - To estimate the fair value of a share option, where an observable market price does not exist, an option pricing model should be used. The exposure draft does not specify which particular model should be used. The entity should disclose the model used, the inputs to that model and various other information about how fair value was measured.
 - The exposure draft contains various proposals on estimating the fair value of employee share options, to allow for differences between employee share options and traded options. For example, the valuation should take into account all types of vesting conditions, including service conditions and performance conditions. In other words, the grant date valuation should be reduced to allow for the possibility of forfeiture because of failure to satisfy vesting conditions.
 - Repricing of options (and other changes in terms and conditions), should be accounted for by recognising additional remuneration expense based upon the incremental value given on repricing, ie additional to expenses recognised in respect of the original option grant.
 - The exposure draft also contains proposals on accounting for cancellation of share or option plans, share-based payment transactions settled in cash, and transactions in which either the entity or the counterparty may choose whether the entity settles in cash or by issuing equity instruments.
4. As with ED 1, the IASB is publishing ED 2 as three separate booklets. The first contains the mandatory requirements of the proposed standard; the second contains the IASB's Basis for Conclusions, which sets out the IASB's reasoning behind its proposals; and the third consists of draft implementation guidance.

5. The IASB, based in London, began operations in 2001. It is funded by contributions collected by its Trustees, the IASC Foundation, from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations. The 14 IASB members (12 of whom are full-time) reside in nine countries and have a variety of professional backgrounds. The IASB 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 IASB cooperates with national accounting standard-setters to achieve convergence in accounting standards around the world.