ED: Proposed Amendments to IFRS 2

This Comment Letter was sent by BDO Global Coordination B.V. on behalf of BDO International, to Jenny Lee, Project Manager at International Accounting Standards Board on 2 June, 2006:

Dear Sir,

Exposure Draft of proposed amendments to IFRS 2 'Share-based Payment' - vesting conditions and cancellations

Thank you for the opportunity to comment on the above Exposure Draft ('ED'). We do have some concerns with these proposals of the International Accounting Standards Board ('IASB').

In particular, we question whether requiring a cancellation by a counterparty to be accounted for in the same way as a cancellation by the entity (giving an immediate recognition of the future charges) will always reflect the substance of the transaction, or will be consistent with other forms of employee benefit which may be 'optional' and rejected by an employee. For example, if an entity offers subsidised child-care at a specified nursery and an employee, having initially taken advantage of that subsidised scheme, decides (for personal reasons) to move his/her child elsewhere, the entity would not be expected to make a notional charge for the future subsidy which will not now be incurred. Why, then, should such a charge be made in respect of a share-based payment?

Our comments on the three specific questions posed in the invitation to comment are set out below.

Question 1 – Vesting conditions

The Exposure Draft proposes that vesting conditions should be restricted to performance conditions and service conditions.

Do you agree? If not, what changes do you propose, and why?

We note the narrow view taken of vesting and service conditions in BC2 to BC5. The Basis of Conclusions could helpfully be expanded to consider other common conditions, such as obtaining a listing or purchase of the company, and whether such conditions can be treated as performance conditions (and hence vesting conditions) under IFRS 2.

Question 2 – Cancellations

The Exposure Draft proposes that cancellations by parties other than the entity should be accounted for in the same way as cancellations by the entity.

Do you agree that all cancellations should be treated in the same way? If not, please specify the nature of any differences between types of cancellations and explain how they influence the selection of appropriate accounting requirements.

We do not agree that cancellations by employees should be treated in the same way as cancellations by the entity.

In IFRS 2: BC 233, the IASB notes that when an entity cancels a share scheme 'it is very unlikely that a share or share option grant would be cancelled without some compensation to the counterparty, either in the form of cash or replacement share options'. The approach in IFRS 2 is, then, to ensure that an entity cannot avoid an expense by modifying or cancelling a grant of shares or share options. However, if the cancellation is made by the employee for his/her own reasons (e.g. he/she changes his/her mind, often early on, about committing to monthly saving; alternatively, he/she simply needs the cash and stops making the required regular plan contributions as per BC 7), we do not see that the approach in BC 233 will always fairly represent the substance. In many cases, employees might be offered share schemes with no alternative compensation. If that is the case, it is unclear why the entity should forgo an expense in respect of employees that do not initially accept the grant, but should make a charge if an employee, having initially accepted, subsequently rejects a grant.

Question 3 – Effective date and transition

The proposed changes would apply to periods beginning on or after 1 January 2007, and would be required to be applied retrospectively. Earlier application would be encouraged.

Are the proposed effective date and transition appropriate? If not, what do you propose, and why?

Yes.

We note that BC 22 of the ED states 'The Board also noted that the entity is not required to apply IFRS 2 to share-based payments that have been cancelled before the date of transition. Therefore, entities that will adopt the standard for the first time would not need to apply an unacceptable level of hindsight in applying the proposed Amendments'. We support this approach, which appears to be based on the final sentence of IFRS 2:25B. For entities that adopted IFRS 2 in 2005, it follows that the exemption applies to cancellations made by employees before 'the latter of (a) the date of transition to IFRSs and (b) 1 January 2005'. BC 22 should be amended so that it is consistent with IFRS 2:25B.

We would be pleased to discuss our comments and observations with you further if this would be helpful. Please contact Helen Thomson at +32 2 778 01 30.

Yours faithfully,

BDO Global Coordination B.V.