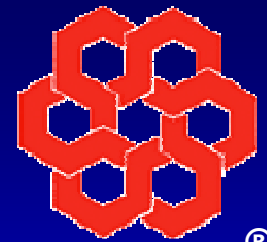


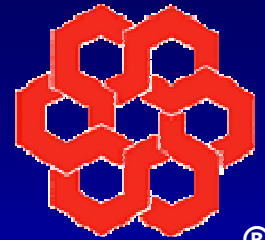
IFRS 2 Share-based Payment



International
Accounting Standards
Board

**Presentation by Kimberley Crook
IASB Senior Project Manager
to
Society of Share & Business Valuers
13 April 2005**

Disclaimer

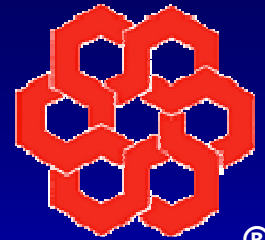


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Expressions of individual views by members of the IASB and its staff are encouraged. The views expressed in this presentation are those of the speaker.

Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.

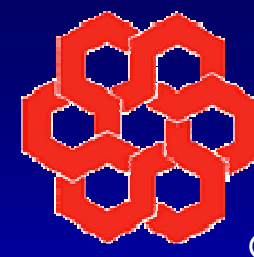
Reasons for the project



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- **Widespread use of share-based payment**
- **No existing international standard**
- **Demand from users of financial statements**

Earnings overstatement



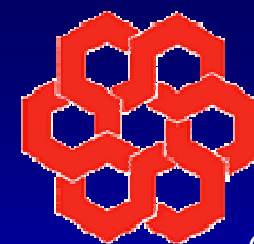
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**Omission of expenses causes
reported profits to be overstated**

	2000	2001	2002	2003
S&P 500 in total	8%	29%	23%	9%
S&P 500 excluding info tech sector	5%	11%	10%	5%

Source: The Analyst's Accounting Observer

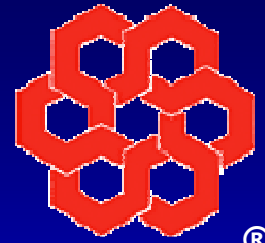
Employee SBP overview



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- Estimate fair value of shares or share options at grant date
- Estimate number expected to vest
- Recognise over vesting period
- Cumulative expense = grant date FV of shares/options × number vested

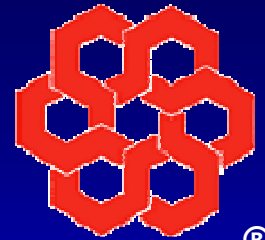
Valuation of employee share options



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- Fair value = estimate of the price in an arm's length transaction between knowledgeable, willing parties
- Apply an option pricing model
- Guidance given on selecting the model and its inputs - but not a finance textbook

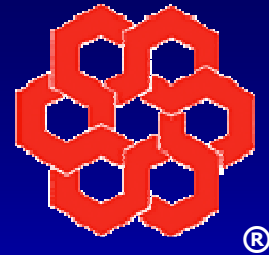
Other requirements



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- **Market conditions**
- **Modifications, cancellations and settlements, including repricing**
- **Cash-settled transactions**
- **Transactions with non-employees**

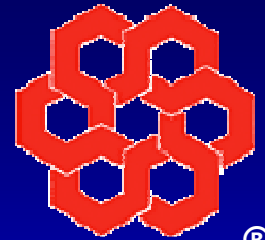
Disclosures and effective date



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- Disclosure requirements, eg a description of SBP arrangements, information on fair value estimates
- Effective for periods beginning on or after 1 January 2005

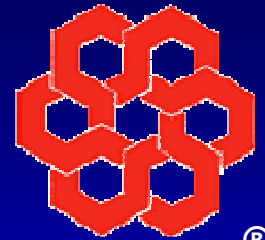
Around the world



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- **European Union and Australia – adopted IFRSs in 2005**
- **UK – issued FRS 20 based on IFRS 2**
- **Canada – expense recognition now mandatory from 1 January 2004**
- **US – FASB issued SFAS 123(r); applies from 15 June 2005**

IFRS 2 vs. SFAS 123(r)



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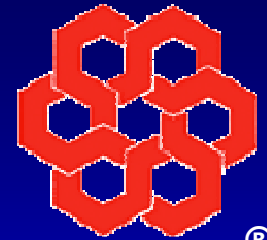
Substantially similar, eg:

- **Measure at fair value**
- **Modified grant date approach**

But there are some differences, eg:

- **Income tax effects**
- **Non-employees**
- **Classification as liabilities or equity**

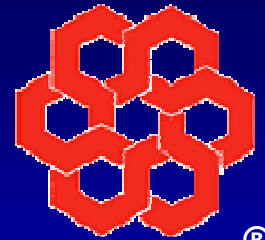
IFRIC activities



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- **Employee benefit trusts**
 - ★ *Amendment to SIC-12 (completed)*
 - ★ *Guidance on accounting for EBTs*
- **Changes in contributions to ESPPs**
 - ★ *D11 published Sept 2004*
 - ★ *IASB to consider whether to amend IFRS 2*

IFRIC activities cont'd

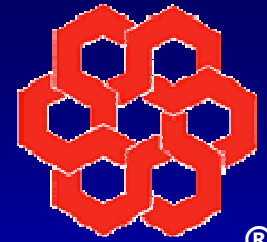


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Draft Interpretations to be published:

- **Scope of IFRS 2**
- **Groups & treasury share transactions**

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