Date

12 May 2006

Le Président

Fédération des Experts Comptables Européens AISBL

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Mr. Stig Enevoldsen
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commentletter@efrag.org

Dear Mr. Enevoldsen,

Re: EFRAG draft comment letter on IASB Exposure Draft of Proposed Amendments to IFRS 2 Share-based Payment *Vesting Conditions and Cancellations*

FEE (Fédération des Experts Comptables Européens, European Federation of Accountants) is pleased to submit its views on the EFRAG draft comment letter on the IASB Exposure Draft of Proposed Amendments to IFRS 2 Share-based Payment *Vesting Conditions and Cancellations*.

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?

EFRAG draft response:
We agree with the clarification that vesting conditions are restricted to performance conditions and service conditions and therefore support the proposed amendment to the definition in IFRS 2 Appendix A. In particular we agree that contractual requirements for employees to make regular plan contributions over a specified period do not meet that definition.

FEE response
We agree with EFRAG and support the IASB proposal to clarify that vesting conditions should be restricted to performance conditions and service conditions.

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.

EFRAG draft response:
As we argued in our response to IFRIC Draft interpretation 11 (D11), we disagree that all cancellations of plans to grant equity instruments should be treated in the same way. The proposed solution for employee withdrawals is to account for them as a cancellation according to IFRS 2 paragraph 28(a), meaning that vesting should be accelerated and therefore the amount that otherwise would have been recognised for services received over the remainder of the vesting period should be expensed immediately. In our view there is a fundamental difference in substance between an employer cancellation and an employee withdrawal. An employer can cancel a plan only with the agreement of the counterparty, and that agreement will usually be forthcoming if the employer has agreed to pay some kind of compensation (IFRS 2, BC233). As such, the cancellation can be viewed as an accelerated vesting, thus justifying the accounting treatment required by IFRS 2.28(a).
Employees can decide whether they wish to benefit by the plan at grant date or later on by deciding whether to continue contributing or whether to exercise their rights. We believe that an employee who ceases to contribute for example to a

savings plan associated to an employee share plan is an employee who decides not to exercise his rights, although he had previously agreed to participate in the plan. We therefore do not see any difference in economic substance between an employee withdrawing from a plan to grant equity instruments shortly before the end of the savings period and an employee that chooses not to exercise the option to purchase shares. The accounting treatment for both should be the same.

The Basis for Conclusion from BC8 onwards evaluates four possible accounting treatments. We agree with the Board that neither (a) nor (b) are consistent with the general principle of IFRS 2 as expressed in BC11. We note that for cancellations by the employer alternative (d), immediate expensing (or bullet expense), has been put forward in IFRS 2 in order to limit possibilities to structure around the requirements of the standard (IFRS 2, BC232 and BC233).
For the reasons expressed above, we believe that option (c), the continuation of expense recognition in cases of cancellations by employees, is the accounting treatment which is the most consistent with the IFRS 2 general principle and therefore we support (c) rather than (d).
Although we acknowledge the strong argument of converging IFRS 2 to the US GAAP requirements of SFAS 123, where all cancellations are treated the same way, as accelerations of vesting, on balance, we disagree with the proposed treatment from a technical perspective.

FEE response
We support the IASB proposal to account for all cancellations in the same way and, therefore, disagree with EFRAG. We believe that in practice it is not possible to distinguish between a cancellation initiated by the employer and one caused by the employee's action. In our opinion when, for example, an employee ceases to contribute to a savings plan the amount that would have been recognized over the remaining vesting period should be recognized immediately. There is no link between the future services to be received from that employee and the cancelled plan. In the absence of such link continuing the prior recognition process is inappropriate. We favor the treatment (d) in BC 8 and concur with the arguments in the Basis for Conclusions.

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.

EFRAG draft response:
We agree with the effective date and transitional requirement of retrospective application.

FEE response
We agree with the effective date and transitional requirement of retrospective application of the proposed amendments.

We would be pleased to discuss any aspect of this letter you may wish to raise with us.

Yours sincerely,

David Devlin
President