Presentations by the French standard-setter Autorité des normes comptables (ANC):
- slides to the IFRS Advisory Council in November 2010 and
- paper to the National Standard Setters’ meeting in September 2010

Background

Considering the number of requests received since IFRS 2 had been issued in 2004, the IASB decided in 2008 to carry out a review of the Standard in order to clarify the underlying accounting principles and to reduce complexity. The ANC agreed to take on this review project during the National Standard Setters’ meeting in April of 2008.

The IASB and the ANC later agreed that the objectives of the review were to:

- clarify rather than change accounting principles;
- ensure the consistency of these principles both within IFRS 2 and in relation to other IFRSs;
- make the Standard easier to understand and apply.

The ANC’s main concern about the existing IFRS 2 seemed to be about the “anti-abuse clauses” on cancellations and “negative” modifications, i.e. the expense was still recognised using grant date fair value for equity-settled share-based payment arrangements. The ANC believed that there was the following inconsistency in the IFRS 2’s principles that led to those clauses:

- measurement requirements (i.e., at grant date fair value) aimed to represent “services received”, whilst
- requirements for vesting conditions aimed to represent “services paid” (e.g., if an employee terminates employment, no expense is recognised).

Main proposals

The ANC believed that in order to resolve the inconsistency above, IFRS 2 should have one of the following two approaches instead of the existing “inconsistent” approach for equity-settled share-based payment arrangements:

The Unit of Service (UoS) approach

- objective: represent assets or services received by the entity irrespective of whether there is an identifiable ‘payment’ finally made by the entity;
- services are recognised proportionally according to the duration of service;
- the credit side of the entry is in equity;
- a fair value per UoS is determined at grant date;
- the entity recognises as expenses the number of UoS it receives; and
there is no reversal of the previous expense if the employee leaves without completing the vesting period.

The Payment approach

- objective: represent ‘service paid’. Under this approach the services are deemed to be received only if all vesting conditions are fully completed;
- services are recognised over the vesting period on the basis of the number of instruments expected to vest;
- the credit side of the entry is in liabilities until vesting date;
- the fair value of equity instruments to be issued is remeasured at each reporting date and adjusted at the vesting date; and
- when an employee leaves without completing the vesting period the expenditure is reversed accordingly.

Both of the proposed models would eliminate the “anti-abuse” clauses and cancellations and “negative” modifications would be accounted for in a consistent way with the rest of the Standard’s requirements.

On the basis of its research, the ANC concluded that “there is no decisive argument in the Conceptual Framework to decide for the most appropriate approach” and that both of them had merits. The Payment approach was considered to be less complex; it also seems to be akin to the IFRS 2’s approach (ie “current fair value”), which is used for cash-settled share-based payment arrangements.

Slides presentation to the Advisory Council in November 2010 can be found at:


The paper presented to the National Standard Setters’ meeting in September 2010 can be found at:


2011 Agenda Consultation

A few respondents to the 2011 Agenda Consultation mentioned the ANC paper in their responses as something for the IASB to explore further. However, there was no explicit support expressed for any of the proposals in the paper.