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Le Président

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Jenny Lee

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Exposure Draft of Amendments to IFRS 2: Vesting Conditions and Cancellations

Dear Jenny,

I am writing on behalf of the Conseil National De la Comptabilité (CNC) to express our views on the above-mentioned Exposure Draft ("ED"). Our detailed comments are set out in Appendix 1.

We support the main features of the ED proposing amendments to IFRS 2 in respect of vesting conditions, subject to the following remarks.

Guidance is required to define more clearly the frontier between vesting and non-vesting conditions, in particular with respect to performance conditions.

Where conditions are of a non-vesting character it is unclear how they are included in the fair value of the equity instrument, particularly in the case of non-market conditions.

Regarding cancellations, whilst we support the principle of a common accounting treatment, the following consistency issue should be addressed in the Basis for Conclusions before finalising the proposed amendments:

We believe that an employee's withdrawal from a share purchase plan and the non-exercise of a share-purchase option are in substance similar transactions and should receive the same accounting treatment. Under IFRS 2 after the proposed amendments, we understand that a withdrawal would give rise to accelerated vesting whereas the non-exercise of an option would have no accounting effect.

We trust you have found these remarks useful and would be pleased to provide any further explanations you may require.

Kind regards,

Antoine BRACCHI

APPENDIX 1

Exposure Draft of Amendments to IFRS 2: 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?

CNC's commentary

We welcome the clarification of the definition of vesting conditions, which are henceforth limited to service and performance conditions, as well as the resulting amendment to IFRS 2. However, we consider that guidance is necessary on the definition of what constitute vesting conditions, in particular what constitutes a performance condition.
Is the relevant performance that of the entity, that of the employee or both?
For example:

- could introduction to a stock market be considered as a performance condition?
- is the condition that a commodity index, relating to a market on which the entity trades, must reach a determined level, a performance condition or not a vesting condition at all?

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.

CNC's commentary

The type of plan (Save As You Earn) and the situation of withdrawal by the employee addressed in the ED are considered to be unusual in our jurisdiction although we are aware that in other jurisdictions, in particular in the U.K, such situations will be more common.

We see the value of the arguments put forward in the ED in support of a common accounting treatment for cancellations, in particular in order to prevent the structuring of transactions to obtain the desired accounting result, as stated in BC 15.

We are generally in favour of the argumentation in BC 12 to BC 16 with respect to proposing a consistent accounting treatment whether the cancellation is instigated by the employer, the employee or another third party.

We also are generally favourable to solutions, which achieve convergence with US GAAP. However we question whether the proposed treatment is actually envisaged by SFAS 123 for the type of plan addressed by the ED.

However and in spite of the above arguments, we are concerned that, after amending IFRS 2 as proposed, certain transactions of similar economic substance may receive different accounting treatment.

We question whether there is any fundamental difference between:
(a) An employee withdrawal during the vesting period
And
(b) An employee not exercising his right to stock options
For (a) the ED proposes to accelerate vesting whereas under IFRS 2 (b) has no accounting consequences.
This inconsistency should be addressed in the Basis for Conclusions.

Furthermore, BC4 appears to indicate that non-vesting conditions are reflected in the fair value of the equity instrument to be issued.

We also understand from BC10 that the fair value of the equity instrument includes all the factors willing and knowledgeable parties would take into account at the grant date including the risk of cancellation.

However, it is unclear how such factors could be valued in practice. IFRS 2 recognises the difficulty in recognising non-market conditions in the fair value of the equity instruments.

Moreover, we question whether it is consistent to include the risk of cancellation in the fair value of the equity instrument as well as recognising the full amount of outstanding cost when cancellation occurs. This treatment seems to lead the entity to take into account the same event twice in its profit and loss.

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.

CNC's commentary

We agree with the proposal in the ED