APPENDIX I: COMPARATIVE GLOSSARY

I1. This appendix presents the respective glossaries from the Proposed IFRS and Statement 123 in a comparative format. The purpose of the table below is to facilitate analysis of the differences in the terminology used. However, while the terminology used may vary, there does not appear to be substantive differences in connotation. In certain sections, language from the standard has been included that refers to or defines terms that are not included in the glossary. This language is referenced to the paragraph(s) in which it appears in the standard. In the Proposed IFRS column, words in **bold** within a definition of another term are defined elsewhere in the glossary of the document.

IASB Proposed IFRS, *Share-based Payment*		FASB Statement No. 123, *Accounting for Stock-Based Compensation*
Cash-settled share-based payment transaction A **share-based payment transaction** in which the entity acquires goods or services by incurring liabilities to the supplier of those goods or services for amounts that are based on the price (or value) of the entity's shares or other **equity instruments.**		**Combination plan** An award with two (or more) separate components, all of which can be exercised. Each part of the award is actually a separate grant, and compensation cost is measured and recognized for each grant.
		Cross-volatility A measure of the relationship between the volatilities of the prices of two assets taking into account the correlation between price movements in the assets.
Equity instrument A contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.		
Equity instrument granted The right (conditional or unconditional) to an **equity instrument** of the entity conferred by the entity on another party, pursuant to a **share-based payment arrangement.**		
Equity-settled share-based payment transaction A **share-based payment transaction** in which the entity receives goods or services as consideration for **equity instruments** of the entity (including shares or **share options**).		
Expected life The period of time from **grant date** to the date on which an option is expected to be exercised.		
Fair value The amount for which an asset could be exchanged, a liability settled, or an **equity instrument granted** could be exchanged, between knowledgeable, willing parties in an arm's length transaction.		**Fair value** The amount at which an asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. Quoted market prices in active markets are the best evidence of fair value and are to be used as the basis for measurement, if available. If

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The fair value of options granted shall be measured at the market price of traded options with similar terms and conditions. However, in many cases such traded options do not exist, because the options granted are subject to terms and conditions that do not apply to traded options. For example, employee share options are typically non-transferable and subject to vesting conditions. *If traded options with similar terms and conditions do not exist, the fair value of the options granted shall be estimated by applying an option pricing model, such as the Black-Scholes model or a binomial model. The model applied shall take into account all of the following factors: the exercise price of the option, the life of the option (in accordance with paragraph 21), the current price of the underlying shares, the expected* volatility *of the share price, the dividends expected on the shares (if appropriate, in accordance with paragraph 23), and the* risk-free interest rate *for the life of the option* (paragraph 20, IASB Proposed IFRS).		quoted market prices are not available, the estimate of fair value is based on the best information available in the circumstances. The estimate of fair value considers prices for similar assets and the results of valuation techniques to the extent available in the circumstances. Examples of valuation techniques include the present value of estimated expected future cash flows using a discount rate commensurate with the risks involved, option-pricing models, matrix pricing, option-adjusted spread models, and fundamental analysis.
		Fixed award An award of stock-based employee compensation for which vesting is based solely on an employee's continuing to render service to the employer for a specified period of time, that is, an award that does not specify a performance condition for vesting. This Statement uses the term *fixed award* in a somewhat different sense than Opinion 25 uses the same or similar terms because Opinion 25 distinguishes between fixed awards and variable awards, while this Statement only distinguishes between fixed awards and performance awards. For example, Opinion 25 does not consider stock appreciation rights (SARs), regardless of whether they call for settlement in stock or in cash, to be fixed awards because the number of shares to which an employee is entitled is not known until the exercise date. This Statement considers an SAR that calls for settlement in stock to be substantially the same as a fixed stock option. A cash SAR is an indexed liability pursuant to this Statement, and the measurement date is the settlement (exercise) date because that is consistent with accounting for similar liabilities—not because a cash SAR is a variable award.
Grant date The date at which the entity and another party (including an employee) agree to a **share-based payment arrangement,** being when the entity and the counterparty have a shared understanding of the terms and conditions of the arrangement. At grant date the entity confers on the counterparty the right to cash, other assets, or **equity instruments** of the entity, provided the specified **vesting conditions**, if any, are met. If that agreement is subject to an approval process (for example, by shareholders), grant date is the date when that approval is obtained.		**Grant date** The date at which an employer and an employee have a mutual understanding of the terms of a stock-based compensation award. The employer becomes contingently obligated on the grant date to issue equity instruments or transfer assets to employees who fulfill vesting requirements. Awards made under a plan that is subject to shareholder approval are not deemed to be granted until that approval is obtained unless approval is essentially a formality, for example, management and the members of the board of directors control enough votes to approve the plan. The grant date of an award for current service may be the end of a fiscal period instead of a subsequent date when an award is made to an individual employee if (a) the award is provided for by the terms of an established formal plan, (b) the plan designates the factors that determine the total dollar amount of awards to employees for that period (for example, a percentage of net income), and (c) the award is attributable to the employee's service during that period.

IASB Proposed IFRS, *Share-based Payment*		FASB Statement No. 123, *Accounting for Stock-Based Compensation*
		Intrinsic value The amount by which the market price of the underlying stock exceeds the exercise price of an option. For example, an option with an exercise price of \$20 on a stock whose current market price is \$25 has an intrinsic value of \$5.
		Issuance of an equity instrument An equity instrument is issued when the issuing entity receives the agreed-upon consideration, which may be cash, an enforceable right to receive cash or another financial instrument, goods, or services. An entity may conditionally transfer an equity instrument to another party under an arrangement that permits that party to choose at a later date or for a specified time whether to deliver the consideration or to forfeit the right to the conditionally transferred instrument with no further obligation. In that situation, the equity instrument is not issued until the issuing entity has received the consideration. For that reason, this Statement does not use the term *issued* for the grant of stock options or other equity instruments subject to service or performance conditions (or both) for vesting.
		Measurement date The date at which the stock price that enters into measurement of the fair value of an award of employee stock-based compensation is fixed.
		Minimum value An amount attributed to an option that is calculated without considering the expected volatility of the underlying stock. Minimum value may be computed using a standard option-pricing model and a volatility of effectively zero. It also may be computed as (a) the current price of the stock reduced to exclude the present value of any expected dividends during the option's life minus (b) the present value of the exercise price. Different methods of reducing the current price of the stock for the present value of the expected dividends, if any, may result in different computed minimum values.
		Nonpublic entity Any entity other than one (a) whose equity securities trade in a public market either on a stock exchange (domestic or foreign) or in the over-the-counter market, including securities quoted only locally or regionally, (b) that makes a filing with a regulatory agency in preparation for the sale of any class of equity securities in a public market, or (c) that is controlled by an entity covered by (a) or (b).
		Nonvested stock Shares of stock that cannot currently be sold because the employee to whom the shares were granted has not yet satisfied the vesting requirements necessary to earn the right to the shares. The restriction on sale of nonvested stock is due to the forfeitability of the shares. A share of nonvested stock also can be described as a nonvested employee stock option with a cash exercise price of zero—employee services are the only consideration the employer has received for the stock when the option is "exercised," and the employer issues vested, unrestricted shares to the employee.

IASB Proposed IFRS, *Share-based Payment*		FASB Statement No. 123, *Accounting for Stock-Based Compensation*
		Performance condition or performance award An award of stock-based employee compensation for which vesting depends on both (a) an employee's rendering service to the employer for a specified period of time and (b) the achievement of a specified performance target, for example, attaining a specified growth rate in return on assets or a specified percentage increase in market share for a specified product. A performance condition might pertain either to the performance of the enterprise as a whole or to some part of the enterprise, such as a division.
		Principal stockholder One who either owns 10 percent or more of an entity's common stock or has the ability, directly or indirectly, to control or significantly influence the entity.
		Public entity Any entity (a) whose equity securities trade in a public market either on a stock exchange (domestic or foreign) or in the over-the-counter market, including securities quoted only locally or regionally, (b) that makes a filing with a regulatory agency in preparation for the sale of any class of equity securities in a public market, or (c) that is controlled by an entity covered by (a) or (b).
Reload feature A feature that provides for an automatic grant of additional **share options** whenever the option holder exercises previously granted options using the entity's shares, rather than cash, to satisfy the exercise price. **Reload option** A new share option granted for a share used to satisfy the exercise price of a previous share option.		**Reload option and option granted with a reload feature** An option with a reload feature is one that provides for automatic grants of additional options whenever an employee exercises previously granted options using shares of stock, rather than cash, to satisfy the exercise price. At the time of exercise using shares, the employee is automatically granted a new option, called a reload option for the same number of shares used to exercise the previous option. The number of reload options granted is the number of shares tendered, and the exercise price of the reload option is the market price of the stock on the date the reload option is granted. All terms of the reload option, such as expiration date and vesting status, are the same as the terms of the previous option.
		Restricted stock Shares of stock for which sale is contractually or governmentally restricted for a given period of time. Most stock grants to employees are better termed *nonvested stock* because the limitation on sale stems solely from the forfeitability of the shares before employees have satisfied the necessary service or performance requirements to earn the rights to the shares. Restricted stock issued for consideration other than employee services, on the other hand, is fully paid for immediately, that is, there is no period analogous to a vesting period during which the issuer is unilaterally obligated to issue the stock when the purchaser pays for it, but the purchaser is not obligated to buy the stock. This Statement uses the term *restricted stock* to refer only to fully vested and outstanding stock whose sale is contractually or governmentally restricted. (Refer to the definition of *nonvested stock.*)
Risk-free interest rate The implied yield currently available on zero-coupon government issues, in the country in which the entity's shares are traded or principally traded (or, for an		*For options that a U.S. entity grants on its own stock, the* ***risk-free interest rate*** *used shall be the rate currently available on zero-coupon U.S. government issues with a remaining term equal to the expected life of the options* (excerpted from paragraph 19, Statement 123).

IASB Proposed IFRS, *Share-based Payment*		FASB Statement No. 123, *Accounting for Stock-Based Compensation*
unlisted entity, the country in which the entity operates or principally operates), with a remaining term equal to the expected life of the option being valued.		
		Service period The period or periods during which the employee performs the service in exchange for stock options or similar awards. If the service period is not defined as an earlier or shorter period, the service period is presumed to be the vesting period. However, if performance conditions affect either the exercise price or the exercisability date, this Statement requires that the service period over which compensation cost is attributed be consistent with the related assumption used in estimating the fair value of the award. Doing so will require estimates at the grant date, which will be subsequently adjusted as necessary to reflect experience that differs from initial expectations.
Share-based payment arrangement An agreement between the entity and another party (including an employee) to enter into a **share-based payment transaction**, which thereby entitles the other party to receive cash or other assets of the entity for amounts that are based on the price of the entity's shares or other **equity instruments**, or to **equity instruments** of the entity, provided the specified **vesting conditions**, if any, are met.		**Stock-based compensation plan** A compensation arrangement under which one or more employees receive shares of stock, stock options, or other equity instruments, or the employer incurs a liability(ies) to the employee(s) in amounts based on the price of the employer's stock.
Share-based payment transaction A transaction in which the entity receives goods or services as consideration for **equity instruments** of the entity (including shares or **share options**), or acquires goods or services by incurring liabilities to the supplier of those goods or services for amounts that are based on the price of the entity's shares or other **equity instruments**.		
Share option A contract that gives the holder the right, but not the obligation, to subscribe to the entity's shares at a fixed or determinable price for a specified period of time.		**Stock option** A contract that gives the holder the right, but not the obligation, either to purchase or to sell a certain number of shares of stock at a predetermined price for a specified period of time.
		Substantive terms The terms of a stock-based compensation plan as those terms are mutually understood by the employer and the employee who receives a stock-based award under the plan. Although the written terms of a stock-based compensation plan usually provide the best evidence of the plan's terms, an entity's past practice may indicate that some aspects of the substantive terms differ from the written terms.
		Tandem plan An award with two (or more) components in which exercise of one part cancels the other(s).

IASB Proposed IFRS, *Share-based Payment*		FASB Statement No. 123, *Accounting for Stock-Based Compensation*
		Time value The portion of the fair value of an option that exceeds its intrinsic value. For example, an option with an exercise price of $20 on a stock whose current market price is $25 has intrinsic value of $5. If the fair value of that option is $7, the time value of the option is $2 ($7 – $5).
Unit of service A standard measure of the quantity of services received or expected to be received from the counterparty to a **share-based payment transaction**, expressed in terms of a particular length of time. For example, a unit of service could be one month's service or one year's service. An entity selects a particular length of time that constitutes one unit of service, and applies it consistently for the purposes of [draft] IFRS [X] *Share-based Payment.*		
Vest To become an entitlement. Under a **share-based payment arrangement**, a counterparty's right to receive cash, other assets, or equity instruments of the entity vests upon satisfaction of any specified **vesting conditions**. **Vesting conditions** The conditions that must be satisfied for the counterparty to become entitled to receive cash, other assets or **equity instruments** of the entity, pursuant to a **share-based payment arrangement**. Vesting conditions include service conditions, which require the other party to complete a specified period of service, and performance conditions, which require specified performance targets to be met (such as a specified increase in the entity's share price over a specified period of time). **Vesting period** The period between **grant date** and the date upon which all the specified **vesting conditions** of a **share-based payment arrangement** are satisfied.		**Vest or Vested** To earn the rights to. An employee's award of stock-based compensation becomes vested at the date that the employee's right to receive or retain shares of stock or cash under the award is no longer contingent on remaining in the service of the employer or the achievement of a performance condition (other than the achievement of a target stock price or specified amount of intrinsic value). Typically, an employee stock option that is vested also is immediately exercisable.
Volatility A measure of the amount by which a price has fluctuated (historical volatility) or is expected to fluctuate (expected volatility) during a period. The volatility of a share price is the standard deviation of the continuously compounded rates of return on the share over a specified period.		**Volatility** A measure of the amount by which a price has fluctuated (historical volatility) or is expected to fluctuate (expected volatility) during a period. The volatility of a stock is the standard deviation of the continuously compounded rates of return on the stock over a specified period. That is the same as the standard deviation of the differences in the natural logarithms of the stock prices plus dividends, if any, over the period. The higher the volatility, the more the returns on the stock can be expected to vary—up or down. Volatility is typically expressed in annualized terms that are comparable regardless of the time period used in the calculation, for example, daily, weekly, or monthly price observations. The *rate of return* (which may be positive or negative) on a stock for a period measures how much a stockholder has benefited from dividends and appreciation (or depreciation) of the share price.

IASB Proposed IFRS, *Share-based Payment*		FASB Statement No. 123, *Accounting for Stock-Based Compensation*
		Return on a stated rate increases as compounding becomes more frequent, approaching erate as a limit as the frequency of compounding approaches continuous. For example, the continuously compounded return on a stated rate of 9 percent is $e^{(.09)}$. (The base of the natural logarithm system is *e,* which is a constant, transcendental number, the first 5 digits of which are 2.7183.) Stock price changes are log-normally distributed, but continuously compounded rates of return on stocks are normally distributed. The expected annualized volatility of a stock is the range within which the continuously compounded annual rate of return is expected to fall roughly two-thirds of the time. For example, to say that a stock with an expected continuously compounded rate of return of 12 percent has a volatility of 30 percent means that the probability that the rate of return on the stock for 1 year will fall between -18 percent (12% – 30%) and 42 percent (12% + 30%) is approximately two-thirds. If the stock price is $100 at the beginning of the year and it does not pay dividends, the year-end price would be expected to fall between $83.53 ($100 × $e^{(-.18)}$ and $152.20 ($100 × $e^{(.42)}$ approximately two-thirds of the time. For the convenience of those who are not familiar with the concept of volatility, Appendix F provides more information on volatility and shows one way in which an electronic spreadsheet may be used to calculate historical volatility based on weekly price observations.

APPENDIX J: SIDE-BY-SIDE COMPARISON OF IASB PROPOSED IFRS, *SHARE-BASED PAYMENT,* AND FASB STATEMENT NO. 123, *ACCOUNTING FOR STOCK-BASED COMPENSATION*

J1. This appendix compares the respective structures of the Proposed IFRS and Statement 123. It is included as a tool to facilitate an understanding of the similarities and differences between the two standards. The main headings from the Proposed IFRS are included in the left-hand column. The middle column includes the full text of the standard section of the Proposed IFRS[1] and the right-hand column includes comparative sections of Statement 123 and references to other FASB literature. Footnote references have been omitted. Not all the paragraphs of Statement 123 have been included in this comparative table as certain sections of that Statement do not correspond to the Proposed IFRS.

TOPICAL INDEX OF COMPARATIVE TABLE

[1] Paragraph 14 of the *Preface to International Financial Reporting Standards* states: "Standards approved by the IASB include paragraphs in bold type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles. An individual standard should be read in the context of the objective stated in that standard and this Preface." This format has been followed in the middle column of the comparative table that presents the Proposed IFRS.

Main Headings from Proposed IFRS	IASB Proposed IFRS, *Share-based Payment*	FASB Statement No. 123, *Accounting for Stock-Based Compensation*
SCOPE	1. An entity shall apply this [draft] IFRS in accounting for all *share-based payment transactions*, including: (a) *equity-settled share-based payment transactions*, in which the entity receives goods or services as consideration for *equity instruments* of the entity (including shares or *share options*), (b) *cash-settled share-based payment transactions,* in which the entity acquires goods or services by incurring liabilities to the supplier of those goods or services for amounts that are based on the price (or value) of the entity's shares or other equity instruments, and (c) transactions in which the entity receives or acquires goods or services and either the entity or the supplier of those goods or services may choose whether the entity settles the transaction in cash, in amounts that are based on the price (or value) of the entity's shares or other equity instruments, or by issuing equity instruments except as noted in paragraph 3. 2. For the purposes of this [draft] IFRS, transfers of an entity's equity instruments by its shareholders, or transfers of equity instruments of the entity's parent or of another entity in the same group as the entity, to the entity's employees, or to other parties that have supplied goods or services to the entity, are share-based payment transactions, unless the transfer is clearly for a purpose other than payment for goods or services supplied to the entity. 3. As noted in paragraph 1, this [draft] IFRS applies to share-based payment transactions in which an entity acquires or receives goods or services. Goods includes inventories, consumables, property, plant and equipment, intangible assets and other non-financial assets. However, an entity shall not apply this [draft] IFRS to transactions in which the entity: (a) acquires goods or other non-financial assets as part of the net assets acquired in a business combination to which IAS 22 [IFRS X] *Business Combinations* applies, or (b) receives or acquires goods or services pursuant to a contract within the scope of paragraph 4A or 4B of IAS 32 [revised 200X] *Financial Instruments: Disclosure and Presentation* or paragraphs 6 or 7 of IAS 39 [revised 200X] *Financial Instruments: Recognition and Measurement.*	**Scope and Alternative Accounting Methods** 6. This Statement applies to all transactions in which an entity acquires goods or services by issuing equity instruments or by incurring liabilities to the supplier in amounts based on the price of the entity's common stock or other equity instruments. Therefore, it applies to all transactions in which an entity grants shares of its common stock, stock options, or other equity instruments to its employees, except for equity instruments held by an employee stock ownership plan. 7. The accounting for all stock-based compensation arrangements with employees or others shall reflect the inherent rights and obligations, regardless of how those arrangements are described. For example, the rights and obligations embodied in a transfer of stock to an employee for consideration of a nonrecourse note are substantially the same as if the transaction were structured as the grant of a stock option, and the transaction shall be accounted for as such. The terms of the arrangement may affect the fair value of the stock options or other equity instruments and shall be appropriately reflected in determining that value. For example, whether an employee who is granted an implicit option structured as the exchange of shares of stock for a nonrecourse note is required to pay nonrefundable interest on the note affects the fair value of the implicit option.
RECOGNITION	**4. An entity shall recognise the goods or services received or acquired in a share-based payment transaction when it obtains the goods or as the services are received. The entity shall recognise a corresponding increase in equity if the goods or services were received in an equity-settled share-based payment transaction, or a liability if the goods or services were acquired in a cash-settled share-based payment transaction.**	**INTRODUCTION** 1. This Statement establishes a **fair value** based method of accounting for **stock-based compensation plans.** It encourages entities to adopt that method in place of the provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees,* for all arrangements under

Main Headings from Proposed IFRS	IASB Proposed IFRS, *Share-based Payment*	FASB Statement No. 123, *Accounting for Stock-Based Compensation*
	5. When the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets, they shall be recognised as expenses. 6. Typically, an expense arises from the consumption of goods or services. For example, services are typically consumed immediately, in which case an expense is recognised as the counterparty renders services. Goods might be consumed over a period of time or, in the case of inventories, sold at a later date, in which case an expense is recognised when the goods are consumed or sold. However, sometimes it is necessary to recognise an expense before the goods or services are consumed or sold, because they do not qualify for recognition as assets. For example, an entity might acquire goods as part of the research phase of a project to develop a new product. Although those goods have not been consumed, they might not qualify for recognition as assets under the applicable IFRS.	which employees receive shares of stock or other equity instruments of the employer or the employer incurs liabilities to employees in amounts based on the price of its stock. 2. This Statement also establishes fair value as the measurement basis for transactions in which an entity acquires goods or services from nonemployees in exchange for equity instruments. This Statement uses the term *compensation* in its broadest sense to refer to the consideration paid for goods or services, regardless of whether the supplier is an employee or not. For example, employee compensation includes both cash salaries or wages and other consideration that may be thought of more as means of attracting, retaining, and motivating employees than as direct payment for services rendered. Also see paragraphs 8–10 and 11–14 below.
EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS	**Overview** 7. **For equity-settled share-based payment transactions, the entity shall measure the goods or services received, and the corresponding increase in equity, either directly, at the *fair value* of the goods or services received, or indirectly, by reference to the fair value of the *equity instruments granted* whichever fair value is more readily determinable.** 8. If the fair value of the goods or services received is measured directly, fair value shall be measured at the date the entity obtains those goods or the counterparty renders service. If the fair value of the goods or services received is measured indirectly, by reference to the fair value of the equity instruments granted, fair value shall be measured at *grant date.* The fair value of the equity instruments granted measured at grant date is a surrogate measure of the fair value of the goods or services received. 9. For transactions with parties other than employees, there shall be a rebuttable presumption that the fair value of the goods or services received is the more readily determinable fair value. 10. Typically, an established market price exists for goods and, in many cases, for services rendered by parties other than employees. Therefore, it shall be presumed that the fair value of the goods or services received is more readily determinable than the fair value of the equity instruments granted. This presumption might be rebutted, for example, if shares are granted to a supplier of services, in addition to a cash payment at market rates, as a bonus for achieving a particular performance target. In this situation, the fair value of the shares granted might be more readily determinable than the fair value of the services received. 11. For transactions with employees, the entity shall measure the fair value of the employee services received by reference to the fair value of the equity instruments granted, because the latter fair value is more readily determinable than the fair value of the employee services received.	**Accounting for Transactions with Other Than Employees** 8. Except for transactions with employees that are within the scope of Opinion 25, all transactions in which goods or services are the consideration received for the issuance of equity instruments shall be accounted for based on the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. The fair value of goods or services received from suppliers other than employees frequently is reliably measurable and therefore indicates the fair value of the equity instruments issued. The fair value of the equity instruments issued shall be used to measure the transaction if that value is more reliably measurable than the fair value of the consideration received. A common example of the latter situation is the use of the fair value of tradable equity instruments issued in a purchase business combination to measure the transaction because the value of the equity instruments issued is more reliably measurable than the value of the business acquired. 9. This Statement uses the term *fair value* for assets and financial instruments, including both liability and equity instruments, with the same meaning as in FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.* Statement 121 says that the fair value of an asset is . . . the amount at which the asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. Quoted market prices in active markets are the best evidence of fair value

Main Headings from Proposed IFRS	IASB Proposed IFRS, *Share-based Payment*	FASB Statement No. 123, *Accounting for Stock-Based Compensation*
	12. Typically, shares, options or other equity instruments are granted to employees as part of their pay package, in addition to a cash salary and other employment benefits. Usually, it is not possible to measure directly the services received for particular components of the employee's pay package. It might also not be possible to measure the fair value of the total pay package independently, without measuring directly the fair value of the equity instruments granted. Furthermore, options or shares are sometimes granted as part of a bonus arrangement, rather than as a part of basic pay, eg as an incentive to the employees to remain in the entity's employ or to reward them for their efforts in improving the entity's performance. By granting options, in addition to other remuneration, the entity is paying additional remuneration to obtain additional benefits. Estimating the fair value of those additional benefits is likely to be difficult. Therefore, the entity shall measure the fair value of the employee services received by reference to the fair value of the equity instruments granted, because the latter fair value is more readily determinable than the fair value of the employee services received. 13. If the equity instruments granted *vest* immediately, the counterparty is not required to complete a specified period of service before becoming unconditionally entitled to those equity instruments. In the absence of evidence to the contrary, the entity shall presume that services rendered by the counterparty as consideration for the equity instruments have been received. In this case, on grant date the entity shall recognise the services received in full, with a corresponding increase in equity. 14. If the equity instruments granted do not *vest* until the counterparty completes a specified period of service, the entity shall presume that the services to be rendered by the counterparty as consideration for those equity instruments will be received in the future, during the *vesting period.* The entity shall account for those services when they are rendered by the counterparty during the vesting period, with a corresponding increase in equity. 15. If the services received are measured by reference to the fair value of the equity instruments granted, the entity shall determine the amount to attribute to each *unit of service* received. To determine this amount, the entity shall: (a) presume that at grant date the total fair value of the equity instruments granted to the counterparty (or counterparties), determined in accordance with paragraphs 17–25, equals the total fair value of the services the entity expects to receive during the vesting period from that counterparty (or counterparties). (b) estimate at grant date the number of units of service it expects to receive during the vesting period from the counterparty (or counterparties). To make this estimate, the entity shall estimate the extent to which the counterparty (or counterparties) is (are) expected to complete the specified period of service. (c) divide the fair value of the equity instruments granted by the number of units of service expected to be received during the vesting period. This amount is the deemed fair value of each unit of service subsequently received.	and shall be used as the basis for the measurement, if available. If quoted market prices are not available, the estimate of fair value shall be based on the best information available in the circumstances. The estimate of fair value shall consider prices for similar assets and the results of valuation techniques to the extent available in the circumstances. Examples of valuation techniques include the present value of estimated expected future cash flows using a discount rate commensurate with the risks involved, option-pricing models, matrix pricing, option-adjusted spread models, and fundamental analysis. [paragraph 7] 10. If the fair value of the goods or services received is not reliably measurable, paragraph 8 of this Statement requires that the measure of the cost of goods or services acquired in a transaction with other than an employee be based on the fair value of the equity instruments issued. However, this Statement does not prescribe the **measurement date,** that is, the date of the stock price on which the fair value of the equity instrument is based, for a transaction with a nonemployee (paragraphs 70–73). **Accounting for Transactions with Employees** 11. This Statement provides a choice of accounting methods for transactions with employees that are within the scope of Opinion 25. Paragraphs 16–44 of this Statement describe a method of accounting based on the fair value, rather than the **intrinsic value,** of an employee stock option or a similar equity instrument. The Board encourages entities to adopt the fair value based method of accounting, which is preferable to the Opinion 25 method for purposes of justifying a change in accounting principle under APB Opinion No. 20, *Accounting Changes.* However, an entity may continue to apply Opinion 25 in accounting for its stock-based employee compensation arrangements. An entity that does so shall disclose pro forma net income and, if presented, earnings per share, determined as if the fair value based method had been applied in measuring compensation cost (paragraph 45). 12. The fair value based method described in paragraphs 16–44 of this Statement applies for (a) measuring stock-based employee compensation cost by an entity that adopts that method for accounting purposes and (b) determining the pro forma disclosures required of an entity that measures stock-based employee compensation cost in

Main Headings from Proposed IFRS	IASB Proposed IFRS, *Share-based Payment*	FASB Statement No. 123, *Accounting for Stock-Based Compensation*
	The entity shall measure the services received in each period by multiplying the number of units of service received from the counterparty (or counterparties) during that period by the deemed fair value per unit of service. If a counterparty ceases to render service during the period (eg an employee leaves), the entity shall include the services received from that counterparty before cessation of service in determining the number of units of service received during the period, but shall not recognise any further amounts in respect of that counterparty. This accounting method is illustrated in Appendix B. 16. Having recognised the services received and a corresponding increase in equity, the entity shall make no subsequent adjustment to total equity, even if the equity instruments granted are later forfeited or, in the case of options, the options are not exercised. However, this requirement does not preclude the entity from recognising a transfer within equity, ie a transfer from one component of equity to another.	accordance with the intrinsic value based method in Opinion 25. Neither those paragraphs (16–44) nor subsequent paragraphs (45–54) of this Statement affect application of the *accounting* provisions of Opinion 25 by an entity that continues to apply it in determining reported net income. 13. For convenience, in describing the fair value based method, paragraphs 16–44 of this Statement refer only to *recognition* or *accounting* requirements. However, those provisions apply equally in determining the pro forma amounts that must be disclosed if an entity continues to apply Opinion 25. 14. An entity shall apply the same accounting method—either the fair value based method described in this Statement or the intrinsic value based method in Opinion 25—in accounting for all of its stock-based employee compensation arrangements. Once an entity adopts the fair value based method for those arrangements, that election shall not be reversed. 15. Equity instruments granted or otherwise transferred directly to an employee by a **principal stockholder** are stock-based employee compensation to be accounted for by the entity under either Opinion 25 or this Statement, whichever method the entity is applying, unless the transfer clearly is for a purpose other than compensation. The substance of a transaction in which a principal stockholder directly transfers equity instruments to an employee as compensation is that the principal stockholder makes a capital contribution to the entity and the entity awards equity instruments to its employee. An example of a situation in which a direct transfer of equity instruments to an employee from a principal stockholder is not compensation cost is a transfer to settle an obligation of the principal stockholder unrelated to employment by the reporting entity. **Valuation of Equity Instruments Issued for Employee Services** **Measurement Basis** 16. Frequently, part or all of the consideration received for equity instruments issued to employees is past or future employee services. Equity instruments issued to employees and the cost of the services received as consideration shall be measured and recognized based on the fair value of the equity instruments issued. The portion of the fair value of an equity instrument attributed to employee services is net of the amount, if any, that employees pay for the instrument when it is

Main Headings from Proposed IFRS	IASB Proposed IFRS, *Share-based Payment*	FASB Statement No. 123, *Accounting for Stock-Based Compensation*
		granted. Paragraphs 17–25 of this Statement provide guidance on how to measure the fair value of stock-based employee compensation. Paragraphs 26–33 provide guidance on how to attribute compensation cost to the periods in which employees render the related services. Appendix B, which is an integral part of this Statement, provides additional guidance on both measurement and attribution of employee compensation cost. **Measurement Objective and Date** 17. The objective of the measurement process is to estimate the fair value, based on the stock price at the **grant date,** of stock options or other equity instruments to which employees become entitled when they have rendered the requisite service and satisfied any other conditions necessary to earn the right to benefit from the instruments (for example, to exercise stock options or to sell shares of stock). Restrictions that continue in effect after employees have earned the rights to benefit from their instruments, such as the inability to transfer **vested** employee stock options to third parties, affect the value of the instruments actually issued and therefore are reflected in estimating their fair value. However, restrictions that stem directly from the forfeitability of instruments to which employees have not yet earned the right, such as the inability either to exercise a nonvested option or to sell **nonvested stock,** do not affect the value of the instruments issued at the vesting date, and their effect therefore is not included in that value. Instead, no value is attributed to instruments that employees forfeit because they fail to satisfy specified service- or performance-related conditions. **Recognition of Compensation Cost** 26. The total amount of compensation cost recognized for an award of stock-based employee compensation shall be based on the number of instruments that eventually vest. No compensation cost is recognized for awards that employees forfeit either because they fail to satisfy a service requirement for vesting, such as for a **fixed award,** or because the entity does not achieve a **performance condition,** unless the condition is a target stock price or specified amount of intrinsic value on which vesting or exercisability is conditioned. For awards with the latter condition, compensation cost shall be recognized for awards to employees who remain in service for the requisite period regardless of whether the target stock price or amount of intrinsic value is reached. Previously recognized compensation cost shall not be reversed if a vested employee stock option expires unexercised.

Main Headings from Proposed IFRS	IASB Proposed IFRS, *Share-based Payment*	FASB Statement No. 123, *Accounting for Stock-Based Compensation*
		27. For purposes of this Statement, a stock-based employee compensation award becomes vested when an employee's right to receive or retain shares of stock or cash under the award is not contingent on the performance of additional services. Typically, an employee stock option that is vested also is immediately exercisable. However, if performance conditions affect either the exercise price or the exercisability date, the service period used for attribution purposes shall be consistent with the assumptions used in estimating the fair value of the award. Paragraphs 309 and 310 in Appendix B illustrate how to account for an option whose exercise price depends on a performance condition. 28. An entity may choose at the grant date to base accruals of compensation cost on the best available estimate of the number of options or other equity instruments that are expected to vest and to revise that estimate, if necessary, if subsequent information indicates that actual forfeitures are likely to differ from initial estimates. Alternatively, an entity may begin accruing compensation cost as if all instruments granted that are subject only to a service requirement are expected to vest. The effect of actual forfeitures would then be recognized as they occur. Initial accruals of compensation cost for an award with a performance condition that will determine the number of options or shares to which all employees receiving the award will be entitled shall be based on the best estimate of the outcome of the performance condition, although forfeitures by individual employees may either be estimated at the grant date or recognized only as they occur. 29. Compensation cost estimated at the grant date for the number of instruments that are expected to vest based on performance-related conditions, as well as those in which vesting is contingent only on future service for which the entity chooses to estimate forfeitures at the grant date pursuant to paragraph 28, shall be adjusted for subsequent changes in the expected or actual outcome of service- and performance-related conditions until the vesting date. The effect of a change in the estimated number of shares or options expected to vest is a change in an estimate, and the cumulative effect of the change on current and prior periods shall be recognized in the period of the change. 30. The compensation cost for an award of equity instruments to employees shall be recognized over the period(s) in which the related employee services are rendered by a charge to compensation cost and a

Main Headings from Proposed IFRS	IASB Proposed IFRS, *Share-based Payment*	FASB Statement No. 123, *Accounting for Stock-Based Compensation*
		corresponding credit to equity (paid-in capital) if the award is for future service. If the service period is not defined as an earlier or shorter period, the service period shall be presumed to be the period from the grant date to the date that the award is vested and its exercisability does not depend on continued employee service (paragraph 27). If an award is for past services, the related compensation cost shall be recognized in the period in which it is granted. 31. Compensation cost for an award with a graded vesting schedule shall be recognized in accordance with the method described in Interpretation 28 if the fair value of the award is determined based on different expected lives for the options that vest each year, as it would be if the award is viewed as several separate awards, each with a different vesting date. If the expected life or lives of the award is determined in another manner, the related compensation cost may be recognized on a straight-line basis. However, the amount of compensation cost recognized at any date must at least equal the value of the vested portion of the award at that date. Appendix B illustrates application of both attribution methods to an award accounted for by the fair value based method.
	Fair value of equity instruments granted 17. An entity shall measure the fair value of equity instruments granted, based on market prices if available, taking into account the terms and conditions upon which those equity instruments were granted. 18. The discussion below focuses on grants of shares or options, and specific terms and conditions that are common features of such grants to employees. Therefore, it is not exhaustive. 19. The fair value of shares granted shall be measured at the market price of the entity's shares (or an estimated market price, if the entity's shares are not publicly traded), adjusted to take into account the terms and conditions upon which those shares were granted (for example, adjusted for expected dividends and vesting conditions, in accordance with paragraphs 23 and 24). 20. The fair value of options granted shall be measured at the market price of traded options with similar terms and conditions. However, in many cases such traded options do not exist, because the options granted are subject to terms and conditions that do not apply to traded options. For example, employee share options are typically non-transferable and subject to *vesting conditions*. If traded options with similar terms and conditions do not exist, the fair value of the options granted shall be estimated by applying an option pricing model, such as the Black-Scholes model or a binomial model. The model applied shall take into account all of the following factors: (a) the exercise price of the option;	**Measurement Methods** ***Awards That Call for Settlement by Issuing Equity Instruments*** 18. The fair value of a share of nonvested stock awarded to an employee shall be measured at the market price (or estimated market price, if the stock is not publicly traded) of a share of the same stock as if it were vested and issued on the grant date. Nonvested stock granted to employees usually is referred to as **restricted stock,** but this Statement reserves that term for shares whose sale is contractually or governmentally restricted after the shares are vested and fully outstanding. The fair value of a share of restricted stock awarded to an employee, that is, a share that will be restricted after the employee has a vested right to it, shall be measured at its fair value, which is the same amount as a share of similarly restricted stock issued to nonemployees. 19. The fair value of a stock option (or its equivalent) granted by a **public entity** shall be estimated using an option-pricing model (for example, the Black-Scholes or a binomial model) that takes into account as of the grant date the exercise price and expected life of the option, the current price of the underlying stock and its expected **volatility,** expected dividends on the stock (except as provided in paragraphs 32 and 33), and the risk-free interest rate for the expected term of the option. For options that a U.S. entity grants on its own

Main Headings from Proposed IFRS	IASB Proposed IFRS, *Share-based Payment*	FASB Statement No. 123, *Accounting for Stock-Based Compensation*
	(b) the life of the option (in accordance with paragraph 21); (c) the current price of the underlying shares; (d) the expected *volatility* of the share price; (e) the dividends expected on the shares (if appropriate, in accordance with paragraph 23); and (f) the *risk-free interest rate* for the life of the option. 21. For non-transferable options, the option's *expected life* rather than its contracted life shall be used in applying an option pricing model. For transferable options, the option's contracted life shall be used. 22. For options that are subject to vesting conditions and cannot therefore be exercised during the vesting period: (a) if an entity uses an option pricing model that values options that can be exercised at any time during the option's life, such as a binomial model, the application of the model shall take account of the inability to exercise the options during the vesting period. (b) if an entity uses an option pricing model that values options that can be exercised only at the end of the options' life, such as the Black-Scholes model, no adjustment is required for the inability to exercise them during the vesting period because the model assumes that the options cannot be exercised during that period. 23. When an entity measures the fair value of options or shares granted, expected dividends on the shares shall be taken into account (eg by being included as an input to an option pricing model) if the counterparty is not entitled to receive dividends or dividend equivalents for a specified period, such as during the vesting period or until the options are exercised. 24. If a grant of shares or options is conditional upon satisfying specified vesting conditions, those conditions shall be taken into account when an entity measures the fair value of the shares or options granted. For example, a grant of shares or options to an employee is typically conditional on the employee's remaining in the entity's employ for a specified period of time. There might also be performance conditions that must be satisfied, such as the entity's achieving a specified growth in profit or a specified increase in the entity's share price. Vesting conditions shall be taken into account either by incorporating them into the application of an option pricing model or by making an appropriate adjustment to the value produced by such a model.	stock, the risk-free interest rate used shall be the rate currently available on zero-coupon U.S. government issues with a remaining term equal to the expected life of the options. Guidance on selecting other assumptions is provided in Appendix B. The fair value of an option estimated at the grant date shall not be subsequently adjusted for changes in the price of the underlying stock or its volatility, the life of the option, dividends on the stock, or the risk-free interest rate. 20. A **nonpublic entity** shall estimate the value of its options based on the factors described in the preceding paragraph, except that a nonpublic entity need not consider the expected volatility of its stock over the expected life of the option. The result of excluding volatility in estimating an option's value is an amount commonly termed **minimum value.** 21. It should be possible to reasonably estimate the fair value of most stock options and other equity instruments at the date they are granted. Appendix B illustrates techniques for estimating the fair values of several options with complicated features. However, in unusual circumstances, the terms of a stock option or other equity instrument may make it virtually impossible to reasonably estimate the instrument's fair value at the date it is granted. For example, it may be extremely difficult, if not impossible, to reasonably estimate the fair value of a stock option whose exercise price decreases (or increases) by a specified amount with specified changes in the price of the underlying stock. Similarly, it may not be possible to reasonably estimate the value of a convertible instrument if the conversion ratio depends on the outcome of future events. 22. If it is not possible to reasonably estimate the fair value of an option or other equity instrument at the grant date, the final measure of compensation cost shall be the fair value based on the stock price and other pertinent factors at the first date at which it is possible to reasonably estimate that value. Generally, that is likely to be the date at which the number of shares to which an employee is entitled and the exercise price are determinable. Estimates of compensation cost for periods during which it is not possible to determine fair value shall be based on the current intrinsic value of the award, determined in accordance with the terms that would apply if the option or similar instrument had been currently exercised.

Main Headings from Proposed IFRS	IASB Proposed IFRS, *Share-based Payment*	FASB Statement No. 123, *Accounting for Stock-Based Compensation*
	25. For options with a *reload feature,* the reload feature shall be taken into account, where practicable, when an entity measures the fair value of the options granted. However, if the reload feature is not taken into account in the measurement of the fair value of the options granted, then the *reload option* granted shall be accounted for as a new option grant.	**[Reload Options]** 34. The fair value of each award of equity instruments, including an award of **reload options,** shall be measured separately based on its terms and the current stock price and related factors at the date it is granted. [EITF Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods and Services," addresses issues related to the recognition and measurement of stock-based compensation to other than employees.]
	Modifications to the terms and conditions on which equity instruments were granted 26. An entity might modify the terms and conditions on which the equity instruments were granted. For example, it might reduce the exercise price of options granted to employees (ie reprice the options), which increases the fair value of those options. 27. Measuring the services received as consideration for the options granted by reference to the fair value of the options granted presumes that the fair value of the options granted is a reasonable surrogate measure of the fair value of the services received. Therefore, any changes to the terms and conditions on which the options were granted must be taken into account when measuring the services received. Hence, the measurement of the services received shall include the incremental value granted on repricing (ie the difference between the fair value of the repriced option and that of the original option, both estimated as at the date of repricing), as explained in paragraph 28. 28. To apply the requirement in paragraph 27, the entity shall determine the amount to attribute to each unit of service received in respect of the incremental value granted, by dividing the incremental value granted by the number of units of service it expects to receive during the period from the date of repricing until the end of the vesting period of the repriced options, as estimated at the date of repricing. This amount is deemed to be the fair value of each unit of service received in respect of the incremental value granted. The entity shall account for the services received in each period by multiplying the number of units of service rendered by the employees during that period by their deemed fair value per unit. The entity shall continue to account for the services received in respect of the original option grant. This accounting method is illustrated in Appendix B. 29. If the entity cancels a grant of shares or options during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied):	**Additional Awards and Modifications of Outstanding Awards** 34. The fair value of each award of equity instruments, including an award of **reload options,** shall be measured separately based on its terms and the current stock price and related factors at the date it is granted. 35. A modification of the terms of an award that makes it more valuable shall be treated as an exchange of the original award for a new award. In substance, the entity repurchases the original instrument by issuing a new instrument of greater value, incurring additional compensation cost for that incremental value. The incremental value shall be measured by the difference between (a) the fair value of the modified option determined in accordance with the provisions of this Statement and (b) the value of the old option immediately before its terms are modified, determined based on the shorter of (1) its remaining expected life or (2) the expected life of the modified option. Appendix B provides further guidance on and illustrates the accounting for modifications of both vested and nonvested options. 36. Exchanges of options or changes to their terms in conjunction with business combinations, spinoffs, or other equity restructurings, except for those made to reflect the terms of the exchange of shares in a business combination accounted for as a pooling of interests, are modifications for purposes of this Statement. However, a change to the terms of an award in accordance with antidilution provisions that are designed, for example, to equalize an option's value before and after a stock split or a stock dividend is not a modification of an award for purposes of this Statement.

Main Headings from Proposed IFRS	IASB Proposed IFRS, *Share-based Payment*	FASB Statement No. 123, *Accounting for Stock-Based Compensation*
	(a) the entity shall continue to account for services rendered by the counterparty during the remainder of the vesting period, as if that grant had not been cancelled. (b) any payment made to the counterparty on the cancellation of the grant shall be accounted for as the repurchase of an equity interest, ie as a deduction from equity, except to the extent that the payment exceeds the fair value of the shares or options granted, measured at the repurchase date. Any such excess shall be recognised as an expense. (c) if new options are granted to the counterparty and, on the date when those new options are granted, the entity identifies the new options granted as replacement options for the cancelled options, the entity shall account for the granting of replacement options in the same way as a repricing of options, in accordance with paragraph 28. The incremental value granted is the difference between the fair value of the replacement options and the net fair value of the cancelled options, at the date the replacement options are granted. The net fair value of the cancelled options is their fair value less the amount of any payment made to the counterparty on cancellation of the options that is accounted for as a deduction from equity in accordance with (b) above. If the entity does not identify new options granted as replacement options for the cancelled options, the entity shall account for those new options as a new option grant. An example is given in Appendix B. 30. If an entity repurchases vested equity instruments, the payment made to the counterparty shall be accounted for as a deduction from equity, except to the extent that the payment exceeds the fair value of the equity instruments repurchased at the repurchase date. Any such excess shall be recognised as an expense.	
CASH-SETTLED SHARE-BASED PAYMENT TRANSACTIONS	**31. For cash-settled share-based payment transactions, the entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the entity shall remeasure the fair value of the liability at each reporting date, with any changes in fair value recognised in profit and loss.** 32. For example, an entity might grant share appreciation rights to employees as part of their pay package, whereby the employees will become entitled to a future cash payment (rather than an equity instrument), based on the increase in the entity's share price from a specified level over a specified period of time. 33. The entity shall recognise the services received, and a liability to pay for those services, as the employees render service. For example, some share appreciation rights vest immediately, and the employees are therefore not required to complete a specified period of service to become entitled to the cash payment. In the absence of evidence to the contrary, the entity shall presume that the services rendered by the employees in exchange for the share appreciation rights have been received. Thus, the entity shall recognise immediately the services received and a liability to pay for them. If the share appreciation rights do not vest until the employees have completed a specified period of service, the entity shall recognise the services received, and a liability to pay for them, as the employees render service during that period.	***Awards That Call for Settlement in Cash*** 25. Some awards of stock-based compensation result in the entity's incurring a liability because employees can compel the entity to settle the award by transferring its cash or other assets to employees rather than by issuing equity instruments. For example, an entity may incur a liability to pay an employee either on demand or at a specified date an amount to be determined by the increase in the entity's stock price from a specified level. The amount of the liability for such an award shall be measured each period based on the current stock price. The effects of changes in the stock price during the **service period** are recognized as compensation cost over the service period in accordance with the method illustrated in FASB Interpretation No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans*. Changes in the amount of the liability due to stock price changes after the service period are compensation cost of the period in which the changes occur.

Main Headings from Proposed IFRS	IASB Proposed IFRS, *Share-based Payment*	FASB Statement No. 123, *Accounting for Stock-Based Compensation*
	34. The liability shall be measured, initially and at each reporting date until settled, at the fair value of the share appreciation rights, by applying an option pricing model, taking into account the terms and conditions on which the share appreciation rights were granted, and the extent to which the employees have rendered service to date. For example, if the share appreciation rights granted are conditional upon the employees' remaining in the entity's employ for the next three years and the employees have completed only one year's service at the reporting date, the entity shall measure the fair value of the liability at the reporting date by applying an option pricing model—adjusted as appropriate to allow for the possibility of forfeiture of the share appreciation rights—and multiplying the resulting amount by one-third. The entity shall remeasure the fair value of the liability at each reporting date until settled. An illustrative example is given in Appendix C.	
SHARE-BASED PAYMENT TRANSACTIONS WITH CASH ALTERNATIVES	**35. For share-based payment transactions in which either the entity or the counterparty may choose whether the entity settles the transaction in cash or by issuing equity instruments, the entity shall account for that transaction, or the components of that transaction, as a cash-settled share-based payment transaction if the entity has incurred a liability to settle in cash or other assets, or as an equity-settled share-based payment transaction if no such liability has been incurred.**	
	Share-based payment transactions in which the counterparty has the choice of settlement 36. If an entity has granted the counterparty the right to choose whether a share-based payment transaction is settled in cash or by issuing equity instruments, the entity has granted a compound financial instrument, which includes a debt component (the counterparty's right to demand payment in cash) and an equity component (the counterparty's right to demand settlement in equity instruments rather than in cash). For transactions with parties other than employees in which the fair value of the goods or services received is measured directly, the entity shall measure the equity component of the compound financial instrument as the difference between the fair value of the goods or services received and the fair value of the debt component, at the date when the goods or services are received. 37. For other transactions, including transactions with employees, the entity shall measure the fair value of the compound financial instrument at grant date, taking into account the terms and conditions on which the rights to cash or equity instruments were granted. 38. To apply paragraph 37, the entity shall first measure the fair value of the debt component, and then measure the fair value of the equity component—taking into account that the counterparty must forfeit the right to receive cash to receive the equity instrument. The fair value of the compound financial instrument is the sum of the fair values of the two components. However, share-based payment transactions in which the counterparty has the choice of settlement are often structured so that the fair value of one settlement alternative is the same as the other. For example, the counterparty might have the choice of receiving share options or cash-settled share appreciation rights. In such cases, the fair value of the equity component is zero, and hence the	**Settlements of Awards** 37. An entity occasionally may repurchase equity instruments issued to employees after the employees have vested rights to them. The amount of cash or other assets paid (or liabilities incurred) to repurchase an equity instrument shall be charged to equity, provided that the amount paid does not exceed the value of the instruments repurchased. For example, an entity that repurchases for $10 a share of stock on the date it becomes vested does not incur additional compensation cost if the market price of the stock is $10 at that date. However, if the market price of the stock is only $8 at that date, the entity incurs an additional $2 ($10 – $8) of cost. An entity that settles a nonvested award for cash has, in effect, vested the award, and the amount of compensation cost measured at the grant date but not yet recognized shall be recognized at the date of repurchase. 38. For employee stock options, the incremental amount, if any, to be recognized as additional compensation cost upon cash settlement shall be determined based on a comparison of the amount paid with the value of the option repurchased, determined based on the remainder of its original expected life at that date. As indicated in paragraph 37, if stock options are repurchased before they become vested, the amount of unrecognized compensation cost shall be recognized at the date of the repurchase.

Main Headings from Proposed IFRS	IASB Proposed IFRS, *Share-based Payment*	FASB Statement No. 123, *Accounting for Stock-Based Compensation*
	fair value of the compound financial instrument is the same as the fair value of the debt component. Conversely, if the fair values of the settlement alternatives differ, the fair value of the equity component is greater than zero, and hence the fair value of the compound financial instrument is greater than the fair value of the debt component. 39. The entity shall account separately for the goods or services received or acquired in respect of each component of the compound financial instrument. For the debt component, the entity shall recognise the goods or services acquired, and a liability to pay for those good or services, as the counterparty supplies goods or renders service, in the same way as other cash-settled share-based payment transactions (paragraphs 31–34). For the equity component (if any), the entity shall recognise the goods or services received, and an increase in equity, as the counterparty supplies goods or renders service, in the same way as other equity-settled share-based payment transactions (paragraphs 7–30). 40. At the date of settlement, the entity shall remeasure the liability to its fair value. If the entity issues equity instruments on settlement rather than paying cash, the liability shall be transferred direct to equity, as the consideration for the equity instruments issued. 41. If the entity pays cash on settlement rather than issuing equity instruments, that cash payment shall be applied to settle the liability in full. Any equity component previously recognised shall remain within equity. By electing to receive cash on settlement, the counterparty forfeited the right to receive equity instruments. However, this requirement does not preclude the entity from recognising a transfer within equity, ie a transfer from one component of equity to another.	39. The accounting shall reflect the terms of a stock-based compensation plan as those terms are mutually understood by the employer and the employees who receive awards under the plan. Generally, the written plan provides the best evidence of its terms. However, an entity's past practice may indicate that the **substantive terms** of a plan differ from its written terms. For example, an entity that grants a **tandem award** consisting of either a stock option or a cash stock appreciation right (SAR) is obligated to pay cash on demand if the choice is the employee's, and the entity thus incurs a liability to the employee. In contrast, if the choice is the entity's, it can avoid transferring its assets by choosing to settle in stock, and the award qualifies as an equity instrument. However, if an entity that nominally has the choice of settling awards by issuing stock generally settles in cash, or if the entity generally settles in cash whenever an employee asks for cash settlement, the entity probably is settling a substantive liability rather than repurchasing an equity instrument. The substantive terms shall be the basis for the accounting. 40. To restrict control to a limited group, for example, the members of a particular family, a nonpublic entity may obligate itself to repurchase its equity instruments for their fair value at the date of repurchase. In practice, such an obligation is not deemed to convert the stock to a liability. This Statement is not intended to change that view of the effect of a fair value repurchase agreement for a nonpublic entity. Thus, a nonpublic entity may grant or otherwise issue to employees equity instruments subject to such a repurchase agreement. The repurchase agreement does not convert those equity instruments to liabilities, provided that the repurchase price is the fair value of the stock at the date of repurchase.
	Share-based payment transactions in which the entity has the choice of settlement 42. For a share-based payment transaction in which an entity may choose whether to settle in cash or by issuing equity instruments, the entity shall determine whether it has a present obligation to settle in cash and account for the share-based payment transaction accordingly. The entity has a present obligation to settle in cash if the choice of settlement in equity instruments is not substantive, or if the entity has a past practice or a stated policy of settling in cash. 43. If such an obligation exists, the entity shall account for the transaction in accordance with the requirements applying to cash-settled share-based payment transactions, in paragraphs 31–34. 44. If no such obligation exists, the entity shall account for the transaction in accordance with the requirements applying to equity-settled transactions, in paragraphs 7–30. Upon settlement:	39. The accounting shall reflect the terms of a stock-based compensation plan as those terms are mutually understood by the employer and the employees who receive awards under the plan. Generally, the written plan provides the best evidence of its terms. However, an entity's past practice may indicate that the **substantive terms** of a plan differ from its written terms. For example, an entity that grants a **tandem award** consisting of either a stock option or a cash stock appreciation right (SAR) is obligated to pay cash on demand if the choice is the employee's, and the entity thus incurs a liability to the employee. In contrast, if the choice is the entity's, it can avoid transferring its assets by choosing to settle in stock, and the award qualifies as an equity instrument. However, if an entity that nominally

Main Headings from Proposed IFRS	IASB Proposed IFRS, *Share-based Payment*	FASB Statement No. 123, *Accounting for Stock-Based Compensation*
	(a) if the entity elects to settle in cash, the cash payment shall be accounted for as the repurchase of an equity interest, ie as a deduction from equity, except as noted in (c) below. (b) if the entity elects to settle by issuing equity instruments, no further accounting is required, (other than a transfer from one component of equity to another, if necessary), except as noted in (c) below. (c) if the entity elects the settlement alternative with the higher fair value, as at the date of settlement, the entity shall recognise an additional expense for the excess value given, ie the difference between the cash paid (the fair value of the equity instruments issued) and the fair value of the equity instruments that would otherwise have been issued (the amount of cash that would otherwise have been paid).	has the choice of settling awards by issuing stock generally settles in cash, or if the entity generally settles in cash whenever an employee asks for cash settlement, the entity probably is settling a substantive liability rather than repurchasing an equity instrument. The substantive terms shall be the basis for the accounting. [EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," addresses issues related to the classification of nonemployee stock-based compensation arrangements once performance has occurred.]
DISCLOSURES	**45. An entity shall disclose information that enables users of the financial statements to understand the nature and extent of *share-based payment arrangements* that existed during the period.** 46. To give effect to the principle in paragraph 45, the entity shall disclose at least the following: (a) a description of each type of share-based payment arrangement that existed at any time during the period, including details of: (i) whether the rights granted by the entity to employees or other parties pursuant to the arrangement consisted of rights to shares, share options, other equity instruments, cash or other assets; (ii) when those rights were granted; (iii) those to whom the rights were granted (eg a description of the number and class of employees participating in a group employee share plan); (iv) the contractual life of options granted; (v) whether the exercise price is fixed or variable (and, if variable, how the exercise price is determined); and (vi) a description of the vesting requirements, including service conditions and performance conditions. (b) the number and weighted average exercise prices of options for each of the following groups of options:	**Disclosures** 45. Regardless of the method used to account for stock-based employee compensation arrangements, the financial statements of an entity shall include the disclosures specified in paragraphs 46–48. In addition, an entity that continues to apply Opinion 25 shall disclose for each year for which an income statement is provided the pro forma net income and, if earnings per share is presented, pro forma earnings per share, as if the fair value based accounting method in this Statement had been used to account for stock-based compensation cost. Those pro forma amounts shall reflect the difference between compensation cost, if any, included in net income in accordance with Opinion 25 and the related cost measured by the fair value based method, as well as additional tax effects, if any, that would have been recognized in the income statement if the fair value based method had been used. The required pro forma amounts shall reflect no other adjustments to reported net income or earnings per share. 46. An entity with one or more stock-based compensation plans shall provide a description of the plan(s), including the general terms of awards under the plan(s), such as vesting requirements, the maximum term of options granted, and the number of shares authorized for grants of options or other equity instruments. An entity that uses equity instruments to acquire goods or services other than employee services shall provide disclosures similar to those required by this paragraph and paragraphs 47 and 48 to the extent that those disclosures are important in understanding the effects of those transactions on the financial statements.

Main Headings from Proposed IFRS	IASB Proposed IFRS, *Share-based Payment*	FASB Statement No. 123, *Accounting for Stock-Based Compensation*
	(i) outstanding at the beginning of the period; (ii) granted during the period; (iii) forfeited during the period; (iv) exercised during the period; (v) expired during the period; (vi) outstanding at the end of the period; and (vii) exercisable at the end of the period. (c) for options exercised during the period, the weighted average share price at the date of exercise. (d) for options outstanding at the end of the period, the range of exercise prices and weighted average remaining expected life and contractual life. If the range of exercise prices is wide, the outstanding options shall be divided into ranges that are meaningful for assessing the number and timing of additional shares that may be issued and the cash that may be received upon exercise of those options. **47. An entity shall disclose information to enable users of the financial statements to understand how the fair value of the goods or services received, or the fair value of the equity instruments granted, during the period was determined.** 48. If the entity has measured the fair value of goods or services received as consideration for equity instruments of the entity indirectly, by reference to the fair value of the equity instruments granted, to give effect to the principle in paragraph 47, the entity shall disclose at least the following: (a) for options granted during the period, the weighted-average fair value of those options at grant date and information on how that fair value was measured, including: (i) the option pricing model used and the inputs to that model, including share price, exercise price, expected volatility, option life (including whether expected or contracted life was used), expected dividends, the risk-free interest rate and any other inputs to the model; (ii) historical volatility and an explanation of the differences between historical and expected volatility, or an explanation of how expected volatility was determined if it was not based on historical volatility;	47. The following information shall be disclosed for each year for which an income statement is provided: a. The number and weighted-average exercise prices of options for each of the following groups of options: (1) those outstanding at the beginning of the year, (2) those outstanding at the end of the year, (3) those exercisable at the end of the year, and those (4) granted, (5) exercised, (6) forfeited, or (7) expired during the year. b. The weighted-average grant-date fair value of options granted during the year. If the exercise prices of some options differ from the market price of the stock on the grant date, weighted-average exercise prices and weighted-average fair values of options shall be disclosed separately for options whose exercise price (1) equals, (2) exceeds, or (3) is less than the market price of the stock on the grant date. c. The number and weighted-average grant-date fair value of equity instruments other than options, for example, shares of nonvested stock, granted during the year. d. A description of the method and significant assumptions used during the year to estimate the fair values of options, including the following weighted-average information: (1) risk-free interest rate, (2) expected life, (3) expected volatility, and (4) expected dividends. e. Total compensation cost recognized in income for stock-based employee compensation awards. f. The terms of significant modifications of outstanding awards. An entity that grants options under multiple stock-based employee compensation plans shall provide the foregoing information separately for different types of awards to the extent that the differences in the characteristics of the awards make separate disclosure important to an understanding of the entity's use of stock-based compensation. For example, separate disclosure of weighted-average exercise prices at the end of the year for options with a fixed exercise price and those with an indexed exercise price is likely to be important, as would segregating the number of options not yet exercisable into those that will become exercisable based solely on employees' rendering additional service

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	(iii) an explanation of how the risk-free interest rate was determined; (iv) the assumptions made with regard to vesting conditions and an explanation of how vesting conditions have been taken into account in measuring fair value, including the resulting impact on the fair value measure; and (v) whether and how a reload feature, and any other features of the option grant were incorporated into the measurement of fair value. (b) for shares or other equity instruments granted during the period, the number and weighted average fair value of those shares or other equity instruments at grant date, and information on how that fair value was measured, including: (i) if the fair value was not measured on the basis of an observable market price, how it was determined; (ii) the assumptions made with regard to vesting conditions and an explanation of how vesting conditions have been taken into account in measuring fair value, including the resulting impact on the grant date valuation; (iii) whether and how expected dividends were incorporated into the measurement of fair value; and (iv) whether and how any other features of the shares or other equity instruments granted were incorporated into the measurement of fair value. (c) for rights to cash, or rights to either cash or equity instruments, granted during the period pursuant to a cash-settled share-based payment arrangement or a share-based payment arrangement with a cash alternative, the weighted average fair value of those rights at grant date, split into their debt and equity components, and information on how these fair values were measured, consistently with the requirements set out in (a) and (b) above, where applicable. (d) for share-based payment arrangements that were modified during the period: (i) an explanation of those modifications; (ii) the incremental fair value granted (as a result of those modifications); and (iii) information on how the incremental fair value granted was measured, consistently with the requirements set out in (a)–(c) above, where applicable.	and those for which an additional condition must be met for the options to become exercisable. 48. For options outstanding at the date of the latest statement of financial position presented, the range of exercise prices (as well as the weighted-average exercise price) and the weighted-average remaining contractual life shall be disclosed. If the range of exercise prices is wide (for example, the highest exercise price exceeds approximately 150 percent of the lowest exercise price), the exercise prices shall be segregated into ranges that are meaningful for assessing the number and timing of additional shares that may be issued and the cash that may be received as a result of option exercises. The following information shall be disclosed for each range: a. The number, weighted-average exercise price, and weighted-average remaining contractual life of options outstanding b. The number and weighted-average exercise price of options currently exercisable.

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	(e) for options, shares, or other equity instruments that vested during the period, or would have vested during the period had the vesting conditions been satisfied (ie equity instruments that would have vested during the period if the counterparty had completed the specified service period and/or if the specified performance conditions had been satisfied), a comparison of the percentage or number of equity instruments that vested and the grant date estimate of the percentage or number expected to vest. (f) for options that were exercised during the period, a comparison of actual option life and the grant date estimate of expected life. 49. If an entity has measured directly the fair value of goods or services received during the period, the entity shall disclose how that fair value was determined, eg whether fair value was measured at an established market price for those goods or services. 50. If an entity has rebutted the presumption in paragraph 9, it shall disclose that fact, and give an explanation of why the presumption was rebutted. **51. An entity shall disclose information that enables users of the financial statements to understand the effect of expenses arising from share-based payment transactions on the entity's profit or loss for the period.** 52. To give effect to the principle in paragraph 51, the entity shall disclose at least the following: (a) the total expense recognised for the period arising from share-based payment transactions, including that portion of the total expense that arises from transactions accounted for as equity-settled share-based payment transactions; and (b) for cash settled share-based payment transactions, the portion of the expense recognised for the period that is attributable to the transaction having been measured as a cash-settled transaction rather than as an equity-settled transaction. 53. If the information required to be disclosed by this [draft] IFRS does not satisfy the principles in paragraphs 45, 47 and 51, the entity shall disclose such additional information as is necessary to satisfy them.	
TRANSITIONAL PROVISIONS	54. For equity-settled share-based payment transactions, the entity shall apply the requirements of this [draft] IFRS to grants of shares, options or other equity instruments that were granted after [date to be inserted, being the publication date of this Exposure Draft] that had not yet vested at the effective date of this [draft] IFRS. 55. For liabilities arising from share-based payment transactions existing at the effective date of this [draft] IFRS, the entity shall apply retrospectively the requirements of this [draft] IFRS, except that the entity is not required to measure vested share appreciation rights (and similar liabilities in which the counterparty holds vested rights to cash or other assets of the entity) at fair	**Effective Date and Transition** 51. The requirement in paragraph 8 of this Statement shall be effective for transactions entered into after December 15, 1995. 52. The recognition provisions of this Statement may be adopted upon issuance. Regardless of when an entity initially adopts those provisions, they shall be applied to all awards granted after the beginning of the fiscal year in which the recognition provisions are first

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	value. Such liabilities shall be measured at their settlement amount (ie the amount that would have been paid on settlement of the liability had the counterparty demanded settlement at the date the liability is measured).	applied. The recognition provisions shall not be applied to awards granted in fiscal years before the year of initial adoption except to the extent that prior years' awards are modified or settled in cash after the beginning of the fiscal year in which the entity adopts the recognition provisions. Accounting for modifications and settlements of awards initially accounted for in accordance with Opinion 25 is discussed and illustrated in Appendix B. 53. The disclosure requirements of this Statement shall be effective for financial statements for fiscal years beginning after December 15, 1995, or for the fiscal year for which this Statement is initially adopted for recognizing compensation cost, whichever comes first. The disclosure requirements need not be applied in an interim report unless a complete set of financial statements is presented for that period. Pro forma disclosures required by paragraph 45 of this Statement shall include the effects of all awards granted in fiscal years that begin after December 15, 1994. Pro forma disclosures for awards granted in the first fiscal year beginning after December 15, 1994 need not be included in financial statements for that fiscal year but shall be presented subsequently whenever financial statements for that fiscal year are presented for comparative purposes with financial statements for a later fiscal year. 54. During the initial phase-in period, the effects of applying this Statement for either recognizing compensation cost or providing pro forma disclosures are not likely to be representative of the effects on reported net income for future years, for example, because options vest over several years and additional awards generally are made each year. If that situation exists, the entity shall include a statement to that effect. The entity also may wish to provide supplemental disclosure of the effect of applying the fair value based accounting method to all awards made in fiscal years beginning before the date of initial adoption that were not vested at that date.
EFFECTIVE DATE	56. An entity shall apply this [draft] IFRS in its annual financial statements for periods beginning on or after 1 January 2004 [provided that the IFRS is issued before the end of 2003]. Earlier adoption is encouraged. If an entity applies the [draft] IFRS in its financial statements for a period beginning before 1 January 2004, it shall disclose that fact.	**Effective Date and Transition** 51. The requirement in paragraph 8 of this Statement shall be effective for transactions entered into after December 15, 1995.