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Mr. Kevin Stevenson, Chairman
International Financial Reporting Interpretations Committee

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Kevin,

Comments on IFRIC D11 "Changes in Contribution to Employee Share Purchase Plans"

Accounting Standards Board of Japan (ASBJ) is pleased to comment on IFRIC D11 "Changes in Contribution to Employee Share Purchase Plans".
The views expressed in this letter are those of International Issues Standing Committee of ASBJ.

When we submitted our comment letter on the Exposure Draft of IFRS 2 "Share-based payment" dated March 7th, 2003, we were not yet at a stage where we could express particular views on the specific issues about share-based payment transactions. After that, in December 2004, we have issued the exposure draft of "Accounting Standards for Stock Options" which proposes the accounting treatment for modifications different from the IFRS 2. However, we do not comment on the fundamental issues about share-based payment here, since we have not reached a final conclusion.

D11 proposes that if an entity's employee ceases to contribute to an ESPP, the entity shall account for this event as a cancellation in accordance with paragraph 28(a) of IFRS 2. However, we support the alternative approach noted in BC5 that such a cessation be regarded as a failure to satisfy a vesting condition and resultant forfeiture of an employee's right, rather than as an acceleration of vesting.
The reasons are as follows:

- Paragraph 28 of IFRS 2 specifies the accounting treatment when the entity, not the employee, cancels the employee's participation in the plan. Therefore, we consider it is beyond the intent of paragraph 28 to apply it to the case where the employee voluntarily ceases to contribute to the ESPP.
- The IFRIC concluded in BC6 and BC7 that vesting conditions do not include conditions other than service conditions and performance conditions, because a requirement to

contribute to an ESPP is a requirement to pay specified purchase price of shares, and this requirement is not a vesting condition. However, vesting conditions need not be interpreted as including only service and performance conditions, because IFRS2 does not explicitly limit vesting conditions to service and performance conditions, as described in BC7. We believe that treating a contribution to an ESPP as vesting conditions would better reflect the economic reality.

- BC8 states that treating a requirement to pay the specified purchase price as a vesting condition would undermine the requirements of IFRS2. However, we consider this is an argument based on a preconception that it is always adequate to require the entity to recognize expenses as much as possible.

D11 also proposes that if an employee changes from one ESPP to another, the entity shall account for this event in accordance with paragraph 28(c) of IFRS 2. In this case, we suppose the influence of arbitrary judgment of the entity is inevitable in determining whether the equity instruments granted to the employee under the new ESPP should be regarded as replacements for the ones granted under the original ESPP or not. Accordingly, we consider it more practically effective to require the entity to account for this event as a modification of the equity instruments, as far as granting the equity instruments under the new ESPP are presumed to have the same economic effects as the modification of the ones granted under the original ESPP.

We hope that our comments will contribute to the discussion in both IFRIC and IASB.

Best Regards,

Ikuo Nishikawa
Chairman, International Issues Standing Committee
Vice-Chairman, Accounting Standards Board of Japan