CL 57

6 March 2003

Ms Kimberley Crook
Project Manager
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Dear Ms Crook,

Re: Yorkshire Building Society's response to proposed accounting rules for Share-based payments

On behalf of Yorkshire Building Society (YBS), I would like to make the following comments in response to the exposure draft ED2 Share-based Payment issued 7 November 2002.

As the joint largest Sharesave carrier and market leader in the provision of Share Incentive Plans (SIP) and a founder member of Proshare, YBS is actively considering the impact of the proposals on our 350+ client base.

Over the last 23 years all employee share plans, such as Sharesave and more recently the Share Incentive Plan have played a key role in motivating employees. For many employees these plans have provided a valuable supplement to their savings and pension provisions. The Revenue estimates that, since plans like Sharesave began, share options worth £35 billion have been distributed to employees in the UK.

Our initial reaction supported by preliminary discussions with client companies support the view that the proposals may prove complex and expensive for companies to implement and administer and will consequently inhibit companies offering this tangible benefit to their employees. Whilst bigger companies may restrict their offering by reducing discount, restricting eligibility and share availability, smaller companies may not be able to stand the charge to the Profit and Loss account and simply withdraw plans altogether.

The views expressed by our clients to date, are consistent that broad based plans such as Sharesave do not form part of pay packages and are not regulated by Trade Unions or Staff Associations. Sharesave in particular is not typically seen as a reward for services, it is in place to motivate and generate greater involvement. The notion of accounting for Sharesave seems to assume that it provides compensation and therefore be accounted for as such. Our client feedback shows that it is not implemented to compensate. Instead, it is specifically put in place on the approval of the existing shareholders who are willing to share part of the ownership of the company with the employees, in the belief that this will increase the employees feelings of involvement and commitment to the business and may enhance performance.

I believe that it is important to restate the merits of Sharesave below as a reminder of its significant benefits to the individual and the economy:

- Sharesave offers an effective introduction to share ownership and has an ability to reach a range of investors through its fair, simple and no risk approach. (Unlike SIP, which appeals to higher rate taxpayers, prepared to take risks).

- Sharesave schemes have rewarded many employees over the years and have in most companies become a regular event, with invitations and maturities annually, creating expectancy with employees.

- Many companies have also invested heavily extending the plans overseas and in promoting the scheme with concept branding, videos and roadshows.

To date 90% of plc's have implemented Sharesave schemes. Sharesave offers companies the following objectives:

- Giving employees a sense of involvement in the business
- Linking employee and shareholder interests
- Recruiting and retaining employees

Clearly, the above company benefits are non tangible and cannot be valued in a set of accounts, we consequently believe Sharesave options are not granted as a reward for actual services performed and therefore cannot be seen as part of pay by companies, employees or stakeholders. Rather their aim is to increase employee involvement and commitment in the business.

The Society in response to ED2 issued to a small sample, an email questionnaire:

<u>Summary results of the YBS client survey</u>

Clients were asked for their views on the impact of the proposed new accounting standard for Share based payments on their company. They responded as follows:

SAYE discount would be reduced to 0%	58.07%
SAYE discount would be reduced to 10%	54.84%
SAYE discount would be reduced to 15%	45.17%
SAYE reduced and SIP introduced	54.84%
SAYE replaced by SIP	67.74%
SAYE withdrawn	67.74%

Secondly, clients were also asked what areas of ED2 were of most concern to them. They responded as follows:

Reporting	87.10%
Valuing an option	96.77%
Estimating volatility	93.54%
Disclosure	90.33%

The above figures demonstrate clear concern that by equating Share options to normal cash payments gives rise to conceptual and measurement problems. For example, the use of the grant date as a measurement results in a continual charge even though the option price may be subsequently underwater and options may never be exercised.

Further more the use of option price models such as Black Scholes involves certain assumptions, such as share price volatility, but would also need to be enhanced to estimate the expected life of an option. We believe the need to make so many adjustments and the reliance on company based assumptions may impair the reliability of the estimated charge. Administrators may also be called upon to perform these complex calculations, which could incur administration fees, for a plan that has been run on a largely free basis since inception.

There is no doubt, Sharesave provides a means of encouraging employee shareholders, and employee savings, which are going to be even more important in the current environment to bridge the pension gap.

YBS strongly seeks an exemption for Sharesave from the new accounting proposal. This will ensure that companies do not withdraw their plans or restrict them. Should this happen fewer employees will be attracted to participate, saving less for their future and valuable retirement top ups.

Yours Sincerely,

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