CL 102A

Comment letter from Misys plc

Paul Ebling
Accounting Standards Board
Holborn Hall
100 Gray's Inn Road
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22 April, 2003

Dear Mr Ebling

Financial Reporting Exposure Draft (FRED) 31 – Share-Based Payment

We are replying to the invitation to comment on the above exposure draft dated 7 November 2002.

General

We support the Accounting Standards Board's (ASB's) strategy for convergence with International Accounting Standards and the coordination of the publication of FRED 31 and ED 2 by the two bodies assists with this strategy.

Retrospective 'truing up'

The requirements of FRED 31 are designed to ensure that companies reflect the true cost of share-based payments over the period that those payments vest. To achieve this we believe that the proposed standard should follow similar provisions to those included within SFAS 123 to allow companies to 'true up' retrospectively the costs associated with its share-based payments, at the date of vesting.

In our opinion, it is theoretically coherent that an entity should revise its estimates for the likelihood of vesting/performance conditions being met in light of more accurate information, either throughout the vesting period or at the vesting date. We believe that enabling companies to 'true up' during the vesting period will discourage them from the manipulation of estimates at grant date in order to reduce their charge. It also recognises that initial estimates are unlikely to be entirely accurate due to the inherent difficulties associated with making such estimates. As a result of this specific 'true up' the total charge will be the same regardless of the accuracy of the initial and intermediary estimates.

This approach will ensure that the charge each year more fairly reflects the changing circumstances as they affect the likelihood of the options vesting. In addition, to ensure a smoother profit and loss account charge throughout the vesting period it is still important to have an accurate estimate at grant date. The 'true up' would not apply to equity instruments that did not vest solely because they were cancelled before vesting. This will result in the total charge to the profit and loss account reflecting the actual number of equity instruments granted by the company.

In addition, we believe that it is important that all balances within the financial statements should represent a valid item. If 'truing up' is not permitted then the 'Other Reserves' balance will ultimately not represent anything other than the net, cumulative, unders and overs charged to the profit and loss account.

Delay full implementation

We would encourage the ASB to have a period of two or three years during which the information on accounting for share-based payments is only provided in the notes to the accounts. During this period the adoption of best practice will emerge with regards the factors entered into the option-pricing model.

Retrospective adoption

The FRED does not permit companies to adopt retrospectively the requirements of the proposed standard other than through early adoption and it covers only those share-based payments that were issued after 7 November 2002 and had not vested at the effective date of the proposed standard.

Whilst we fully support the idea of partial retrospective application, we do not agree with this current approach. We believe that partial retrospective application should include all options in issue, but yet to vest at the beginning of the comparative period, on adoption of the Standard.

This would result in a comparable profit and loss account charge in the comparative period, the current period and all subsequent periods. To ensure comparability, we believe that this should be mandatory for all quoted companies and recommended for all other entities.

Other issues

Further thought and guidance is required by the ASB on the detailed application of FRED 31 especially in respect of the impact on individual balance sheet reserves. For example, we would appreciate further guidance in respect of recognising a transfer within equity in circumstances when the equity instrument granted is not exercised.

Conclusion

We are in support of the ASB on the introduction of FRED 31 subject to the issues and concerns on the matters raised above. Further discussion on these and other points can be found in the appendix to this letter, which details our response to the specific questions on which comments were invited by the ASB.

Should you have any questions regarding this response then please contact me on 01386 871373.

Yours sincerely

Howard Evans
Finance Director
For and on behalf of Misys plc