The Actuarial Profession
making financial sense of the future

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Ms Kimberley Crook
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International Accounting Standards Board
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Dear Kimberley

EXPOSURE DRAFT 2 SHARE-BASED PAYMENT

The UK actuarial profession wishes to re-assert its support for the recognition of all share-based payment transactions given in our detailed response to the G4+ 1 paper "Accounting for Share-based Payment" published in July 2000. We continue to believe that a fair value based approach to the valuation of executive share options is both feasible and appropriate.

We would make the following points on the detail of the proposals put forward in the Exposure Draft:

- We note that for payments intended to be settled in equity instruments the measurement date is the grant date with no "truing up" required to reflect actual experience between that date and the vesting date. This is in contrast to the earlier proposals contained in the July 2000 paper.

  Although we note the theoretical accounting justification for this change, we would continue to have some sympathy with the use of vesting date as the final measurement date, notwithstanding the possibility of extra volatility on this basis. The assessment of fair value at any earlier date will, as the Consultation Paper concedes, inevitably involve judgement as to factors such as the proportion of grants that will lapse and, in some cases, the extent to which performance criteria will be met. There is a danger that companies will tend to understate the cost of share-based payments if there is no "truing up"; in particular insufficient allowance may be made for the correlation between share price and the meeting of performance criteria when valuing options. There is

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also the consequence that different costs will be reported for cash based and equity settlements which seems undesirable. Tax relief on the granting of shares or options is also generally measured at the date of vesting to achieve symmetry with the tax payable by the recipient.

- In paragraph 19 the method is described for assessing the fair value of shares granted. It may be helpful to specify here that no deduction is appropriate for the absence of voting rights as these would generally have no material value.

We have sent a copy of this response to the Accounting Standards Board. Yours sincerely

P W Wright
Chairman, Accounting Liaison Group