

Our Ref.: BEM/lh/125



17th February 2003

International Accounting Standards Board
30 Cannon Street
LONDON, EC4M 6XH

ServiceTec International
Group Limited
ServiceTec House
Meadway Technology Park
Stevenage
Hertfordshire SG1 2EF

Telephone: +44 (0) 1462 755400
Facsimile: +44 (0) 1462 755401
Web Site: www.servicetec.com

For the attention of: Kimberley Crook, Project Manager

Dear Sirs,

RE: YOUR INVITATION TO COMMENT ON ACCOUNTING FOR SHARE-BASED PAYMENTS

The consultation document asks for comments on the basis that it is correct to treat employee options as Profit & Loss account items. However, this is by no means self-evident. It seems to me that there is a fundamental issue of principle here options are not an item which naturally affects the Profit & Loss account, but provide the occasion for a redistribution of the capital value of the company as between the various shareholders, and by potentially creating new shares, dilute the value of the shares held by existing shareholders. They should therefore be comprehensively disclosed as a potential dilution of capital..

Options change the distribution of the ownership of the capital, but, just like other share transactions (e.g. Rights Issues, or indeed ordinary sales & purchase) affecting the distribution of ownership, do not affect the net asset value of the business. It is hard to see a logical basis for distinguishing the particular group of transactions redistributing capital ownership caused by employee options from other transactions changing the distribution of the ownership of the capital. Obviously options are used as an incentive or reward, but that does not make them a proper charge against profit and thus Net Assets, which options, like other share transactions, neither reduce or increase. It seems clear that the whole proposed treatment is based upon a confusion between capital & revenue transactions.

Even were the proposed treatment logical in itself, the complexity, cumbersomeness, illogical consequences and impracticality of the proposed methods for evaluating and charging options should suggest to the Board and others that the proposal is completely artificial.

For those of us whose practical experience has convinced us that employee (including management) share ownership is an effective mechanism for increasing common interest between the employees and the outside shareholders, there is also the practical problem that, combined with the almost theological complexities created by the tax authorities, the proposal will almost certainly effectively kill off employee option schemes.

I write as one who has been a company director for 38 years, and over that period has played a large part in creating employee share schemes at CMG Computer Management Group (now LogicaCMG), FI Group (now Xansa) and the company from which I am writing.

Yours faithfully,


PP **B.E. Mills**