CL 222

Dear Sirs

You have requested comments on the Financial Reporting Exposure Draft 31 - "Share Based Payments" by 7 March 2003. I am accordingly responding on behalf of Holidaybreak plc.

Broadly, I accept the argument that equity incentives (most often in the form of share options) offered to employees have a value and that an element of cost could be recognised by the company. However, two principal concerns are that:

1) any such costs are to be borne by the shareholders of the company and not by the company itself.
The cost is currently recognised in the shape of Earnings per Share dilution.

2) the assumptions and bases proposed by FRED 31 are fraught with difficulty and uncertainty and could impair transparency and comparability of results.

To expand on the second point, it is assumed in FRED 31 that the cost to be recognised should be based on the value received (or receivable) by the participant at vesting. Where these incentives are in the form of share options which are conditional upon future performance criteria, there is no readily available mechanism for determining what that value will be, or indeed, if any value will ultimately be realised. Moreover, options will only be exercisable if the company's share price at the date of vesting exceeds the option price. This is further complicated by the fact that, under existing schemes, the option holder may have a period of up to ten years to exercise the option. This further complicates the value mechanism.

I believe that the suggested method of calculating value, Black-Scholes, is only relevant to traded options, and hence not applicable for conditional share options. The degree of estimation required in respect of, for example, future share price volatility, dividend policy, trading performance, option exercise periods, individuals' personal tax circumstances, length of service etc, must cast doubt on whether information produced will ever meet the proposals objective of providing high quality transparent and comparable information to users of the accounts.

I also question the logic of recognising the cost to the company where value may not, ultimately, be delivered. In the circumstances where a cost is recognised under appropriate assumptions, it seems inequitable and misleading if the cost cannot be reversed if those assumptions change.

In conclusion, I believe the proposed standard to be misleading and harmful in a number of important areas, and will not result in better measurement of financial performance. It will inevitably, lead to more incentive schemes based on market purchase of shares for the bigger, cash rich organisations but for other organisations there will be a reduction in the number of share incentive schemes, which have always had the benefit of encouraging employees to have a tangible interest in the performance of the company. In particular the loss of all employee share save schemes would be a considerable price to pay for most organisations.

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