CL 224

Dear Sirs,

I have just been brought up to speed on the proposals included in FRED 31.

Whilst I agree with the basic principle that when an entity receives goods or other services in exchange for a share-based payment then it should recognise an expense. I must say that I find what is proposed to be over complicated and not very simple!

I am in a small private biotech company and would be unable to tell you what 'fair value' of our shares is. We have agreed a value with the Inland Revenue and the investors in the Company have agreed a value when they invested. No doubt the Black Scholes valuation will come up with a different number. So that makes three valuations all of which will probably be different. Why cant we use some sense in the valuation and use the value the investors used. Why use the Black Scholes method that few people understand?

As for what happens if options are repriced and the charge calculated before the repricing carries on in addition to the charge for the repriced options this does not make sense to me at all. The accounts of companies, for example, who have lost 99% of their share price (not uncommon these days, unfortunately) would look very strange indeed.

The proposals in FRED 31 would also seem to require a fair amount of disclosure. This means that remuneration, derivatives and share based payments disclosures will take up the major part of a company's financial statements. I don't think that this can be right.

From my company's point of view the calculation of a FRED 31 charge would be done at the year end. We would probably have to pay our accountants to do the calculation and they would then come up with a number to put in our accounts and I would have to try and explain it to the Board. There maybe even an effect of companies not issuing shares as a direct result of the proposals.

Regards,

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