

**Response from MSB**

10th March 2003

Accounting Standards Board  
Holborn Hall  
100 Gray's Inn Road  
London  
WC1X 8AL

Dear Sirs

**Financial Reporting Exposure Draft 31 ("FRED31") - Accounting for Share Based Payments**

I write to express my concerns over FRED 31, as a Finance Director of a small PLC with a turnover of less than £100m.

1. Mathematical Complexity

Clearly, any proposed accounting standard that requires mathematical capability above that of most accountants in practise is a cause for concern. Although there are examples in the standards of expert, third party advice being necessary this is largely in the area of subjective valuations.

2. The Charge to the Profit and Loss Account

FRED31 states that an annual charge would be made to the P&L account even if the value of the options goes below the exercise price or if the performance criteria are not met.

In these instances, the charges to the P&L account are notional and should not be treated as any other valid charge that would reduce the company's retained profits.

3. Disclosure Requirements

At a recent briefing on FRED31 by PriceWaterhouseCoopers, I was surprised to learn that there are no less than 33 disclosure requirements in total. I would question the need for this amount of detail to be included within the Financial Statements. I recognise and support the need for transparency in this area, but do not believe the level of detailed disclosures in the Draft are warranted.

Irrespective of the above, I believe that the smaller company exemption should be extended. In my company's case, the cost of establishing such a scheme, using professional advisors, and the burden of the ongoing administration would seem to provide an effective deterrent to setting up a share option scheme in the first place. Without such a scheme, the company's ability to attract and retain the best people is hampered and attempts to improve shareholder value would be affected.

Yours faithfully

Douglas Adshead-Grant  
**Finance Director**