

7 March 2003

Kimberley Crook
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Dear Ms Crook

ED2 Share Based Payment

As the Head of the Employee Benefits & Incentives Practice at this firm, and a member of the UK Share Scheme Lawyers Group, I have seen a copy of the latter's response to ED2.

I wholeheartedly endorse the Share Scheme Lawyers' Group response, to which I would add one additional example of an inappropriate treatment under the proposed régime.

We have a number of clients with employee trusts which were endowed, usually with a gift of shares, by a founder shareholder. These trusts have chosen to confer benefits on their beneficiaries by using the shares to satisfy rights granted under certain share plans established by the company. In these circumstances a charge would seem to arise, yet the company has incurred no expense in funding the trust, and at no time has any shareholder suffered any dilution. It is the clearest example of the way in which employee share plans represent a transfer of ownership from existing shareholders to new shareholders, rather than the provision of some form of remuneration to be charged to the income account of the company.

In both formal and informal discussions with many clients on this subject over the months since publication of the Exposure Draft, they have been as baffled as I am by the illogical and misleading accounting consequences which appear to flow from the principles set out in the Draft. The problems proceed from the misconception that share schemes are a substitute for or augmentation of normal pay in return for an employee's services and are exacerbated by inappropriate analogies, such as that between the provision of an employee's services, on the one hand, and the use and depreciation of plant and machinery, on the other.

All of this appears to lead to a costly exercise in wholly theoretical accounting which will fail to provide any user of the accounts with a remotely true and fair view.

No doubt the proposals appeal to the academically minded but they are simply going to cause problems in the real world.

Kind regards.

Yours sincerely

Paul N Randall
Partner, Corporate Department
Ashurst Morris Crisp