

# RAILPEN *Investments*

Sixth Floor, Broad Street House, 55 Old Broad Street, London, EC2M 1LJ.

Ms. Kimberley Crook  
Project Manager  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH

18 March 2003

Dear Ms. Crook:

## **CONSULTATION ON INTERNATIONAL FINANCIAL REPORTING STANDARD ED2 ON “SHARE-BASED PAYMENT”**

I am writing on behalf of the Railways Pension Trustee Company Limited in response to your consultation on the above Exposure Draft to express support for the principle to introduce more rigorous accounting for share based payment. I should explain at the outset that the Railways Pension Trustee Company Limited, as trustee of various railway industry pension funds, is a major UK-based institutional investor with a large exposure to the equities market and has a strong commitment to transparency in accounting statements and good corporate governance.

We believe that there is a strong case in principle for ensuring that the true economic costs of transactions should be properly reflected in the books of account. This certainly applies to accounting for share option awards. It follows that we strongly support changes in international accounting rules for all share-based payments and to ensure that stock options are expensed in the profit and loss account.

We have read the response of the International Corporate Governance Network (ICGN) to your consultation and agree that to do otherwise has the potential to misstate corporate financial performance and results in a disservice to those who rely on the credibility of financial reports. We note that current international reporting standards do not require appropriate financial reporting for all share-based payments.

We are aware that in the US and other jurisdictions, one type of payment—the fixed, at the-money stock option—can always result in zero expense in financial statements, regardless of the number of options issued. Other types of options and payments in shares, can result in recognised expenses, resulting in an unlevel playing field across all forms of compensation.

Like the ICGN, we are encouraged that you are attempting to improve reporting in this area, and we hope that the US Financial Accounting Standards Board will reconsider its accounting rules. It would be in everyone's best interests if there were a single method of accounting required for share-based payments for all companies, regardless of their geographical location.

We support the basic principles in ED 2 to estimate the value of all shares and options at their fair value at the date of grant, and expense that value over the vesting or service period, without adjustment for changes in stock price after the date of grant. We believe that valuing stock and options at the date of grant most appropriately reflects the nature of the compensation transaction, and is consistent with other forms of equity compensation payments.

In summary, we believe that addressing the issue of accounting for share option awards is a matter of considerable importance and one that should be taken forward as a key priority. We have not attempted to set out a full technical solution in this response but have sought to identify the key issues that need to be addressed. We welcome the high priority given to this by international standard setters and hope that the eventual standard addresses the concerns of users of accounts. I hope that these comments are helpful but please contact me if they require any further clarification or you feel that we can otherwise be of assistance.

Yours sincerely

A handwritten signature in black ink, appearing to read "Frank Curtiss", with a stylized flourish at the end.

**Frank Curtiss**  
**Special Projects Officer**