



Association Nationale des Sociétés par Actions

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Sir David Tweedie
Chairman of the Board
**International Accounting Standards
Board**
30, Cannon Street
London EC4M 6 XH
United Kingdom

Paris, April 22nd 2003

Dear Sir,

Following your letter of 28th March 2003 as well as your email of 6th April 2003 answering our letter of 5th March 2003, we send herewith attached a translation of part IT of our note.

We did propose you to translate this document in our letter of 5th March but you only asked for it on the 6th of April. We hope this document will still be in time.

As we feel very in line with the AFEP-AGREF's answer (31d February 2003) we thought useless to translate it whole. The first part can be shortly sum up this way:

- real costs or expenses for SO's can yet be clearly isolated;
- it sounds strange to add to them other expenses evaluated at the value of the options;
- however, we do not see how SO's at granting time might be considered as expenses for a corporation;
- everybody does accept that the exercise of SO's may have an effect not on the value of the company but on the value of one share and have a dilution effect. But this effect cannot be measured at granting time;
- we can add that the SO's evaluation is very uncertain, taking into account their long duration and the volatility of the capital market (the period 2000-2002 is quite significative).

We hope that our consideration will be useful to you and we are at your disposal for any complementary elements.

Yours sincerely

Philippe Bissara

Encl.

II. The real questions are elsewhere

A. Dialogue between shareholders, employees and managers

To clearly identify questions and debates, we have to go back to the essential political background of SO's. Investors have declared themselves in favor of SO's granted to managers, in order to be sure that the interests of the latter would not be contrary, or better would meet the shareholders' global interests. Briefly that the global strategy and the management of the corporation would match the shareholders' interests.

In the debate between shareholders and stakeholders, the aim was to avoid that managers would be tempted to favour the interests of the second ones to the detriment of the first ones and then to make them more sensitive about the evolutions, especially of the price of the share. The aim was less to remunerate the services of these managers, who receive in other respects, money under the form of wages or bonuses, than to make them directly responsible for the increase of value of the corporation for its owners. Actually, only the direct or potential ownership of shares is able to create this convergence, for it associates the managers to the same chances of profits and to the same risks of losses, than those of the shareholder's.

This is why only the shareholders make a sacrifice on an immediate profit (value of the right to subscribe to shares they use for themselves or sell on the market, or value of the options sold by the corporation) and on a profit at term (if, during the options' life, the value of the share increases, allowing SO's beneficiaries to become shareholders without paying the real price). Nevertheless shareholders don't act as altruists but because they strongly believe that associating more closely employees and managers to the development of the corporation and its share, they will also take advantage of a better increase in the value of its share.

Wages and bonuses measure the individual contribution or work, SO's are a more collective instrument and concern the whole corporation as well as its strategy. They have the objective to dynamise and highly motivate employees and managers. Their awareness of owning through SO's, a part of the corporation may also avoid conflicts between owners and employees, and allows a better control of the corporation's expenses. SO's also make quoted companies' managers more careful to the value of the share on the market.

The whole SO's balance relies on the fact that the surplus of value is important enough and that the shareholders get something out of it. Of course, they accept to share their profit with SO beneficiaries, but the deal remains positive for them, if, after this sharing out (which of course has a negative effect on the value of the share) there is an increased profit for the shareholder compared to the profit that would have been realised without SO's. Briefly, the acceptation, a-priori unnatural and against their immediate and at term interests, by shareholders of this sharing act, is SO's central and essential point which guarantees the convergence of interest between managers and owners. It is clear all this is difficult to measure precisely beforehand. The experience shows that companies where employees and managers are associated to the increase of the market value have, on the long run, better results.

This positive mechanism may turn on the wrong side *if*:

- too many SO are granted;
- the company is no more in favourable economic circumstances, and with the money received from the SO beneficia it is not able any more of maintaining or increasing its net profit per share;
- the stock exchange circumstances of the sector of activity or the global one have become difficult;
- the SO's exercise price has been artificially fixed or reduced or if the market value has been artificially boosted at exercise time...

One may see that the mechanism goes wrong for other reasons than those due to SO's, though the existence of SO may increase the global risks a corporation has to face from time to time.

For SO's are shares acquired (purchased ?) before by the companies, effects are less important (see end of part I)

All this, in conclusion, must lead to find heart solutions and not only an accounting as expenses which remain artificial and would at best be a bad report and never a remedy. The uncertainty of the value to use this accounting makes this instrument of measure non reliable. It is necessary to give greater importance to continuous and regular updated efforts and inform the market and the shareholders.

B. Shareholders' preliminary agreement on SO granting and their definition of the main factors

The risk of excess of SO granting has main chances to occur if regulations allow managers to grant SO without the preliminary agreement of shareholders. This seems to be the case in the US.

The first action of cleaning up is to make this preliminary agreement obligatory in all cases. One may quote some additional elements which could be usefully associated to the vote of the shareholders

- the shareholders agreement must be limited in time;
- must state the SO's nature (subscription or shares bought by corporation before granting SO's);
- the agreement must concern and specify the number of shares or a definite percentage of the capital;
- the SO's duration must also be precisely fixed;
- the form of determination of the exercise price and particularly the existence or not of a discount must also be specified.

Shareholders also have to be allowed to fix other conditions if they think they are useful though a sufficient margin of action must be given to the corporation's management.

C. Conditions of granting SO's

Here, we come in the field recommendations and codes of conduct of the managers.

It should be recommended:

- to link the exercise of options with the position of employees, or managers, retired or not;
- not to give any discount, but it would be wise to fix an exercise price higher than the value at date of granting. This is even more accurate if the value of the share is very low (example: actual situation after the stock exchange crisis)
- not to modify freely the exercise price during SO's duration especially to lower it ¹;
- to fix, when needed, global conditions to be fulfilled to exercise the SO (ex : a certain amount of results or of turnover);
- to fix a, more or less long period, during which the exercise is impossible (several years is recommended). This allows, above maintaining the managers in the company, to spread the exercise and to avoid massive exercises linked to a specific event;
- to avoid too important and too regular individual grantings. This would also favour the spreading of exercises;
- to fix special obligations of spreading exercises or even keeping part of the shares for the highest grantings;
- to respect the rules of code of ethics in regards to sensitive periods of the company's life (announcement of results, important development or restructuration operations...). These periods should be frozen so much for SO's granting exercises that for the shares selling.

One may imagine other rules but it is clear that the respect of the above would have a much higher moralisation effect than any accounting of provisional expenses. This accounting does not, in any way, fights against abuses, and comes too early or too late to prevent them. Anyhow, the information of the market and of the shareholders must also be increased the way IASB suggests it.

D. Market's and Shareholders' information

A number of obligations already exists. They must be reinforced and focussed on:

- an annual report of SO's grantings, exercises and sales;
- specific indications concerning the managers or the most important beneficiaries;
- all this is even more essential as the shareholders are asked to decide a new SO's plan;
- the most important effort must be made on informing the market and its shareholders on the likelihood of exercises according to the shares' quotation price reached (or their value) and to the exercises dates fixed at granting. These forecast should also take several hypothesis of price evolution into account.

¹ In France, repricing is not possible except for technical reasons.

This very special report should:

- First, show the shareholders the effects of dilution due to SO's exercises;
- Secondly, show the effects on the quotation price or value of the forecast exercises considering the different quotation prices of the share's value.

We think this regularly updated information would be more efficient and more judicious than any accounting as expenses which remain an artificial and inaccurate² way.

As a conclusion, reinforced regulations (cf. II, B), recommendations of good conduct (cf. II, C) and a regular information yearly updated (cf. II, D), seem to be privileged compared to artificial accounting rules, difficult to establish and calculate and not giving a faithful image of the company by making a confusion between it and its shareholders.

² The tax aspect have not been taken into account, especially around tax deductibility of SO expenses. Many tax administrations will fight strongly against it..