

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

21 March 2003

Dear Sir



ED 2 'Share-based Payment'

With a membership of 37,000, the London Society of Chartered Accountants (LSCA) is the largest of the regional bodies which form the Institute of Chartered Accountants in England & Wales. London members, like those of the Institute as a whole, work in professional services practice or in business. The London Society operates a wide range of specialist committees including Technical (accounting and auditing), Tax, Regulation and Ethics Review and Financial Services and Insolvency, which scrutinise consultation papers and make representations to issuing bodies.

We support the IASB development of a standard in this area, and we have responded previously to consultation documents on the subject to the G4+1 and the UK Accounting Standards Board. In relation to ED 2, one of our Committee members was on the Institute of Chartered Accountants in England and Wales' (ICAEW) Task Force that prepared the submission from the ICAEW and through that membership our Committee influenced the ICAEW's debate. In general, therefore, the Committee supports the views expressed and the answers given in that submission.

However, on some limited matters our Committee decided that it either disagreed with the stance taken by the ICAEW, or that the ICAEW had omitted a comment we believe to be of importance. These mailers are set out below for your information.

SMEs and emerging economies

The IASB has a project on its agenda in which it will presumably determine an approach to accounting in entities that are unlisted and do not have a public interest profile, and which therefore tend to have little impact in the world's primary capital markets. We believe that the IASB will enhance its own reputation if it helps such entities by undertaking this project earlier rather than later. However, there are some very important conceptual issues that will need to be considered, not least in considering whether SMEs should be permitted to follow different recognition and measurement principles to those laid out in IFRSs at present, rather than just allowing exemptions from some of the disclosures in IFRSs. Standards involving measurement at fair value, such as this proposed standards, represent the type of standards that SMEs will find the most difficult to apply and it is in this context that we urge the IASB to undertake the debate on its approach to SMEs as early as possible. The approach developed may be different for emerging economies, although many of the same concerns apply, but in both cases, some early indication of the IASB approach to SMEs would be helpful and ease uncertainty about the costs of compliance with IFRSs.

Cancellation of a grant of shares or options

The ICAEW has said in its response, under this heading:

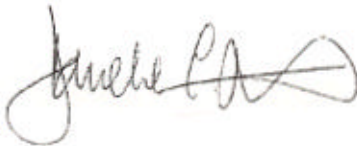
20. In our view it is inconsistent to discontinue the charge to profit and loss account when the employee leaves but not when the entity cancels the grant. However, we accept that discontinuing the charge when the entity cancels the grant would leave scope for abuse. We recommend that where the entity cancels the grant, rather than continuing to charge over the period in which goods and services are rendered, the balance of the charge should be taken immediately to the profit and loss account.

We do not agree with this view. Some members of our Committee do believe that an off-balance sheet asset exists representing the portion of the option grant value that has yet to be recognised as employee services consumed. So if an employee leaves or the company cancels the option grant before the vesting date, the company should 'write off this remaining portion on the grounds that the company has given an equity instrument of value at the date of grant and has failed to receive the expected services for it; on this basis, the extra cost should be recognised immediately. The majority of the Committee, however, believes that it is not appropriate to recognise such an additional cost as it does not represent employee services consumed by the company. Moreover, the Committee believes that whichever view one accepts, the treatment should be consistent for both situations, i.e. when an employee leaves (and hence forfeits the options granted) and when the company cancels the grant before vesting.

My apologies that this response reaches you after your deadline, which was necessary because we had to wait until the ICAEW response had been finalised and submitted before finalising our own response.

On behalf of the Committee, I trust you find the above comments helpful and I would be happy to discuss them should you wish to do so. If there are any matters arising from this letter you would like to discuss, please do not hesitate to contact me on 0207 731 6163.

Yours faithfully



Danielle C Stewart
Chairman, LSCA Technical Committee