



MKR/LAW/IASB0303

3 March 2003

Kimberly Crook
 Project Manager
 International Accounting Standards Board
 30 Cannon Street
 London EC4M 6XH

ED 2 Share based payments

Dear Ms Crook,

I write to express my concerns regarding the proposals relating to accounting for share options. The main concerns are summarised below:

- the proposals are extremely complicated and I would question whether the vast majority of users of accounts would understand them. This is likely to lead to the situation where most companies and users look at performance before this charge. Most analysts tend to base valuations etc on expected future cash flows, and these proposals do nothing to assist this
- FTSE 100 companies have traded options in their shares readily available. This will provide a crude "rule of reason" to compare with a fair value computed using the procedures described in ED 2. For smaller companies no such external benchmark exists.
- The use by smaller companies of the Black Scholes model, created over thirty years ago can give an enormous range of answers dependent on the assumptions used in the computation. Coupled with adjustments to reflect the likelihood of the options ever being exercised (eg staff turnover rates), the degree of subjectivity involved in computing the fair value in this situation is so great that it will throw up an almost arbitrary value and make comparisons between companies completely meaningless.
- The failure to take account of falls in share prices will result in charges continuing to be made through the profit and loss account even when there is no likelihood whatsoever that the options will be exercised. Had this proposals been in force over the last few years they would have had a significant affect on technology companies; share options granted in the boom of 2000 would give rise to significant charges in current accounts, even though the likelihood of those options ever now being exercised is minimal. Some form of annual review and adjustment of the fair value would seem to be required.

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My fundamental concern is that existing shareholders' main concerns over the granting of options are based around dilution of their holdings. These issues could be better covered by improved disclosure regarding options and affects on dilution. Diluted EPS will be hit twice by this proposal, through both lower earnings and the prospective dilution.

Yours sincerely

M. Randall
P.P. Martin Randall
Group Finance Director