



7 March 2003

Paul Ebling
Accounting Standards Board
Holborn Hall
100 Grays Inn Rd
London
WC1X 8AL

Dear Mr Ebling,

FRED31

We would like to make a general response to the above.

PIRC is a provider of corporate governance and proxy voting services to around 60 institutional investor clients in the UK and internationally. We also act as an independent investment adviser to a number of pension funds and also to the Local Authority Pension Funds Forum (LAPFF), a grouping of 26 public sector pension funds with combined assets of over £40 billion. LAPFF's mission is to use its collective influence as shareholders to promote high standards of corporate governance and corporate social responsibility, commensurate with our statutory and fiduciary responsibilities.

PIRC has published its own Shareholder Voting Guidelines for the past ten years. I attach the current version which encourages companies to show expected values for all option awards and to charge expenses against profits. Indeed, we are fully supportive of moves to expense share option awards. We consider that the lack of any current charge against profits reflecting the value of option grants and other share-based awards introduces a distortion in company accounts, to the detriment of full understanding of the company's accounts on the part of investors and shareholders.

We therefore welcome the ASB's and IASB's work on this issue, and particularly welcome your decision to pursue this in the face of the negative views expressed by some in the corporate world and their advisers. We believe that accounting standards should primarily be developed for the benefit of users of accounts, not issuers.

The LAPFF also supported the earlier discussion document and we would refer you to their comments.

Registered No. 2300269

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In reference to your specific questions:

1. We agree with the proposed effective date.
2. We agree it should apply to all entities.
3. We agree it should apply to types of share-based transactions.
4. We agree it should apply to all the individual financial statements.
5. No view
6. We agree that retrospective application is unreasonable.

On the other issues, we would only comment that we agree with measurement at grant date, and also agree that fair value should be measured using an option pricing model.

We hope these comments are helpful.

Yours sincerely,

Stuart Bell
Research Director