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Director of Major Projects FASB

Letter of Comment No: 5628 File Reference: 1102-100

30 June 2004

Dear Ms Bielstein,

Response to Exposure Draft on Share Based Payment

PIRC is a leading corporate governance research provider in the UK. Directors' remuneration is a substantial topic in our reports on FTSE companies, therefore we have a great deal of experience in analysing and assessing UK share schemes. PIRC has long argued for better accounting of share based payment in the UK, for instance in our Annual Review 2001 in which we stated "the 'hidden' value of options should appear in accounts and...the lack of an accounting outcome for option awards leads to an artificial bias in favour of options as a reward tool".

We welcome your Exposure Draft's proposals to account for share based awards in a more transparent way, which will allow investors to more easily judge the cost of remunerating employees including directors. We consider this cost should be shown in the financial statements and not in a separate pro forma (Issue 2), as this will aid transparency and help to avoid a perception that share based payments are not real costs. We recognise the difficulties in assessing the cost of share based awards, but consider it is still reasonable to do so. We support your proposed method for evaluating share based awards.

It is our understanding that conditional share awards (effectively nil cost options) might be excluded from the calculation. We can see no reason to differentiate between conditional shares and share options in this respect, if that is what is proposed. The fair value of each type will differ, but both represent costs to the company that are in some cases considerable.

We would be happy to answer any questions you have on payment practices in the UK. We would also welcome dialogue on any other issues of accountability to investors, given the interaction of practices in the UK and the US.

Yours sincerely,

James Clarke Senior Researcher, PIRC