



Information Technology Telecommunications & Electronics Association

30 July 2004

**IFRS2 – Share-based payment:
Request for economic impact assessment and further analysis on valuation
methodology**

Intellect is the trade association for the information technology, telecommunications and electronics industries in the UK representing 1000 organisations spanning blue-chip multinationals to early stage technology companies. Intellect members contribute around 10% of UK GDP. Further information about Intellect can be found at www.intellectuk.org

Intellect writes to you with regard to the current European Commission interservice consultation on a proposed accounting standard – IFRS2 on Share-based payment.

The standard was proposed by the International Accounting Standards Board in February 2004, and we understand that the EU Accounting Regulatory Committee (ARC) is expected to review the standard in the autumn.

Intellect participated actively in the EFRAG consultation on IFRS2 in April 2004. Our submission (attached) raised two major concerns. One is the problem of valuation methodology. IASB has taken the controversial view that issuance of employee stock options is a transaction which should to be reflected in the profit and loss statement. But the IASB has not managed to identify a valuation methodology that ensures accuracy, reliability and comparability of financial statements. Existing valuation methodologies, such as Black-Scholes and binomial models have repeatedly been shown not to be appropriate for valuing employee stock options.

Our second concern is that imposing a standard without a proper valuation methodology will cause companies to scale back or even cancel broad-based employee stock option schemes. This would be detrimental to EU and UK Government objectives to encourage employee financial participation in companies and to foster entrepreneurship and competitiveness. We believe the scale and scope of negative economic impact must be thoroughly analysed before any measure is adopted.

Intellect has, based on these observations, recommended rejection of IFRS2. In addition to these concerns, there is the issue of global convergence. As the Commission is surely aware, there is currently legislation in the US Congress which may mandate a

► Russell Square House
10-12 Russell Square T +44 (0) 20 7331 2000
London F +44 (0) 20 7331 2040
WC1B 5EE www.intellectuk.org

comprehensive economic impact assessment and limit the requirement to expense stock options to those granted to top executives.

The outcome in the US cannot be known with certainty. But, if the EU pushes ahead aggressively with adoption of IFRS2, and the US decides not to introduce a similar standard, EU companies would surely be disadvantaged.

Intellect would like to restate its position on this matter: **No further steps towards adoption of IFRS2 should be taken until the valuation issue has been resolved, until a proper economic impact assessment has been carried out and until the situation in the United States becomes clear.** We urge the Commission to take into account these views when developing its position and we should be happy to provide additional input as appropriate.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J. Carlton', written in a cursive style.

Jennifer Carlton
Senior Programme Manager