

CAD-02307



**ACCOUNTING
STANDARDS
BOARD**

Ms Gina Cole
Secretary to the Committee on the
Financial Aspects of Corporate Governance
London Stock Exchange
London
EC2N 1HP

Holborn Hall,
100 Gray's Inn Road
London WC1X 8AL

Telephone 071-404 8818
Fax 071-404 4497

29th September, 1994

Dear Ms Cole,

Disclosure of Directors' Share Options

I have pleasure in enclosing a copy of UITF Abstract 10 on the above topic, together with the related Information Sheet published today.

Yours sincerely,

R M Wilkins

Enc



ACCOUNTING
STANDARDS
BOARD

URGENT ISSUES TASK FORCE

INFORMATION SHEET NO. 11

29 September 1994

The following Abstracts are published today:

Abstract 10 - Disclosure of directors' share options

This Abstract is substantially the same as the draft published in May, although the recommended disclosures have been simplified and clarified. The Task Force believes that the publication of the information set out in the Appendix to the Abstract will be an important step in providing greater openness in respect of board remuneration, as recommended in the Cadbury Report on the Financial Aspects of Corporate Governance. The additional information will allow users of financial statements to understand the extent of options granted to and exercised by directors, together with those outstanding at the end of the year.

As noted in Information Sheet 10 the Task Force, in the light of legal advice on the interpretation of the Companies Act requirements, is not in a position to issue mandatory requirements on this matter. The Task Force, and a number of those who commented on the draft Abstract, were concerned at the absence of mandatory requirements and accordingly the DTI and the Stock Exchange have been requested respectively that the DTI should include the matter in its current review of company law and that the Stock Exchange should consider including similar requirements in its Listing Rules.

Abstract 11 - Capital instruments: issuer call options

This Abstract reflects the initial conclusion of the Task Force, as set out in the draft published in May, that where a capital instrument includes a call option that can be exercised only by the issuer, the payment required on exercise of that option does not normally form part of the finance costs of the instrument in accordance with the requirements of FRS 4. Thus any gain or loss arising on repurchase or early settlement will reflect the amount payable on exercise.

Lessee accounting for reverse premiums and similar incentives

The Task Force is considering the comments received on the draft Abstract published in May and hopes to issue a final Abstract later this year.

UITF 3 and the disposal of a business

ACCOUNTING
STANDARDS BOARD



Questions have been raised on the practical problems of identifying goodwill attributable to disposals in order to account as required by UITF Abstract 3 (and FRS 2 in respect of subsidiary undertakings). Paragraph 11 of UITF 3 discusses such problems and notes that the records required to comply with the Companies Act 1985 and SSAP 22 would normally enable an appropriate estimate or apportionment to be made of the purchased goodwill attributable to disposals. Practice since the issue of UITF 3 has generally reflected this. Where it is genuinely impractical to make a reasonable estimate (an example might be a business with material goodwill acquired many years ago and subsequently restructured), paragraph 11 requires that fact and the reason to be explained.

Accounting Standards Board
29 September 1994

CFACG(94)7

COMMITTEE ON THE FINANCIAL ASPECTS
OF CORPORATE GOVERNANCE

Disclosure of Directors' Share Options/UITF 10

1. The Chairman has received a request from Roger Davis of Coopers and Lybrand, writing on behalf of the "Big 7" accounting firms, that the Committee should consider its future guidance on the disclosure of directors' share options. A copy of this letter is attached.
2. Abstract 10 was published at the end of September at which time the DTI was requested to include the matter in its review of company law and the Stock Exchange was asked to consider including similar requirements in its Listing Rules. The Committee has not been made aware of any formal response to the ASB concerning these two requests.
3. It has been reported in the press that the Stock Exchange has said "We won't be amending the listing rules. It would be more appropriate if the Cadbury Code was amended to include it." Elsewhere the DTI have been reported as saying "We will consider changes to the Companies Act to give the ASB's recommendation statutory underpinning as part of the current review of company law.". The Committee has not been approached directly by either of the above bodies, nor the ASB/UITF, for its views.
4. In the light of the above, the Committee will wish to consider how to respond to the letter from Roger Davis. The "Big 7" are of course one of the Committee's sponsors and as a Committee we should remain open to their opinions and views. However, the Committee would, I suggest, need to have a more formal request from the ASB/UITF before it could take forward any such proposal. There would also need to be wide consultation, in particular with the DTI and the Stock Exchange to ensure that any course of action was in harmony with their stance.
5. A copy of UITF10 and related Information Sheet are attached for reference.

Gina Cole
29 November 1994

your reference

our reference
ROBD/pas/3511L

Sir Adrian Cadbury
Chairman
Committee on the Financial
Aspects of Corporate Government
The Stock Exchange
LONDON
EC2N 1HP

29 November 1994

Dear Sir Adrian

Disclosure of directors' share options/UITF 10

1 I am writing on behalf of the Heads of Audit of the 'Big 7' accounting firms to ask your committee to consider its future guidance on the disclosure of directors' share options.

2 Paragraph 3.2 of the Code of Best Practice indicates that '*There should be full and clear disclosure of directors' total emoluments and those of the chairman and highest paid director, including pension contributions and stock options*'. As you will be aware, the ASB's Urgent Issues Task Force has recently issued UITF Abstract 10 'Disclosure of directors' share options'. This Abstract is recommended rather than mandatory. Therefore, failure by a company to give the recommended disclosures would not normally lead to a qualification in the auditor's report on the statutory financial statements.

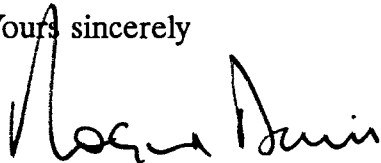
3 However, UITF 10 notes that the recommended disclosure '*would be consistent with the recommendations of the Cadbury Report ...*'. This, of course, falls short of stating that providing the information required by UITF 10 is necessary in order to comply with the Code. Nevertheless it seems to us that UITF 10 could now reasonably be interpreted as the authoritative guidance on the kind of disclosures required under the Code.

4 We will of course encourage our client companies to follow the UITF guidance not least for the good of their own reputation.

5 However, you are, of course, aware that auditors also have certain duties to report on compliance with the Code. We understand that the UITF, Stock Exchange and the DTI have so far declined to mandate this kind of disclosure. Given this, we do not consider that the auditing profession alone has the authority to enforce this extra-statutory requirement to the point of qualifying the reports we provide in connection with the Code.

6 We therefore invite your committee specifically to endorse the UTF guidance as what is required to give effect to the Code.

Yours sincerely

A handwritten signature in cursive script, appearing to read "R O'B Davis".

R O'B Davis
Head of Audit

cc: Heads of audit of Big 7 firms



ACCOUNTING
STANDARDS
BOARD

URGENT ISSUES TASK FORCE

INFORMATION SHEET NO. 11

29 September 1994

The following Abstracts are published today:

Abstract 10 - Disclosure of directors' share options

This Abstract is substantially the same as the draft published in May, although the recommended disclosures have been simplified and clarified. The Task Force believes that the publication of the information set out in the Appendix to the Abstract will be an important step in providing greater openness in respect of board remuneration, as recommended in the Cadbury Report on the Financial Aspects of Corporate Governance. The additional information will allow users of financial statements to understand the extent of options granted to and exercised by directors, together with those outstanding at the end of the year.

As noted in Information Sheet 10 the Task Force, in the light of legal advice on the interpretation of the Companies Act requirements, is not in a position to issue mandatory requirements on this matter. The Task Force, and a number of those who commented on the draft Abstract, were concerned at the absence of mandatory requirements and accordingly the DTI and the Stock Exchange have been requested respectively that the DTI should include the matter in its current review of company law and that the Stock Exchange should consider including similar requirements in its Listing Rules.

Abstract 11 - Capital instruments: issuer call options

This Abstract reflects the initial conclusion of the Task Force, as set out in the draft published in May, that where a capital instrument includes a call option that can be exercised only by the issuer, the payment required on exercise of that option does not normally form part of the finance costs of the instrument in accordance with the requirements of FRS 4. Thus any gain or loss arising on repurchase or early settlement will reflect the amount payable on exercise.

Lessee accounting for reverse premiums and similar incentives

The Task Force is considering the comments received on the draft Abstract published in May and hopes to issue a final Abstract later this year.

UITF 3 and the disposal of a business

Questions have been raised on the practical problems of identifying goodwill attributable to disposals in order to account as required by UITF Abstract 3 (and FRS 2 in respect of subsidiary undertakings). Paragraph 11 of UITF 3 discusses such problems and notes that the records required to comply with the Companies Act 1985 and SSAP 22 would normally enable an appropriate estimate or apportionment to be made of the purchased goodwill attributable to disposals. Practice since the issue of UITF 3 has generally reflected this. Where it is genuinely impractical to make a reasonable estimate (an example might be a business with material goodwill acquired many years ago and subsequently restructured), paragraph 11 requires that fact and the reason to be explained.

Accounting Standards Board
29 September 1994