EXAMINATIONS

April 2001

Subject 201 — Communications

EXAMINERS' REPORT

Examiners' Comments

Candidates were asked to write an explanation of a new share option scheme for staff of a company. This report summarises the main points the examiners were looking for, and some common problems encountered.

1. The question asked for a leaflet designed to be understood easily by laymen. A fairly informal tone was acceptable. An effective way of presenting the leaflet was to have a short introduction followed by a question-and answer format. Candidates who wrote scripts in the form of letters were penalised.

2. The examiners were looking for the leaflet to present the scheme in a positive light, while highlighting the risks. Some candidates were not positive about the potential benefits, while other lost marks by over-emphasising the benefits without explaining the risks.

3. Many candidates had clearly spent time planning the format of their script, but failed to communicate ideas clearly. Both are essential qualities of a good answer.

4. Because the target readership was financially relatively unsophisticated, jargon was inappropriate. Candidates who scored well had clearly considered what would be easiest for readers to understand. For example, they used monetary amounts to illustrate gains and losses, not percentages or numbers of shares.

5. The question was straightforward technically, and most candidates scored high marks for technical content. However, a significant number stated or implied that if the share price after 5 years was below the option price the member would still exercise the option to buy shares. This was seriously misleading.

6. Some candidates also missed out essential points, such as that the interest rate was 3% a year or that the current share price was £10. Others included such key information only towards the end of the leaflet or in the middle of an explanation.

7. It was appropriate to illustrate possible returns from a normal savings account as long as the interest rate used was reasonable and it was made clear that it was likely to be variable.

8. It was not expected that grammar, spelling and punctuation would be perfect, but a lot of candidates lost marks because the standard of these was poor.

9. Most candidates adhered fairly well to the suggested length, but those who wrote much longer scripts generally lost marks for being repetitive and including irrelevant material.

A possible leaflet is included with this report. It does not cover all the possible points, and is not intended to be a model solution. In practice a wide range of solutions was possible.

Share Option scheme for employees

Allied Widgets are delighted to announce that we're starting a share option scheme for all staff. The scheme gives you the chance to benefit from the success of Allied Widgets, while at the same time giving you a minimum guaranteed rate of return on your savings.

How will the scheme work?

You can choose to pay any amount between £20 and £100 into the scheme at the start of each month for five years starting on 1 May 2001. Once chosen, the monthly amount is fixed for the whole 5 years unless you choose to stop paying entirely (see below).

Interest is added to your savings at the rate of 3% a year

At the end of the five years you'll have two options:

Option 1 You can take your total savings plus all the interest as a lump sum.

Option 2 You can use your total savings plus interest to buy shares in Allied Widgets at a fixed price of £9 each. The current share price is £10.

What happens if I stop paying?

You may choose to stop saving at any time during the 5 years and must stop saving if you leave the company.

You will then receive an immediate lump sum equal to your total savings plus interest at 3% a year, but you'll not be able to buy shares at the fixed price.

How does the scheme compare with a normal savings account?

If you were to invest in a savings account, you could currently earn interest at a rate higher than 3%, but without the share option. This means that if our share price is £9, or only slightly higher, at the end of five years, you may receive a better return from such an account. On the other hand, if our share price has risen during the period you will benefit from this rise, and the value of your shares could be considerably higher than the amount you would have received from a savings account.

You should also bear in mind that if you discontinue payments during the five years and get back the amount saved plus interest, the payment from this scheme may be lower than you could have received from a savings account.

What might I get back after 5 years?

What you get back depends on how much you pay in and how well our shares perform. For example you might decide to pay £50 a month. In that case, you'd pay a total of £3,000 and this would earn interest of £237. So the minimum you would receive would be £3,237.

If the price of the shares was over £9, it would be worth opting to buy shares at the fixed price. The lump sum of £3,237 would buy 359 shares. So, if our share price had increased to £13 the shares would be worth £4,667.

On the other hand, if our share price had fallen to £7, you'd be better off just taking the lump sum of £3,237.

<u>What should I do next?</u>

If you're interested in joining the scheme, please contact John Smith in Personnel Department (extension 1234) who will give you a more detailed booklet which includes an application form.

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