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7 March 2003

Dear Mr Ebling

FRED 31 –SHARE BASED PAYMENT

This is the response of AVIVA plc to FRED 31 " Share-based payment." As the world's seventh largest insurance group and the largest insurer in the UK, we are pleased to have the opportunity to comment on proposals that will significantly change the accounting for, amongst other matters, share option schemes.

Our overriding concern with the standard is in connection with the accounting for equity-settled share based payments to employees. We agree that the "fair value expense" should be spread from the date of grant to the point at which the award vests. However we are not convinced that it is appropriate to effectively 'fix' the fair value per unit of service at the date of grant as an estimate of the fair value of services to be received. In all other aspects of accounting, estimates of expenses are made and reassessed on an on-going basis. It would seem appropriate to adopt this approach when accounting for share schemes. For example if an employee leaves the service of the company and in doing so forfeits his right to share options then the benefit the company receives in return for the employee breaking his employment contract is that it loses its obligations under any options that are still to vest. It seems appropriate that this "benefit" is reflected as a credit of any amounts previously charged to the profit and loss account.

In a practical respect the number of estimates that need to be made at the date of grant will have a great bearing on the amount to be charged through the profit and loss account. Different companies with similar schemes and staff turnover history could have made very different assumptions at the initial grant of any awards and therefore result in very different charges to the profit and loss account. This reliance on assumptions and estimates results in extensive disclosures to enable users to understand the impact of such schemes. These will be costly to prepare and could end up being so detailed that they actually become of limited use to the user.

Our preferred approach would therefore be to adopt a model that is more in line with that operated under US GAAP, whereby the cost of such awards are measured based on the fair value of the equity instruments issued. This should lead to charges that are comparable between companies. It should also lead to a reduction in the level of disclosure needed. Finally it would help reduce the differences between US GAAP and IAS/UK GAAP which we believe is appropriate in a period where global GAAP is attempting to converge.

Our responses to the specific questions raised by the ASB are set out below:

ASB Q1: Date of adoption of FRED 31

We strongly disagree with the proposal that the date of adoption should be consistent with the date of the IFRS, which would result in the standard being effective for 2004 year ends. Given that a significant amount of change will take place in the UK in 2005 when IAS is adopted for the first time, our preferred approach would be to implement all major accounting changes at the same time. The ASB could of course allow early adoption for those companies that wish to undertake this change on a piecemeal basis. However this is a complex standard and it will take time for companies to make sure that they have updated their systems and processes to capture the data required, particularly in respect of share option schemes.

ASB Q2: Should the standard apply to all entities other than those that are applying the FRSSE

We agree that there is no reason to exempt certain companies from the requirements, which would otherwise result in fundamental differences in how different companies account for the same transaction. However we do recognise that the cost of the implementing the standard for small companies, who may not have the in-house expertise to value their share options, could be significant and therefore welcome the exemption for those companies applying the FRSEE.

ASB Q3: Should the standard be applicable to all types of share-based payment including SAYE schemes?

There is no conceptual reason why certain share-based payments should be excluded from the scope of FRED 31. However there are schemes, such as SAYE schemes, where taxation rules have been amended to encourage the take-up of such schemes and to widen share ownership. FRED 31 is likely to result in a higher cost to the employer and could result in them removing such schemes. It is our view that the accounting for share award schemes should be influenced by such other factors and that are therefore benefits in retaining the current exemption for SAYE schemes.

ASB Q4: The standard should apply equally to both consolidated financial statements and individual financial statements

We agree that the standard should apply to all entities

ASB Q5: Proposed amendments to existing UK requirements

We do not have any comments on the proposed amendments to existing UK requirements. However we would note that FRED 31 does not provide any guidance on how options that do not fall under FRED 31 will be accounted for following the withdrawal of UITF 17 (i.e. those still to vest at 1 January 2004 that were granted prior to 7 November 2002.) We recommend that the ASB issues guidance following the withdrawal of UIFT 17, as to whether open schemes should be accounted for in accordance with historic practice or in some other way. This will ensure a consistent approach across all companies.

ASB Q6: Transitional requirements

We welcome the fact that full retrospective application is not required, as this would be difficult to achieve in practice. However we would recommend that additional time be provided to companies to ensure data is collected for new grants in an appropriate fashion. Therefore we would recommend that the standard applies to all options granted after the final standard is issued, rather than the date the exposure draft was issued as companies will not have been fully aware of the detailed requirements of the standard prior to this date.

We have no comments in respect of the questions raised by the IASB in respect of ED2, other than the general points made above.

Yours sincerely

Nic Nicandrou

Group Financial Reporting Director on behalf of Aviva plc.