

Kimberley Crook
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

6 March 2003

Comment letter to ED 2 Share-based Payment

Dear Ms Crook:

In response to the invitation to comment on the Exposure Draft 2 on Share-based Payments, Skandia Insurance Company Ltd has the following comments.

Firstly, we would like to express our basic view of these transactions. Share-based payments are transactions between the owners of a company and the supplier of the goods or services. Skandia believes such transactions should not be treated as an expense item in the company but as a potential dilution for the owners. The transactions, we believe, should be accounted for by supplemental information in annual and interim reports.

If the Board comes to the conclusion that share-based payments should be expensed, we would like to draw the Board's attention to the problems in valuing options, as options seem to be the most common form of share-based payments. The following should be seen as a reply to questions 11 – 13 in the exposure draft.

The Board suggests in the exposure draft to use an option pricing model for valuing the options. Although the Board does not mention any particular model, the requirements indicate the use of a Black & Scholes model or a derivative of that model. We do not believe this model is appropriate for valuing share-based payments in the form of employee stock options, with features such as non-transferability, inability to exercise the option during the vesting period and different types of vesting conditions. The exposure draft states that these limitations to the options should be taken into consideration when valuing the options, but does not give any further guidance. We have not found any model that includes these features in the valuation. In the absence of such a model, the Board leaves it open to each company to find its own method of adjusting the value for these limitations. These adjustments and the estimation of future volatility leave room for much subjectivity and may result in problems in comparing financial performance between companies. To compensate for this flaw, extensive disclosure requirements have been inserted.

Finally, we would like to express our concerns for the international development in this area. We believe that the IASB should not issue this standard until the convergence project with FASB has resulted in a common standard accepted by both boards.

Yours sincerely,

Jan Erik Back
Chief Financial Officer
Skandia Insurance Company Ltd