



**Decision Options, LLC.**

Letter of Comment No: *ZLSA*  
File Reference: 1102-100

May 12, 2004

Len Tatore  
Financial Accounting Standards Board  
401 Merrit 7, Norwalk, CT 06856

Dear Len:

I am writing to offer comments on the exposure draft of the proposed statement, share-based payment.

On Paragraph B18: "a lattice method is preferable to a closed form model."

Closed form models are not possible in the valuation of employee stock options because of the various constraints on optimal exercise including vesting, black-outs and early exercise due to diversification issues faced by the employee. So a numerical method needs to be deployed. However, lattice is not the only numerical method available. Stochastic simulation is equivalent to lattice for simple cases and is more powerful and flexible to incorporate additional constraints such as price path dependent behavior of employees. Accordingly, we suggest the use of the term "numerical method" rather than "lattice method" throughout the document. Software is already available to solve this problem with all identified constraints using stochastic simulation.

On Paragraph B21:

Factors are listed that may affect expectations about employees' exercise and post vesting employment termination behavior. We would like to suggest adding another item.

For example, there is a level of conditioning in the population that will occur based on how the stock price has behaved in the past. Employees who did not exit when the price was high (but now regret that decision) may wait longer (hoping prices to climb back) than somebody who received options post the price run up. An analogy is the conditioning of the mortgage backed security pools where the expected prepayment rate depends on the path of the interest rates.

Other considerations

1. Companies may want to reflect known information around the constraints on vesting and exercise in the event of voluntary or non-voluntary termination. In this case, the exercise behavior also may markedly differ from that of the remaining pool of employees.
2. Multinationals may have additional information on the exercise behavior seen domestically and internationally. It is possible that the exchange rates may also affect exercise behavior.
3. Employee characteristics such as age and tenure affect the price path dependent exercise behavior. If the age and tenure of employee pool has changed significantly, historical exercise patterns may not be a good guide for the future. Industry average or companies with similar employee pools may provide better guidance.

I would very much like to take part in the upcoming round table to discuss these and other suggestions related to the share-based payment draft.

Sincerely,

Gill Eapen  
Founder and Principal  
Decision Options, LLC