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International Accounting Standards Board
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Dear Sirs,

Central Division: Accounting
Queries to Ms. Pfaller

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We appreciate the opportunity of commenting on the “ED 2 Share-based Payment”.

We welcome this draft as, for the first time, an effort is being made to achieve a worldwide convergence on reporting procedures for share-based forms of payment. We believe recording all types of share-based payments in the balance sheet is also important. Absence of a balance sheet record during the vesting period leads to an economically unsatisfactory result, as in some cases share-based remuneration may be offered as an alternative to normal remuneration. In this way, account is also taken of the current international debate concerning ways of recording share options so that they can be recognized as expenditure

Our comments are shown below.

Question 1
In our opinion it is appropriate that no exemptions have been made in the draft.

Question 2
In previous commentaries we have pleaded the case for dealing with like issues as like facts in the balance sheet, emphasising the scope of IAS policy on goods and services. With this Exposure Draft we see compensation for goods and services realized in the same form.

Question 3
We agree with the measurement principle described.

Question 4
As a measurement date, it seems economically reliable to us to take the date on which the beneficiary obtains the goods or services, that being the point at which disposal is given.

Question 5
Although using the indirect way the measurement date is only a surrthgate device, the grant date for measurement seems problematical to us, insofar as the receiver of salary components does not enjoy disposal of them. Thus, final measurement at the time consideration is completed (usually the end of retention period) would be considerably more preferable.

Question 6
We agree the fair value of the goods or services received is usually more readily determinable than the fair value on the grant date of the equity instruments because the beneficiary is able to make use of the goods or services at the time of receipt.

Question 7
If the beneficiary is able to use the rights given immediately, the grant date is more readily determinable but in all other cases this is not so.

Question 8
In our opinion it is also reasonable to presume the services rendered by the counterparty as consideration for the equity instruments are received during the vesting period.

Question 9
We agree on this point because by dividing the fair value of the equity instruments granted by the expected number of units of service to be received during the vesting period, the economic value of the fair value can be determined more reliably and reasonably.

We also agree with the proposed method for determining the amount to be attributed to each unit of service received.

Question 10
There should be no possibility for an increase in capital which is neutral as far as the profit and loss account is concerned. This possibility is excluded by the draft's proposed requirement and we, therefore, agree.

Question 11
The fair value assessment of remuneration forms proposed in the discussion paper basically corresponds with our thinking on the subject. However, it should be noted that the options often are not marketable and therefore the use of an option pricing model, i.e. using an estimating model to make the assessment, can lead to errors. However, this is a always problem in matters of synthetic fair value estimations. This possibility of errors could only be remedied by intrinsic value assessment.

Question 12
We agree that replacing an option's contracted life With its expected life when applying an option pricing model is an appropriate means of adjusting the options fair value to take into account the effects of non-transferability, but at the same time it must be ensured that the expected life of an option can be accurately determined.

Question 13
In our opinion the draft's proposal for taking vesting conditions into account when estimating the fair value of options or shares granted is the most reliable method for accounting purposes.

Vesting conditions could be specifically referred to, e.g. in the notes to the consolidated financial statements.

Question 14
We agree with the proposed requirement.

Question 15
There could also be a specification concerning a minimum or maximum vesting period, linked to a lower or higher price for the option.

Question 16
As stated in question 11, the use of an estimating model can lead to errors. Nevertheless, whether detailed prescriptions for estimating options would solve the fundamental problem of assessing fair value is by no means certain.

We would also like to point out here that we would greatly welcome provisions regarding the balance sheet treatment of employee shares and virtual share options. The effects of share options arid virtual share options during the vesting periods should not, however, lead to major differences, although share options should be regarded as an equity capital measure and virtual share options as purely external capital measures.

Question 17
The recognition of all equity capital-based options must, be ensured throughout the vesting period in order to achieve an economically meaningful and realistic representation. This would also include the incremental value of the options. Therefore we agree that the incremental value granted should be taken into account when measuring of the services received.

Question 18
We agree with the proposed requirements.

Question 19
All cash-settled share-based payment transactions should be entered into the accounts in the manner which is most reliable economically. Therefore, our view is that the proposed requirements are appropriate.

Question 20
We agree with the proposed requirements.

Question 21
The broadly worded disclosure requirements in the appendix are in keeping with the international approach and the importance of equity capital-based forms of remuneration. We also welcome the degree of detail proposed by the draft.

Question 22
We agree with the proposed requirements.

Question 23
We agree with the proposed requirements.

Question 24
Given the unsatisfactory situation under US GMP regulations, the need for a uniform standard for dealing with share-based forms of payment in the balance sheet is evident. In our opinion, the existence of two sets of provisions dealing with the same issue (APB opinion no! 25 and SEAS 123) but based on different assessment methods greatly reduces the comparability of the accounts. Moreover, this is not satisfactorily remedied by the pro forma data in the appendix.

We do not wish to comment on each individual item under question 24 at this stage but hope this draft will give rise to a standard which ensures both an economically meaningful representation of share-based forms of payment in the balance sheet and international comparability.

Question 25
We refer you to our comments on question 16.

Yours faithfully,

ppa Pfaller i.V. [illegible]

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