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Our ref., Date
07.04.03

Ref.: **Re: Comment letter by Allianz Group to ED 2 Share-based Payment of the IASB**

Ladies and Gentlemen,

Allianz appreciates the IASB's initiative to propose an IFRS that ensures that an entity recognises all share-based payment transactions in its financial statements. In particular, as the use of share-based payments has increased in recent years, we support that this accounting issue has now been addressed at the international level.

We agree with the proposed rule for the recognition of share-based payment transactions when the goods or services are received or acquired. We also fully support that the value of goods and services received in a share-based transaction should be recognised as an expense when the goods and services do not qualify as assets. Furthermore, we agree with the requirement to recognise a corresponding increase in equity if the goods or services were received in an equity-settled share-based payment transaction, and as a liability if the goods or services were acquired in a cash-settled share-based payment transaction.

## Measurement date

While we agree with the reasoning, that for transactions with employees, the value of the employee services received should be measured by reference to the value of the equity instruments granted (indirect method), as this value is more readily determinable, we are concerned that the differenciation between the direct method and the indirect method in para. 8 could provide arbitrage between two different measurement dates for the value of goods and services received. Under the direct method the measurement of goods and services would be at delivery (service) date, whilst under the indirect method the measurement of goods and services would be at the grant date of the equity instruments. From a regulatory perspective the different dates would be inconsistent, from a practical point of view the different dates could give raise to arbitrage. Based on the principle in para. 4 that an entity shall recognise the goods and services received or acquired in a share-based payment transaction when it obtains the goods or receives the services, it appears inconsistent to require measurement of the equity instruments at grant date. Instead, we propose the vesting date as the date when the value of the equity instruments should be measured in a share-based payment transaction with employees, as this is the date when the service has been received.

This proposal would correspond to the current recognition criteria for revenue in IAS 18 and IAS 11 which should be parallel to the recognition criteria for expenses. It is important to note also, that one prerequisite for the recognition of revenue under current IAS is that its amount can be measured reliably (IAS 18.14 c; IAS 11.23 a). We believe that the criteria for recognising expenses should be consistent to those for recognising revenue.

As has been rightly described in the Basis for Conclusion (BC98), the employees are required to perform a service during the vesting period before the entity is obliged to perform its side of the agreement. To presume that the service has already been received at grant date is an unrealistic presumption, and, as has been mentioned above, is inconsistent with the direct measurement method, that measures the value of the service on the delivery date.

We agree that it is appropriate to presume that the services rendered by the counterparty as consideration for the equity instruments are received during the vesting period. We also agree with the proportional distribution of the value during the vesting period. We therefore propose to adjust the measurement basis of the consideration at vesting date.

## Measurement basis

In our view, with respect to cash-settled share based payment transactions, such as stock appreciation rights, the value of the equity instrument should be measured at its intrinsic value at the end of the vesting period. The intrinsic value of an option at any point in time is the difference between the market price of the underlying shares and the exercise price of the option. It is undisputed that in general theory, the value of an option includes in addition to its intrinsic value also its time value. However, no employee would exercise a stock option when its intrinsic value is zero. We therefore believe that for accounting purposes the expense should have a value of zero, if the intrinsic value of the option is zero, in the case of stock appreciation rights where the value is based on the amount of cash paid to the employee only as the (positive) difference between the share price and the strike price. In fact, it would only be consequent that a share-based payment transaction would be measured at zero, when the intrinsic value of the option is zero.

In particular, we do not agree with the requirement in para. 31, according to which an entity shall remeasure the fair value of the liability at each reporting date, with any changes in fair value recognised in profit or loss, until the liability is settled, i.e. the options are exercised or expire. As has been rightly noted in para. 20, there is no market available for employee stock options and those options are generally not transferable. The fair value of the option price would not be a reliable measure for accounting purposes as it would be dependent on subjective model assumptions and estimates. Para. 20 suggests to estimate the fair value of the options by applying an option pricing model, such as the Black-Scholes model or a binomial model, in particular due to the parameters of expected volatility of share price and the risk free interest rate. By nature of model estimation there would be a broad range of possible outcomes of fair value in practice. The fair value of the equity instruments would be a less useful and less transparent information for investors when compared to the intrinsic value. To account for the fair value of the employee stock option when its intrisic value is zero would not be justifiable for presenting a true and fair view of the financial statements as it would result in an artificial volatility of profit and loss, as cash will only be paid out in the case of a positive intrinsic value. Hence fair value is an unrealistic measure for stock appreciation rights as firstly, no rational investor would exercise the option if its intrinsic value is zero and, secondly, the time value of the option exists only in theory as in practice there is no market available.

With respect to equity-settled share-based payment transaction, we presume that after the vesting date no regular remeasurement of the value of the option during its life is required. We would appreciate, if this presumption could be clarified in the standard. If at vesting date no remeasurement of the expense will be carried out until exercise date, we would agree to take also the portion of the option value that reflects the remaining time to maturity of the option (time value) into consideration. As opposed to cash-settled share based transactions, it is appropriate to measure the value of the option at fair value, as this would include in addition to the intrinsic value also the time value of the option, which otherwise would not be accounted for until settlement, as no remeasurement takes place. Hence, for equity-settled share-based payment transaction fair value is the appropriate measure at the vesting date.

## Disclosure

We believe the proposed disclosure rules and level of detail in para. 46 and 48 are burdensome for the preparers and might obscure the central and useful information that should be provided to the users of financial statements.

## Retrospective application

We do not agree with the requirement in para. 55 to apply retrospectivly this (draft) IFRS for liabilities arising from share-based payment transactions existing at the effective date of the standard. It would not be practicable or at the minimum imply an unjustified highly technical expenditure.

Finally, we appreciate and congratulate the IASB on the clarity with which the ED 2 and the corresponding basis for conclusion have been drafted.

Yours sincerely,

Dr. Helmut Perlet
Member of the Management Board

Dr. Susanne Kanngiesser
Head of Group Accounting