

Deutsche Bank



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Ms. Suzanne Q. Bielstein
Director of Major Projects
File Reference 1102-100
Financial Accounting Standards Board
401 Merrit 7
P.O. Box 5116,
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Letter of Comment No: 5745
File Reference: 1102-100

Dear Ms. Bielstein:

Deutsche Bank appreciates the opportunity to comment on the Exposure Draft of a Proposed Statement of Financial Accounting Standards, *Share-Based Payment* (ED). We appreciate the Board's efforts to address the concerns of financial statement users and improve the accounting for this complicated issue.

We agree with the Board's conclusion that compensation cost should be recognized in the financial statements for awards of equity instruments to employees and that pro-forma disclosures are not an appropriate substitute for recognition. Furthermore, we agree that the grant date fair value is the relevant measure of cost and that fair value can be measured with an option-pricing model with sufficient reliability. However, the Board should provide only general guidance for estimating fair value and have the financial statement preparers determine the most appropriate methodology to apply in their specific cases.

Other issues are addressed in additional detail below.

Convergence with International Standards

Although to a large extent, the convergence objective was achieved with this ED, there are still differences in a few areas between the proposed US standard and the recently finalized international financial reporting standard (IFRS) 2, *Share-based Payment*. The Board stated that these differences may be further reduced as the FASB progresses with the next phase of this project (i.e., share-based payments to non-employees) as well as other convergence projects. In addition, the ED indicated that the two Boards will consider undertaking a joint project to further converge the accounting standards when the FASB completes its current project on liabilities and equity.

We appreciate the Board's efforts to achieve convergence. Convergence with international standards is critical as more and more companies will be required to file financial statements under both US and international accounting standards in the near future. The issue of accounting for share-based payment is an important one and we strongly urge the Board to redeliberate and consider adopting the accounting treatment prescribed in IFRS 2 in the interest of achieving full convergence.

Income Taxes

The ED indicates that the tax benefit relating to a tax deduction in excess of recorded compensation expense can only be recorded to the extent that it is actually realized. The example given is where an entity has a net operating loss (NOL) before the compensation expense deduction and the compensation

expense is increasing the NOL. Under current accounting principles, the tax benefit would be recorded and the offset would be an increase in Deferred Tax Assets (DTA). Any DTA is subject to the normal requirements under FAS 109 to determine its realizability and the need for a valuation allowance. Any departure from this requirement will require additional review before recording the tax benefit for the excess deduction. Although the basic example of an NOL does not seem too difficult, there could be other reasons for the fact that there is no current cash tax benefit for the excess deduction. This would require a set of ordering rules to determine whether this deduction is the last item taken into account or if other separate categories (e.g., cumulative translation adjustment) should be considered last. It is also possible that although we initially believed there was a cash benefit, that conclusion could change later in the same year or a subsequent year. Separate rules would have to be established to cover these situations. We believe that this change does not result in a significant incremental benefit considering the additional amount of review and tracking that this change would require. We, therefore, urge the Board to retain the current accounting guidance relating to income taxes.

In conclusion, we believe that eliminating the alternative method of accounting for share-based payment will result in financial statement transparency and improve the comparability of financial statements of entities. Further, we appreciate the Board's effort to achieve harmonization of US GAAP and international standards.

We hope that these comments are useful for your deliberations. If you have any questions regarding this letter, please call me (212-250-2660) or Mercedes Caes (212-250-1773) or send an electronic message to: accounting.policygroup@db.com.

Very truly yours,

Peggy H. Capomaggi
Managing Director – Accounting Policy

cc: Anthony Dilorio – Group Controller