Swiss Re

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Comments to Exposure Draft on Share-Based Payment, an amendment of FASB Statements No. 123 and 95

Swiss Re, as one of the world's leading reinsurers, supports the FASB's objective to develop US GAAP Financial Accounting Standards. Swiss Re Group's financial statements are published in accordance with Swiss GAAP (FER). Some of our subsidiaries, as well as a number of our clients use US GAAP as their reporting standard.

Swiss Re, operating through more than 70 offices in over 30 countries, is exposed to accounting regulations issued by many different national standard setters and regulatory authorities. We strongly support the FASB's efforts in developing standards that converge with International Financial Reporting Standards (IFRSs). We welcome the Board's issuance of this exposure draft which generally converges with IFRS 2 on share based payments.

1. Recognition of share based expenses

We support the recognition of share based payments as an expense in the financial statements.

2 Use of fair value measurement for stock options

We generally support the direction taken in this exposure draft. We do however have a concern that the fair value measurement basis proposed signals a significant change in direction away from the more traditional accounting measurement and recognition methods. We are concerned about the reliability of fair value based techniques in areas where there are no active markets.

3. Choice of valuation models

The exposure draft states in paragraph B 9 of appendix B that a lattice model or a closed form model can be used to estimate the fair value of employee share options. In paragraph B11 the exposure draft strongly supports the use of the lattice model except where it is not practicable.

Lattice models may be more accurate depending on the circumstances, but can be very complicated and intransparent to users. A closed form model may be more transparent, in that all inputs are clearly disclosed and in certain circumstances may provide a reasonable estimate of the fair value of a share option. We think that the type of instrument being valued should drive which model is used. As the objective is to value employee stock options for financial statement purposes, a less complex and more transparent model, e.g. a closed form model, may be preferable.

We support a standard that defines the principles to use rather than including detailed implementation requirements. We think it appropriate to adopt the approach taken by IFRS 2 which does not favour the use of a particular model.

4. Transition options

We support the use of the modified prospective approach adopted in this exposure draft.

5. Convergence with IFRS 2

We generally support the principle of convergence with the IASB.

We propose that the FASB adopt the IFRS treatment for modifications made to awards resulting from the lowering of a performance condition. An entity should as a minimum expense the grant date fair value of the equity instruments provided that vesting occurs. The fair value of each option granted should not change when a performance condition is lowered because the fair value is fixed at grant date.

We noted that the distinction between market and non market performance measures appears to be consistent with the approach taken by IFRS 2. We suggest that the guidance can be simplified as it is currently rather complicated. The IFRS 2 wording may be helpful.

6. Other

The exposure draft requires that gains in excess of the expected tax benefits be recorded in additional paid-in capital but that any losses (deferred tax write-offs) be reflected in the income statement. We believe that there should be a consistent treatment between these tax gains and losses. The reversal of any deferred tax balance should thus be taken to additional paid in capital because the share option expense is not reversed through income at this point.

The exposure draft requires the use of the intrinsic value method with remeasurement through to settlement date as an alternative treatment when it is not possible to estimate reasonably the fair value of an equity instrument. This requirement is not consistent with the concept statements, which do not allow remeasurement of equity. The intrinsic value method would effectively remeasure equity up to settlement date. We believe that this alternative treatment should be removed.

Thank you for the opportunity to comment on the Board's proposals. Please contact me or Paul Collier if you would like to discuss any of the issues above.

Yours sincerely,

M. Swall.

Mark Swallow
Chief Accounting Officer