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July 6, 2004.

Suzanne Q. Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7,
P.O. Box 5116
Norwalk, CT 06856-5116
USA

Letter of Comment No: 64 99 File Reference: 1102-100

Re: File Reference No. 1102-100

Dear Ms. Bielstein:

The Ontario Teachers' Pension Plan Board supports the proposed rules detailed in the exposure draft and applauds FASB's initiative in championing this issue.

We wish to draw your attention to a press release issued today in which we, and other global institutional investors, endorse the proposed changes that will require the fair value and expensing of stock options.

Kind regards,

Catherine Jackson, CA

Manager, Corporate Governance & Proxy Voting

Ontario Teachers' Pension Plan



NEWS RELEASE

For immediate release

International investors endorse proposals for expensing of stock options in U.S.

TORONTO (July 6, 2004): The Ontario Teachers' Pension Plan, one of the largest institutional investors in Canada, added its voice to the powerful group of global investors urging the U.S. to implement proposed reforms on the expensing of stock options.

Eighteen international institutional investors managing assets of approximately US\$3.5 trillion are endorsing proposals to treat any share-based payment granted to U.S. employees, including stock options, as an expense on financial statements.

In a joint letter to the Financial Accounting Standards Board (FASB), the Ontario Teachers' Pension Plan and institutional investors from Australia, the Netherlands, Norway, Sweden and the U.K. warn that the U.S. will be out of step with the global investment community if it does not adopt FASB proposals for the mandatory expensing of options. Canadian companies are required to expense all stock-based compensation, but the practice remains optional in the U.S.

"We are concerned about the political pressure on FASB to withdraw or amend this proposal which would be a significant step backwards," said Robert Bertram, Ontario Teachers' Executive Vice-President, Investments. "Shareholders have the right to know how stock option plans, which can seriously dilute shareholder value, will affect the company's bottom line."

The institutional investors, who have a significant financial stake in U.S. markets, believe stock options must be expensed if financial statements are to present an accurate picture of a company's financial condition.

"We applaud the FASB's courage in championing this controversial and much-needed reform. International investors have collectively lost billions from recent U.S. corporate scandals, including ones resulting from fraudulent and misleading financial statements. We firmly believe that financial reporting standards should be shaped solely by what provides the most relevant, comprehensive information about a company's financial condition – not by what results in the most attractive reported numbers," the investors said in their letter to FASB.

The Ontario Teachers' Pension Plan is an independent corporation responsible for investing C\$75.7 billion in assets and administering the pensions of Ontario's 155,000 elementary and secondary school teachers and 93,000 retired teachers.

Ref: Lee Fullerton

Director, Communications and Media Relations

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Note: A copy of the letter to FASB is available under Governance at www.otpp.com

Background Information

Investors endorse proposals for expensing of stock options in U.S. June 30, 2004

- 1. The signatories to the letter are: Stichting Pensioenfonds ABP (Netherlands), Asset Super (Australia), Association of British Insurers (U.K.), Care Super (Australia), Cbus (Australia), Co-operative Insurance Society (U.K.), Hermes Pensions Management Ltd (U.K.), London Pensions Fund Authority (U.K.), National Association of Pension Funds (U.K.), Newton Investment Management (U.K.), Ontario Teachers' Pension Plan (Canada), Shell Pensions Management Services Limited (U.K.), Standard Life Investments Limited (U.K.), Storebrand Livsforsikring as (Norway), Timber Industry Superannuation Scheme (Australia), Tredje AP-fonden (Sweden), UniSuper Limited (Australia), Universities Superannuation Scheme Ltd (U.K.)
- 2. **Background:** On March 31, 2004, the Financial Accounting Standards Board released an exposure draft that would change accounting rules to require companies to expense all equity-based awards, including stock options, granted to employees. If adopted, the rules would take effect for awards granted by public companies for fiscal years after Dec. 15, 2004. The proposal marks the second time in ten years that FASB has proposed mandatory expensing of all option awards.

3. Additional information:

- According to Bear Stearns, at least 576 U.S. companies have already decided to voluntarily expense stock options.
- The UK will require share-based payments to be expensed in 2005 for listed companies and in 2006 for all other entities.
- A recent Broadgate Consultants survey found that 80% of portfolio managers and buy-side research professionals support expensing.
- The Association for Investment Management and Research (AIMR) has called for expensing of employee stock options.
- A 2002 McKinsey & Company survey found that 83% of institutional investors worldwide prefer to have stock options expensed.
- The big four accounting firms have all come out in favour of expensing.
- Shareholder resolutions asking companies to expense options have already received majority votes this year at Intel, IBM, Hewlett-Packard, Apple Computer, Novell and Adobe Systems.
- Though use of stock options is encouraged under FASB's current accounting rules, they are a very inefficient form of compensation compared to restricted stock. A recent Watson Wyatt survey found that employees discount the value of options by 30 to 50 percent compared to actual stock awards.
- Goldman Sachs, UBS Investment Research, Merrill Lynch, and Credit Suisse First Boston Equity Research have evaluated and all rejected claims that expensing stock options will have a significant negative market impact.