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Letter of Comment No: 5836
File Reference: 1102-100

From: John Jarve [john@menloventures.com]
Sent: Wednesday, June 30, 2004 3:34 PM
To: Director - FASB
Cc: Jennifer Dowling (E-mail)
Subject: File Reference 1102-100



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Dear Financial Standards Accounting Board Director (File Reference No. 1102-100):

I recently reviewed the FASB proposal on share-based payments, and I was extremely dismayed with the proposals for nonpublic entities. Please consider my comments on your proposals:

1. The current proposal offers no economic benefit to private companies, their shareholders, and their employees. Furthermore, the costs of implementing the program would divert funds from job and business growth to regulatory control and compliance. Why burden private companies with this cost when it provides no value to shareholders or employees?
2. The current proposal does not provide clearer financials to private company shareholders and investors. In fact, the proposed plan for expensing private company options significantly distorts the income statement. The proposal would be a step backward, not a step forward. Have you talked to even a single private company shareholder that thinks this proposal would provide clearer financial statements for nonpublic companies?
3. The proposal for valuing nonpublic company options is voodoo economics at its worse. The binomial model, as applied to nonpublic companies, completely lacks any empirical evidence that it fairly approximates the value of options in nonpublic companies, and the model cannot be consistently applied from company to company. No economist has been awarded a Nobel Prize for the application of the binomial model to nonpublic entities because application of the model involves predicting future events under significant uncertainty. Why bring fortune telling and palm reading to the accounting industry?

According to the FASB home page, "The mission of the Financial Accounting Standards Board is to establish and improve standards of financial accounting and reporting for the guidance and education of the public, including issuers, auditors, and users of financial information." Please follow your mission and focus on the public. Privately held businesses already have significant accounting and regulatory challenges. They do not need additional paperwork burdens.

Thank you for considering my comments.

Sincerely,

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