ROBERT GREIFELD
PRESIDENT AND CHIEF EXECUTIVE OFFICER

NASDAQ®

THE NASDAQ STOCK MARKET
ONE LIBERTY PLAZA, 50TH FLOOR
NEW YORK, NY 10006
P 212.401.8901 F 212.401.1011
bob.greifeld@nasdaq.com

Letter of Comment No: 5804
File Reference: 1102-100

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BY E-MAIL TO: director@fasb.org

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

Re: File Reference No. 1102-100
Exposure Draft: Proposed Statement of Financial Accounting Standards, Share-Based Payment, an Amendment of FASB Statements No. 123 and 95

Dear Ms. Bielstein:

The NASDAQ Stock Market appreciates this opportunity to comment on the Financial Accounting Standards Board (FASB) Exposure Draft. At NASDAQ, we support FASB's efforts to improve the standards of financial reporting and firmly believe that clear and full disclosure of employee stock options (ESOs) will further this goal for the benefit of investors.

With regard to the exposure draft, however, NASDAQ has very strong concerns about the proposed mandatory expensing of ESOs and encourages the delay of the proposal until its full economic impact can be studied. In brief, we believe broad-based stock options plans foster innovation and entrepreneurship, principles on which NASDAQ and our companies across all business sectors have been founded. ESOs have proven to be an invaluable tool to grow jobs and grow the U.S. economy. Options enable small companies to attract and retain talent, and help companies of all sizes to better align the interests of their employees with the interests of their companies.

Mandatory expensing would have far-reaching negative consequences for many U.S. industries and hurt rank and file workers above all. We firmly believe that mandatory expensing of ESOs will ultimately discourage use of options and will thus increase the cost of capital and dampen entrepreneurship, innovation and business development—the foundation of American enterprise.

Concerns about the increase in the number of stock options awarded to employees are misplaced. There is no evidence linking broad-based ESO plans to recent unethical and illegal corporate behavior. Nonetheless, NASDAQ has strengthened its corporate governance rules, including rules that require shareholder approval of broad-based ESOs plans and any material modification to such plans, which would appropriately protect investors and further limit the potential for abuse.

FASB's proposal has critical flaws, most particularly in valuation models, and is more likely to confuse investors than clarify company finances. Current valuation techniques, including the lattice binomial and Black-Scholes methods, do not adequately address the unique characteristics of ESOs. These valuation methods are used for exchange-traded options—stock options that have definite terms and are freely tradable—and do not reliably or accurately measure the value of ESOs. ESOs are not transferable or marketable like exchange-traded options and their value is accounted for on companies' financial statements in the dilution of earnings per share.

If companies do not use the same valuation model, how can investors make educated investment decisions? Expensing ESOs using assorted options-pricing models and models that are universally acknowledged to produce unreliable and inaccurate values only adds more variables and subjectivity to the reporting process, creating more opportunities for manipulation. This can only create more confusion and make it more difficult or even impossible for investors to compare financial information from companies using different models.

NASDAQ urges FASB to postpone mandatory expensing of ESOs until a viable method is developed that accurately and reliably measures their value. Expensing ESOs as proposed by the Exposure Draft is actually contrary to the fundamental principle that accounting standards must be accurate and measurable and, in fact, conflicts with FASB's stated goal of improving the transparency, relevance, and comparability of financial reporting. An options-pricing model that gives the best possible assessment of the value of options across all companies is needed to achieve FASB's goals.

In sum, NASDAQ urges FASB to postpone adopting any requirement to expense ESOs until the economic impact on our economy can be fully understood and an accurate valuation model for ESOs can be developed. Broad based ESO plans should be preserved and encouraged for the benefit of rank and file workers and American enterprise. NASDAQ hopes that FASB will continue to work with experts to improve current valuation models and to conduct broad field-testing using data from companies with broad-based ESO programs. NASDAQ truly believes that sound accounting principles can be developed to preserve and promote broad-based ESO plan while providing investors with clear, accurate, and useable information with which to understand and compare financial statements.

We thank the FASB for this opportunity to provide our comments on this important issue.

Sincerely,

Robert Greifeld

Robert Greifeld
President and Chief Executive Officer
The NASDAQ Stock Market