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From: Summerfield, Daniel [dsummerfield@uss.co.uk]
Sent: Tuesday, June 29, 2004 10:55 AM
To: Director - FASB
Subject: File Reference no. 1102-100

Letter of Comment No: 5496
File Reference: 1102-100



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Dear Sir/Madam

I have attached a letter in support of FASB's proposals for the expensing of all share-based payments, including stock options, awarded to employees. This letter has been co-signed by 23 institutional investors from Australia, Canada, Netherlands, Norway, Sweden and the United Kingdom, representing approximately US\$3.5 trillion of assets.

Please do not hesitate to contact me should you require any additional information.

Daniel Summerfield

<<FASB - final draft.doc>>

Dr Daniel Summerfield
Adviser, Responsible Investment
Universities Superannuation Scheme (USS) Ltd
99 Bishopsgate
London EC2M 3XD
UK

Tel: ++44 (0)20 7972 6398 (direct)
Tel: ++44 (0)20 7972 0300 (switchboard)
Fax:++44 (0)20 7628 0662

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Corporate Information

Universities Superannuation Scheme Limited
Registered in England No 1167127
www.ussq.co.uk

Registered Office:
Royal Liver Building, Liverpool, L3 1PY, United Kingdom
Telephone 0044 (0) 151 227 4711 FAX 0044 (0) 151 236 3173

London Investment Office:
13th Floor, 99 Bishopsgate, EC2M 3XD, United Kingdom
Telephone 0044 (0) 20 7972 0300 FAX 0044 (0) 20 7628 0662

Directors

Sir Graeme Davies (Chairman), C D Donald (Deputy Chairman),
A S Bell, Professor John Bull, Professor Sir Martin Harris, Howard Jacobs, Lady Merrison,
Sir Howard Newby, Michael S Potts, Professor Charles Sutcliffe, J W D Trythall, Baroness
Warwick of Undercliffe.

BY ELECTRONIC MAIL

Tuesday, 29 June 2004

Director of Major Projects- File Reference No. 1102-100
Financial Accounting Standards Board
401 Merritt 7,
P.O. Box 5116
Norwalk, CT 06856-5116
USA

Re: File Reference No. 1102-100

Dear Director:

We represent some of the largest foreign institutional shareholders¹ and are jointly submitting this letter to endorse the Financial Accounting Standards Board's exposure draft regarding share-based payments, which calls for the expensing of all share-based payments, including stock options, awarded to employees. As large institutional investors, we have a significant financial stake in the US markets. Accuracy and credibility of financial statements is of great importance, and we believe that expensing of stock options is required if financial statements are to present an accurate picture of a company's financial condition.

We support the proposed rules detailed in the exposure draft and 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.

We also strongly disagree with many of the claims put forward by opponents to this proposed reform. First, FASB is only requiring that companies reflect the cost of employee compensation and is not taking a position on whether or not companies should issue options. Second, the fair value of an option can be measured just as accurately as other items currently measured under the accrual accounting method. In fact, we can see no rational reason not to treat options as an expense like other forms of compensation such as salaries, cash bonuses, restricted stock and benefits. We

¹ Stichting Pensioenfond ABP (Netherlands), Asset Super (Australia), Association of British Insurers (UK), Baillie Gifford & Co (UK), Care Super (Australia), Cbus (Australia), Co-operative Insurance Society (UK), Henderson Global Investors (UK), Hermes Pensions Management Ltd (UK), ISIS Asset Management (UK), London Pensions Fund Authority (UK), Morley Fund Management (UK), National Association of Pension Funds (UK), Newton Investment Management (UK), Ontario Teachers' Pension Plan (Canada), RAILPEN Investments (UK), Shell Pensions Management Services Limited (UK), Standard Life Investments Limited (UK), Storebrand Livsforsikring as (Norway), Timber Industry Superannuation Scheme (Australia), Tredje AP-fonden (Sweden), UniSuper Limited (Australia), Universities Superannuation Scheme Ltd (UK)

The total value of funds represented is approx US\$3.5 trillion

believe that requiring all options to be expensed, along with meaningful disclosure of relevant assumptions, will result in high-quality, comparable financial statements.

If the exposure draft is not adopted as proposed, the United States will be out of line with standards and practices being adopted in other markets which give shareholders more accurate reporting of these practices. In February 2004, the IASB issued International Financial Reporting Standard 2 Share-based Payment (IFRS 2) on accounting for share-based payment transactions, including grants of share options to employees. In April 2004, the UK's Accounting Standards Board (ASB) issued FRS 20 'Share-based Payment' requiring companies to recognise an expense, measured at fair value, in respect of their employee share option plans, share purchase plans, and other share-based payments. This will be mandatory in the UK for accounting periods beginning on or after 1 January 2005 for listed entities and 1 January 2006 for all other entities. As a result, FASB's proposed rule would be another important step toward global convergence of accounting standards.

In closing, as international institutional investors with a solid stake in the US financial markets, we strongly support the FASB Expensing Stock Options Exposure Draft and urge you to act in the best interest of international capital markets, global investors, the existing accounting standards setting process and the public interest.

Yours sincerely

Jean M.G. Frijns
Chief Investment Officer
Stichting Pensioenfonds ABP
Netherlands

Michael Dwyer
General Manager
ASSET Super.
Australia

Peter Montagnon
Head of Investment Affairs
Association of British Insurers
UK

Richard Burns
Chief Investment Officer
Baillie Gifford & Co
UK

Julie Lander
Chief Executive Officer
CARE Super
Australia

Ralph Willis
Chair
Cbus
Australia

Chris Hirst
Executive Director, Investment Management
Co-operative Insurance Society
UK

Rob Lake
Head of Corporate Engagement
Henderson Global Investors
UK

Peter Butler
Corporate Focus Director
Hermes Pensions Management Limited
UK

Richard Singleton
Director, Corporate Governance
ISIS Asset Management
UK

Peter Scales
Chief Executive Officer
London Pensions Fund Authority
UK

Iain Richards
Head of Governance and Public Policy
Morley Fund Management
UK

Geoff Lindey
Strategic Advisor, Corporate Governance
National Association of Pension Funds
UK

Jeff Munroe
Chief Investment Officer
Newton Investment Management Limited
UK

Claude Lamoureux
President and Chief Executive Officer
Ontario Teachers' Pension Plan Board
Canada

Frank Curtiss
Special Projects Officer
RAILPEN Investments
UK

Giles Craven
Managing Director
Shell Pensions Management Services Limited
UK

Guy Jubb
Investment Director
Head of Corporate Governance
Standard Life Investments Limited
UK

Frederic Ottesen
Chief Financial Officer
Storebrand Livsforsikring as
Norway

David John Goodear
Chief Executive Officer
Timber Industry Superannuation Scheme
Australia

Sven Askenberger
Chief Executive Officer
Tredje AP-fonden
Sweden

Ann Byrne
Chief Executive Officer
UniSuper Limited
Australia

Peter Moon
Chief Investment Officer
Universities Superannuation Scheme Ltd
UK