

RE: FASB Exposure Draft

ikon

Letter of Comment No: 3261
File Reference: 1102-100

From: Golden, Bruce [bgolden@accel.com]
Sent: Sunday, June 06, 2004 6:13 PM
To: Director - FASB
Subject: RE: FASB Exposure Draft

June 4, 2004

File Reference No.: 1102-100

To: Director of the FASB

Director@fasb.org

RE: FASB Exposure Draft – The Share-Based Payment, and Amendment of FASB Statements No. 123 and 95

Dear Sir,

As a general partner in an early stage venture capital firm, I am strongly opposed to the above FASB draft on the treatment of stock options. I do not believe that stock options should be treated as an expense. I believe a far better solution would be non-expensing with pro forma disclosure of what the income statement would look like if expensing had occurred. This would provide the market with insight as to the potential impact of stock option expensing without creating an enormous burden for private companies and arguably undermining the value of stock options as an essential element in building high growth businesses.

In the unfortunate circumstance in which expensing stock options becomes a requirement, the method of expensing must be relatively simple for private companies to derive as well as meaningful to financial professionals who would interpret the data. The current FASB draft has a number of severe flaws, the most glaring of which is inadequately addressing the issues in current valuation methodologies, particularly in relation to non public companies.

The proposal calls for stock options to be expensed at grant date using either the Black-Scholes method or binomial methods, both of which are widely acknowledged to be problematic when applied to employee options. However, for non public entities, the current standard (known as minimum value), has been specifically disallowed. Now it has been determined that if a non public entity decided it could not reasonably estimate the fair value of employee stock options (using Black-Scholes or binomial models), it should be required to use a modified "intrinsic value" method. Doing so requires recalculation of the expense every reporting period, creating variable accounting treatment as the stock options are marked-to-market, and a very significant increase in cost to the company in having external advisors review the recalculation for each period.

I believe the FASB proposal fails on a number of areas. From an accounting perspective, the valuation methods prescribed will not result in a better depiction of a company's economic health or more transparent financial statements. The current method of accounting already works extremely well. The option count is included in the calculation of earnings per share, so the dilution of capital caused by options is properly reflected and disclosed in the financial statements without distorting the company's cashflow or expense position. On a macroeconomic level, I do not believe that FASB has given any consideration to the negative impact an expensing rule will have on the nation's economy. Further, I believe that the cost of implementing these inaccurate valuation methods will be a much greater burden on startups and non public entities.

I believe FASB's proposal, if enacted as proposed, will ultimately undermine stock options as a tool that has

6/7/2004

successfully aligned the interests of shareholders with employees. Stock options have been a crucial building block in the development of thousands of leading edge technology companies, who in turn have been a tremendous source of innovation, job creation, and a magnet for unique intellectual capital to be concentrated in the United States. This FASB draft will significantly diminish the value of stock options as a critical success factor in creating new businesses.

In summary, FASB should concede that expensing stock options is not necessary. Far more consideration should be given to develop a proposal of non-expensing, with richer pro forma reporting and analysis. Let us not destroy a policy that has been at the heart of building many of our leading businesses. Above all, do not impose a significant and unreasonable burden on startups and non public entities by requiring them to use a reporting scheme that is of no real value to investors and extremely time consuming and complex to produce.

Yours sincerely,

Bruce Golden
General Partner, Europe
Accel Partners
16 St. James Street
London SW1A 1ER
United Kingdom
Tel: +44 (0)20 7170 1000
Email: bgolden@accel.com
Internet: www.accel.com

Regulated in the UK by the FSA