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Letter of Comment No: 3260

File Reference: 1102-100

**From:** Golden, Joe [jgolden@accel.com]  
**Sent:** Saturday, June 05, 2004 6:32 PM  
**To:** Director - FASB  
**Subject:** Against FASB Proposal

5 June 2004

File Reference No.: 1102-100

To: Director of the FASB

[Director@fasb.org](mailto:Director@fasb.org)

Dear Sir,

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

As a General Partner of Accel Partners, a leading venture capital firm, I am strongly opposed to the above draft. I do not believe that the draft has adequately addressed the flaws in current valuation methodologies, particularly in relation to non public companies, despite lengthy consideration.

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 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.

Finally, I believe FASB’s proposal, if enacted as proposed, will ultimately undermine stock options as a tool that has successfully aligned the interests of shareholders with employees. In short, I am steadfastly opposed to this draft.

Yours sincerely,

Joe Golden  
General Partner

6/7/2004