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Letter of Comment No: 3268  
File Reference: 1102-100

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**From:** "Ó Riordáin, Fearghal" [foriordain@accel.com]  
**Sent:** Monday, June 07, 2004 2:55 PM  
**To:** Director - FASB  
**Cc:** jcdowling@nvca.org  
**Subject:** File Reference No. 1102-100

To: Director of FASB

Re: Share-Based Payment—an amendment of Statements No. 123 and 95 (Proposed Statement of Financial Accounting Standards)

File Reference: No. 1102-100

Date: 7 June 2004

Dear Sir,

I am a principal of an early stage technology venture capital firm that invests extensively in US based companies. In the interests of these companies, I am strongly against the current FASB draft on the treatment of options, especially as it pertains to private companies. Rather than treat the stock options as an expense, I think it would be a far better solution not to expense it, but to instead have a pro-forma disclosure of what impact it would have on the income statement were it expensed.

In the event that mandatory expensing of stock options becomes a GAAP requirement, I am deeply concerned that the administrative burden to private companies will greatly exceed any conceivable benefit that may accrue to them. In particular, most smaller private companies do not have either large enough financial/accounting departments, or the specialist skill sets within them, to implement the provisions in the current draft – yet 100% of our private companies use stock options as an incentive for employees. These companies are also typically resource constrained, and the incremental resource/expense required to hire the individuals to implement the current draft proposal (for implementing complex models, gathering data, getting specialist valuation expertise to estimate volatility, etc) will come at a minimum at the expense of investment that would add in a significant manner to the fundamental growth of the business, and in some cases simply inhibit the company from using stock options at all while remaining within GAAP, with consequential disastrous effect on employee moral and company growth.

It is clear that it is not possible to accurately measure volatility in private companies. However given that the proposal would explicitly prevent the volatility input in Black-Scholes to be set to zero, neither is the alternative binomial tree model a practical solution as it requires much more effort to continuously make new probability judgments each quarter, as well as the cost of continuously justifying these judgments to the company's auditors. Moreover, if each option vesting date is considered to be a separate grant, then companies that implement monthly vesting (as most of ours do) will have a huge burden tracking and modeling for all of these different grants.

In summary, I believe that the expensing of stock options is unnecessary, and this is particularly true for private companies. The FASB draft proposal will levy on small, growing companies a significant administrative and cost burden that will not provide any real value to the companies or to their investors. On the contrary, instead of benefiting these companies, this proposal is likely to unnecessarily restrict the growth of these companies by diverting scarce resources, and/or discourage the use of employee stock options, which have long been the most fundamentally effective tool for incentivizing employees and encouraging growth in these companies. If the FASB believes it is still necessary to proceed with this, at the very minimum private companies must be exempted.

Yours sincerely,  
Fearghal Ó Riordáin

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6/7/2004