## Stacey Sutay

From:

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Letter of Comment No. 2246

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Tuesday, May 04, 2004 4:11 PM Sent:

Director - FASB To:

Subject: File Reference No. 1102-100

Please allow me to provide you with my view of the proposed changes. First I would like to express my appreciation for the hard work your organization has put into this proposal and all the other projects.

A brief background. I invest assets for individuals. In this capacity, I rely on the accuracy of financial statements produced by companies and other organizations. My retirement and the retirement of my clients are impacted by the accuracy of financial statements.

At the highest level, the issue of share-based compensation is simple: Stock options and other share-based payments ARE compensation and should be included as an expense on the income statement.

The details are not quite so simple. There is no 100% accurate way to determine the value of this form of compensation. However, not recording some sort of expense allows companies to present inaccurate financial statements to investors. I believe the methods available (Black-Scholes-Merton formula & Lattice model) offer an adequate solution to this problem, though not perfect. This gets you closer to the truth than the current approach.

As you know, the IASB is moving towards expensing these forms of compensation. So, the argument that the US would be out of step with the rest of the world now flips to - if the US does not adopt this rule we would be out of step.

Perhaps the most difficult impact to address: changing any rule produces more of an impact on certain stakeholders -and- less impact on others. Clearly, those companies who issue large amounts of share-based compensation are likely to be impacted. Please allow me to present a more philosophical view of accounting. years ago, 100 years ago, the most valuable asset of many corporations was plant, equipment, and factory... hard assets. Many accounting rules were developed to account for hard

assets: depreciation. Now the most important asset of many corporations is intellectual property; often the most valuable assets leave the building very night at about 5 PM. Employees and their intellectual power are often the largest expense. It is critical that all of the expenses related to maintaining this most valuable asset be recorded on the income statement. Yes, I know that many technology-related firms will be impacted more than others. However, investors will continue to be disadvantaged if this proposal fails. Comments that this rule would lead to the failure of certain companies are a bit disingenuous.

Please contact me if you wish to explore this further.

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