Letter of Comment No: 5741 File Reference: 1102-100



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June 30, 2004

Ms. Suzame Bielstein
Director of Major Projects
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 1102-100

Dear Ms. Bielstein:

Astoria Financial Corporation (AFC) appreciates the opportunity to comment on the Financial Accounting Standards Board's (FASB's) Exposure Draft (ED), "Share Based Payment." Astoria Financial Corporation is a unitary savings and loan association holding company for Astoria Federal Savings and Loan Association. We are a publicly traded thrift institution with assets of approximately \$23 billion and operate 86 banking offices in New York.

The current ED would require all public companies to expense the fair value of outstanding employee stock options and pro forma disclosure would no longer be an acceptable alternative. AFC disagrees with this position and supports the continued use of the current Statement of Financial Accounting Standards (SFAS) No. 123, as amended by SFAS No. 148, which permits but does not require the expensing of stock options on the income statement and allows companies to continue to apply the intrinsic value based accounting method in Accounting Principles Board (APB) Opinion No. 25 – Accounting for Stock Issued to Employees. We feel that the current pro forma footnote disclosures, despite being subject to the inherent fair value measurement flaws associated with the various option pricing models, provide relevant information regarding the estimated fair value of our stock options and their related impact on our net income and earnings per share.

The primary reason for our objection to the mandatory expensing of stock options is that we do not believe it is possible to reliably measure the fair value of a long-lived nontransferable employee stock option on the date of grant. The option-pricing models identified in the ED rely heavily on estimates about future expectations that are inherently subjective. Additionally, currently available option pricing models calculate a

fair value of stock options assuming the holder of the option has the ability to transfer the options to an independent third party, which is not the case with employee stock options. Furthermore, the value of employee stock options can be significantly different from the estimated fair value due to changes in a company's stock price which result from factors beyond the company's control such as general market movements, world events or industry specific issues.

We disagree with the Board's conclusion in Paragraph C22 of the ED that "Uncertainties inherent in estimates of the fair value of share based payment arrangements are generally no more significant than the uncertainties inherent in the measurements of, for example, loan loss reserves, valuation allowances for deferred tax assets, and pensions and other postretirement benefits obligations." Users of financial statements can evaluate the reasonableness of loan loss reserves based on various factors including net charge-off and loan loss provision history, as well as the relationship between the loan loss reserve and non-performing loan and assets balances, the total loan portfolio and its composition and an institution's underwriting standards. Similarly, pension and other postretirement benefit assumptions, in particular, discount rates, expected long term rates of return, rates of compensation increases and health care cost trend rates can be evaluated for reasonableness in relation to current market conditions and relative to other entities.

When it comes to estimating the fair value of employee stock options, we feel that the uncertainties inherent in calculating these fair value estimates are more significant than the uncertainties inherent in the measurements of loan loss reserves and pension and other postretirement benefit obligations. The assumptions used in the calculation for the fair value of stock options, other than the risk-free interest rates, are highly subjective and company specific. These include the expected term of the option, taking into account both the contractual term of the option and the effects of employees' expected exercise and post vesting employment termination behavior; the expected volatility of the price of the underlying share; and the expected dividends on the underlying share. The ED states that an entity should not estimate share option fair values based on historical average share option lives, historical share price volatility, or historical dividends without considering the extent to which future experience is reasonably expected to differ from historical experience. There is no mechanism for users of financial statements to assess reasonableness of assumptions used by an entity in calculating the fair value of their employee stock options or to assess reasonableness of assumptions used between entities. In addition, the wide range of assumptions utilized by different companies as inputs into the various option pricing models, particularly the lattice (binomial) option pricing model, will result in significant differences in the calculated fair values of employee stock options which results in a lack of comparability between companies.

While we agree with the Board's decision to allow companies to continue to use closed-form option pricing models (such as the Black-Scholes-Merton formula) in valuing stock options, primarily because the information required for input in the lattice (binomial) option pricing model is not readily available, it contributes to a lack of comparability between companies using different valuation tools. Additionally, because closed-form

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option pricing models tend to overstate the value of employee stock options, this reduces the reliability of the fair value measurement.

Based on the foregoing, we do not support changes to SFAS No. 123 that would eliminate an entity's ability to account for stock options under APB Opinion No. 25 and would mandate the use of option pricing models that we believe are unreliable in determining the fair value of employee stock options.

We appreciate the opportunity to comment on the ED. If you have any questions, please contact the undersigned at 516-327-7892.

Sincerely,

/s/ Monte N. Redman

Monte Redman

Executive Vice President and Chief Financial Officer