Letter of Comment No: 5561
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Director, Major Projects – File Reference No. 1102-100
Financial Accounting Standards Board
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401 Merritt 7
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Dear Director:

We at PPG Industries, Inc., a Fortune 500 company and a leading global manufacturer of coatings, glass and chemical products, employing approximately 33,000 employees worldwide, are pleased to present our comments on the Financial Accounting Standards Board's **"Proposed Statement of Financial Accounting Standards (SFAS) on Share-Based Payments," an amendment of FASB Statements No. 123 and 95**. Our comments are focused on two subjects – valuation and accounting for the tax benefits subsequent to recognition of the compensation expense.

Valuation

Ever since the debate concerning expensing stock options began, the determination of the fair value of employee stock options has been the most contentious issue. At this point, it is clear that there is no valuation model that can accurately predict at the date of grant the value that will be realized by an employee over the option's term. Therefore, we believe that it is important to focus on other financial reporting goals, such as comparability, simplicity and transparency of financial disclosures when establishing the standard on how to account for stock compensation.

To meet these goals, we recommend that the FASB require all companies to determine fair value of employee stock options using one valuation method and to require disclosure of the significant assumptions used in applying that method. We suggest that the required method be the Black-Scholes model, which has been in use for years as companies complied with the pro forma disclosure provisions of FASB No. 123. Even though that method was not specifically required under FASB No. 123, it has been used by the overwhelming majority of companies, which has in turn resulted in more comparability among companies than would result from having the flexibility provided in this Exposure Draft. The Exposure Draft expresses a preference for use of a lattice model, such as the binomial method, which has more complexity than the Black-Scholes model and requires more historical data about participant behavior in order to develop the inputs needed to apply the model. In addition, the wide latitude that the Exposure Draft affords companies in making assumptions about inputs to a lattice model will result in significant variability between companies in the expense recognized for stock compensation, which in turn will make it difficult for investors and analysts to compare the financial results of companies. This complexity and variability works against the financial reporting objectives of comparability and transparency. While arguments can be made that use of a lattice model may be more theoretically appropriate, we believe that method to be overly complicated and costly to implement. Most compelling, the binomial model has not been proven to yield estimates of value that are any more accurate than those determined using the Black-Scholes method. Another limitation of the lattice model is its dependence on company-specific, historical information on participant behavior over an extended period of time. Such information will not exist if the design features of the stock option plan are amended, as they are from time-to-time in practice.

Income Taxes

We believe that the true-up between the actual tax benefit received by the Company upon the employee's exercise of a stock option and the anticipated tax benefit that was recognized when the compensation expense was charged to net income at the date of grant should be recorded to additional paid-in-capital and not be an adjustment of tax expense in the period the stock option is exercised. As the Exposure Draft is currently written, there is no adjustment to be recorded for the difference between the fair value estimate of the compensation expense measured at the date of grant and the value ultimately derived by the employee. We do not believe, therefore, that there should be an adjustment to tax expense as a result of the estimate of its fair value not being equal to the value actually derived by the Company.

Should you have any questions regarding our opinions, please contact Kim Edvardsson, Director, Financial Accounting, at 412-434-3238.

Thank you for taking the time to consider our views.

Sincerely yours,

William N. Hennessy

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