Washington Mutual

Letter of Comment No: 5545
File Reference: 1102-100

June 30, 2004

Ms. Suzanne Q. Bielstein
Director of Major Projects – File Reference No. 1102-100
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 1102-100: Exposure Draft on Share-Based Payment, an amendment of FASB Statements No. 123 and 95

Dear Ms. Bielstein:

Washington Mutual, Inc. (WMI) is a financial services company with over $280 billion in total assets as of March 31, 2004. Based on those total assets, WMI was the largest savings institution and one of the largest financial institutions in the United States. It also is one of the largest residential mortgage loan originators and servicers in the nation.

In general, we support the guidance in the Exposure Draft of the Proposed Statement of Financial Accounting Standards, *Share-based Payment* (ED). However, we do have concerns about the proposed effective date and the requirement to estimate forfeitures in determining the amount of compensation cost to be recognized. Our concerns are explained in more detail below.

Effective Date

If adopted in its current form, we believe that the ED would require significant systems and operational changes to be made to recognize compensation cost in accordance with the proposed guidance. Additionally, we believe significant costs and effort would be required for entities that previously did not utilize a lattice model to implement such a valuation technique under the proposed guidance. Furthermore, companies would want to evaluate and possibly modify their share-based benefit plans in light of the new accounting requirements, as they could have a significant impact on the amount of compensation expense recognized. The accounting requirements being proposed are complex and require time to understand and evaluate. A share-based benefit plan amendment generally entails a lengthy process and involves multiple parties (including shareholder approval in some cases). Consequently, we do not believe that it would be reasonable to expect companies to appropriately evaluate the impact of and implement the ED by the end of this year. Instead, we believe that additional time should be given to permit companies to amend their benefit plans and implement the systems and processes necessary to comply with the proposed Statement.

The ED recommends that a lattice model be used to value stock option grants and other share-based awards if the necessary data is available and if an entity determines that it is practicable to do so. Before such a conclusion can be made, entities that previously did not utilize a lattice model will need to perform extensive research to gather the necessary information. It is likely that those entities will need to employ third-party resources to obtain a better understanding of the lattice model and determine the appropriate assumptions and other inputs necessary to use such a model. Our understanding is that most public entities (including ourselves) are currently using the Black Scholes-Merton formula or some variation of that formula. If the Board desires to have companies use a lattice model for their stock option valuations, the Board should allow sufficient time for companies to understand and thoughtfully develop the necessary inputs and assumptions to produce the best results. Consequently, the Board should provide additional time for implementation.

Estimation of Forfeitures

The ED would require an entity to accrue compensation cost based on the number of instruments for which the requisite service was expected to be rendered and to adjust that estimate if the actual number of instruments expected to vest subsequently differed from previous estimates. The ED would eliminate the method allowed under FASB Statement No. 123, *Accounting for Stock-Based Compensation* (FAS 123), of recognizing compensation cost as if all instruments (subject only to a service requirement) were expected to vest and recognizing the impact of forfeitures as they occurred. For entities that have been recognizing compensation cost under the latter method (including our company), considerable time and effort would be needed in gathering the data necessary to derive an appropriate estimate of expected forfeitures. Significant systems and operational changes also would be required to track forfeiture data and further refine that estimate over time.

Conclusion

We support the issuance of the ED and believe that it would provide greater transparency in the accounting and reporting of compensation cost related share-based payments. However, we do urge the Board to reconsider the time that would be necessary to properly implement the significant changes being proposed and the operational burden that would be required to incorporate estimated forfeitures in the recognition of compensation cost.

Washington Mutual

We appreciate the opportunity to comment on the ED. If you have any questions about our comments, please contact me at (206) 377-5957 (or robert.miles@wamu.net) or Larry Gee, Deputy Controller, at (206) 377-3684 (or larry.gee@wamu.net).

Very truly yours,

Robert H. Miles
Senior Vice President and Corporate Controller