

June 30, 2004

Financial Accounting Standards Board
of the Financial Accounting Foundation
401 Merritt 7
Post Office Box 5116
Norwalk, Connecticut 06856-5116

**Re: Comments on the Proposed Statement of Financial Accounting
Standards, "Share-Based Payment"**

Dear Sir or Madam:

AmSouth Bancorporation (AmSouth) is pleased to have the opportunity to comment on the Proposed Statement of Financial Accounting Standards "Share-Based Payment." AmSouth is a regional bank holding company headquartered in Birmingham, Alabama, with over \$47 billion of assets and 660 branch offices throughout the southeastern United States.

We would like to commend the Financial Accounting Standards Board (FASB) on its efforts to deal with this controversial issue. We are supportive of many of the key provisions of this draft, including the basic premise that the cost of equity instruments for employee services should be reflected as expense on the income statement. However, there are several areas we believe need additional review. These areas include: accounting for income taxes, prospective application, and effective date.

Accounting for Income Taxes

The accounting for the income tax impact of stock options appears to create an inconsistency in the current exposure draft. The current exposure draft requires the expense to be recorded at the time of the grant based on a formulaic estimate of the eventual fair market value of the stock at exercise date. The expense is not adjusted in the future when the actual market prices differ from this estimate. However, when accounting for the income tax impact of the exercise, if a deferred tax liability exists after exercise, an adjustment is made to equity. Yet, if a deferred tax asset remains after exercise, the asset is written off as income tax expense. This adjustment to income tax expense results from the actual market price at the time of exercise being lower than the projected price. This accounting treatment is inconsistent in two ways. First, the accounting for the

compensation cost differs from the accounting for income taxes at the time of exercise. There is no change to compensation cost for changes from the projected market price at the time of exercise. However, differences in actual market price compared to projected market prices could result in an impact to the tax expense. Second, the income tax accounting is inconsistent depending on whether the actual price is higher or lower than the projected market price at exercise.

These inconsistencies will result in additional volatility in earnings with little benefit to the financial reader. In times when the actual economic cost to the issuer is lower because the stock price is below the projected market price, the issuer will report lower earnings due to the income tax expense. In times when the economic cost is higher, the issuer will increase its capital. We recommend the FASB reconsider this recommendation and treat all changes to the deferred income taxes from the exercise of options as adjustments to equity and not to the income tax expense.

Prospective Application

The transition guidelines require companies to adopt the terms of this exposure draft prospectively in fiscal years beginning after December 15, 2004. The exposure draft does not permit the restatement of prior years' financial results for the impact of adoption. If the proposed accounting treatment of share-based payments is clearly superior to current permitted approaches, why not allow the retroactive application of these guidelines? The retroactive application would provide more consistent and comparable financial information for the intended users. We recommend the FASB allow the retroactive application of this statement.

Effective Date

As noted above, the effective date for this exposure draft is for fiscal years beginning after December 15, 2004. This transition date is very challenging when considering the proposed valuation technique is a lattice model (e.g., binomial model). This lattice model includes the impact of employees' exercise behavior and incorporates modeling at the individual grant level. This valuation model appears to be an improvement from the Black-Scholes method used by most companies today. However, this improved model has not been used by many, if any, companies that have adopted this accounting policy. Use of the lattice model will require the implementation of new accounting software for most companies. Implementation of this model will require companies to create detailed accounting records at the individual grant level, which does not exist in the accounting software used by most companies. Prior to implementation, companies will have to review the past history of option exercises to properly estimate the various factors required by the lattice model. All of these changes to the accounting systems and all of the factors required for the lattice model would have to be estimated and reviewed by the first quarter

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of 2005 with the proposed effective date. We recommend the FASB delay the effective date to allow for the appropriate application of the lattice model.

Again, thank you for the opportunity to provide these comments. If you have any questions about our suggestions, please call me at (205) 264-0512.

Sincerely,

Beth E. Mooney
Senior Executive Vice President and
Chief Financial Officer