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**From:** Comolli, Kevin [kcomolli@accel.com]  
**Sent:** Wednesday, June 09, 2004 9:24 AM  
**To:** Director - FASB  
**Subject:** FASB Statements No. 123 and 95

June 9, 2004                      File Reference No.: 1102-100

To: Director of the FASB

**RE: FASB Exposure Draft – The Share-Based Payment, and Amendment of FASB Statements No. 123 and 95**

Dear Sir,

I am a General Partner in an early stage venture capital firm that invests in USA-based companies. In trying to represent the best interests of these companies, I would like to express my opposition to the above FASB draft on the treatment of stock options. I do not believe that stock options should be treated as an expense. I would support a solution where stock options would be non-expensing with pro forma disclosure of what the income statement would look like if expensing had occurred. This would provide the market with insight as to the potential impact of stock option expensing without creating an enormous administrative burden for private companies and arguably undermining the value of stock options as an essential element in building high growth businesses and incentivizing individuals.

In the event that the mandatory expensing of stock options becomes a requirement, the method of expensing must be relatively simple for private companies to administer as well as meaningful to financial professionals who would interpret the data. The current FASB draft has a number of severe flaws, the most glaring of which is inadequately addressing the issues in current valuation methodologies, particularly in relation to non public companies.

It is clear that it is not possible to accurately measure volatility in private companies. However given that the proposal would explicitly prevent the volatility input in Black-Scholes to be set to zero, neither is the alternative binomial tree model a practical solution as it requires much more effort to continuously make new probability judgments each quarter, as well as the cost of continuously justifying these judgments to the company's auditors. Moreover, if each option vesting date is considered to be a separate grant, then companies that implement monthly vesting (as most of ours do) will have a huge burden tracking and modeling for all of these different grants.

The expensing of stock options is unnecessary, particularly for private companies. The FASB draft proposal will levy on small, growing companies a significant administrative and cost burden that will not provide any real value to the companies or to their investors. On the contrary, instead of benefiting these companies, this proposal is likely to unnecessarily restrict the growth of these companies by diverting scarce resources, and/or discourage the use of employee stock options, which have long been the most fundamentally effective tool for incentivizing employees and encouraging growth in these companies. I believe FASB's proposal, if enacted as proposed, will ultimately undermine stock options as a tool that has successfully aligned the interests of shareholders with employees. Stock options have been a crucial building block in the development of thousands of leading edge technology companies, who in turn have been a tremendous source of innovation, job creation, and a magnet for unique intellectual capital to be concentrated in the United States. This FASB draft will significantly diminish the value of stock options as a critical success factor in creating new businesses.

6/9/2004

Yours sincerely,

Kevin Comolli

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