

Letter of Comment No: 5781
File Reference: 1102-100

30 June 2004

Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Dear Financial Accounting Standards Board,

On behalf of the Information Technology Association of America (ITAA), representing over 375 companies in the information technology (IT) industry -- the enablers of the information economy, I write to comment on the Exposure Draft, Proposed Statement of Accounting Standards, share based payment, an amendment of FASB Statements No. 123 and 95, released on March 31, 2004. Our members, located throughout the United States, range from the smallest IT start-ups to industry leaders in the custom software, services, systems integration, hardware, telecommunications, Internet, and computer consulting fields, but all of whom value the availability of stock options to drive innovation.

Valuation Determination

ITAA has long supported the FASB moves toward greater certainty and has appreciated the opportunities to interact with, and host, various members of the Board during ITAA events. In this case however, the Board seems to be moving toward rules that obscure financial realities, or that at least supply a nearly random valuation to certain financial actions. Before mandatory rules are put into place, the FASB must guarantee that a valuation formula has been developed that gets the valuation of options to be traded at an indeterminate date in the future correct the first time; not a formula that all but guarantees a misleading result.

The Board's step towards a new rule was taken despite the many problems that are still left unresolved, such as valuation of options. The current valuation proposals are not adequate, or even acceptable for the purposes to which they are applied, and result in disturbingly varying results, the bane of financial certainty. Inaccuracies must not be forced into the accounting system, particularly when they are applied directly in expensing, which then creates an artificial reduction in earnings.

To take just one valuation tool as an example, the Black-Scholes model causes a great deal of distortion. If a "value" of the option is determined at the time of the grant of then the only certainty will be that the given value is not accurate. This is largely a function of that model being designed for options immediately tradeable, not options that are only tradeable at some point in the future. Perhaps more importantly, under the proposed rule, if the options are "underwater" companies are not able to book the income but rather must continue as an expense and never be used. This creates a one-way road to financial fiction.

ITAA seeks transparency, consistency and understandability in all financial transactions but particularly in those that so directly effect employees and shareholders. While intellectual arguments can be fashioned to support the Board's current position, the fact remains that the proposed rule is complicated and obscure.

Information Technology Association of America

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Necessary Tools

Broad-based stock option plans are a powerful tool for attracting and retaining talented workers, particularly for start-up companies and their employees. The continued use of broad-based employee stock option plans encourages innovation and entrepreneurship, ensuring that the United States will be able to retain its global technological edge and economic supremacy.

Mandatory expensing eliminates this powerful tool from the entrepreneurial toolbox. The Board must ensure that financial statements are not distorted by including the grossly inaccurate and unreliable numbers that current option pricing models generate as this will unjustly force companies away from options. Stock options must be retained as they are a critical component of a high tech economy.

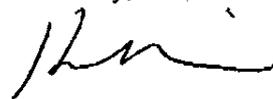
In addition, as the business trend continues toward greater intellectual capital valuation, from physical asset valuation, the currently proposed rule will have a devastating effect. Primarily, intellectual capital consists of the knowledge within a company's human capital. Given that greater value of today's companies is found in their intellectual assets rather than their physical assets, particularly in the IT sector, tools to retain employees are even more important to long term economic success of an organization and of the nation. This is just one area that demonstrates that the full economic impact of this proposed accounting change has not been fully considered. Accounting rules should not hamper commerce but rather record it accurately and appropriately.

This proposed rule could not come at a worse time in economic history than now, when the IT industry is beginning to recover its place as an innovative leader in the nation's information economy. Forcing the expensing of stock options will artificially drive down earnings, reducing global competitiveness, and suppressing the willingness to hire new employees or to make new capital investments.

If ITAA may be of any assistance, please do not hesitate to contact me ((703) 284-5340; hmill@itaa.org)), or Bartlett Cleland of my staff at ((703) 284-5310; bcleland@itaa.org)).

Thank you for considering the IT industry's views.

Sincerely,



Harris N. Miller
President