

June 30, 2004

Ms. Suzanne Q. Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, Connecticut 06856-5116

RE: File Reference 1102-100: Exposure Draft—Share-Based Payment: An Amendment of
FASB Statements No. 123 and 95

Dear Ms. Bielstein:

The HR Policy Association is pleased to submit comments to the Financial Accounting Standards Board (“FASB” or “Board”) on the Exposure Draft on Share-Based Payment. In short, the Association believes that the draft would effectively end broad-based stock option programs that have had positive effects on productivity, innovation, and workforce morale. Moreover, because it has not been implemented to any extent, the Board’s preferred options valuation method—the lattice model—provides for excessive variability. Thus, if FASB decides to implement a standard on share-based payment, we believe that implementation should be delayed for a sufficient period, such as two years, so that the models may be tested and private industry can establish norms on the required variables.

HR Policy Association is an organization of the senior human resource executives of more than 200 of the nation’s largest private sector employers, collectively employing nearly 13 million Americans, or more than 12 percent of the workforce. Many of our member companies provide options to a broad cross-section of employees. Because our members focus on recruiting and retaining people at all levels of their companies, these comments focus on the practical effect of the exposure draft rather than the more technical aspects.

The Exposure Draft Would Effectively Terminate Most Organization-Wide Stock Options and Stock Purchase Plans

If implemented, FASB’s Exposure Draft would cause most companies who currently offer stock options or employee stock purchase plans to most or all of their employees to eliminate such programs because of the greater expense. This change would reverse the trend of including lower-level employees in equity programs that historically have been reserved for senior executives.

It has been widely reported that equity participation throughout the workforce produces measurable benefits for shareholders.¹ These include greater total shareholder returns of 2 percent, increased productivity of 4 percent, and increased profit margins of 11 percent.² The

¹ See, e.g., Joseph Blasi et al., *In the Company of Owners*, 157 (2003).

² *Id.*

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key to these increases is the combination of ownership and greater employee participation. FASB's requirement that all equity programs such as stock options and employee stock purchase plans be recognized as an expense will eliminate this opportunity for most employees below the executive level. In addition, there is no appreciable gain in financial information because employers are already required to show the expense in a pro-forma format.

The Exposure Draft Would Provide for Excessive Variability in Fair Value Determinations

The exposure draft would enable employers to generate different estimates of fair value based on the expensing model used and the assumptions in the model. The exposure draft states that a lattice model is the preferred option pricing model. Because this model requires significant data development, the exposure draft also permits employers to use a Black-Scholes model in valuing the expense. By using different models, different expense estimates may be generated. More importantly, under either model, companies may vary the assumptions that are plugged into the selected model, permitting different options expense amounts, even in similarly situated companies.

If the Exposure Draft Is Approved, the Effective Date Should Be Delayed Until Reliable Estimates of Fair Value Can Be Generated

If FASB decides to implement the exposure draft, HR Policy recommends that it delay the effective date for a minimum of two years to allow companies to develop and implement sound lattice-based models. In the exposure draft, FASB has placed primary reliance on the lattice model for valuing options expense. However, few companies have adopted the lattice model, and there are significant questions about the reliability of the expense amounts generated by such models.

In addition, employers must generate a substantial amount of data just to develop a reliable model, and there are no generally recognized assumptions for variables even within industries. Thus, there will be wide variations in options expense especially in the first two years if the exposure draft is made mandatory on January 1, 2005. This is directly contrary to the FASB's purported mission of making financial comparisons between companies easier. For these reasons, HR Policy Association recommends that FASB delay the effective implementation date of any standard on share-based payment at least until January 1, 2007, permitting companies to integrate these models into their accounting systems.

Conclusion

For the reasons discussed above, HR Policy Association opposes the FASB Exposure Draft on Share-Based Payment, and at a minimum suggests a delay in implementation for two years. Thank you for this opportunity to submit comments on this matter.

Sincerely,

Jeffrey C. McGuiness
President