

June 30, 2004

Letter of Comment No: 5848  
File Reference: 1102-100

Director of Major Projects  
Financial Accounting Standards Board  
Via e-mail [director@fasb.org](mailto:director@fasb.org)

File Reference No. 1102-100 (*Share-Based Payment, an amendment of FASB Statements No. 123 and 95*)

We appreciate the opportunity to comment on the exposure draft (ED) of the FASB's proposed statement, *Share-Based Payment, an amendment of FASB Statements No. 123 and 95*. We agree that employee services exchanged for share-based compensation give rise to costs that should be recognized in the financial statements at fair value and should be expensed. In fact, we adopted FAS 123, *Accounting for Stock-Based Compensation*, on January 1, 2003. Based on our experiences implementing and administering FAS 123, though, we have serious concerns with the proposed statement. The complexity of the ED results in confusion and increased workload, but does not result in a materially better estimate of stock-based compensation expense for companies like Ford.

#### **Valuation**

With respect to the valuation methodology addressed in the ED, we have concerns with the "grouping" of individual grants, the mark-to-market treatment for certain items, and the lattice model overall. We believe that in most cases aggregating individual awards into homogenous groups with respect to exercise and post-vesting employment behaviors does not add substantively to the valuation model. Instead of tracking and administering one overall grant, companies with graded vesting over a three year period will be required to track and administer at least six times as many valuation groupings related to one overall grant. Each tranche requires a separate valuation, and within each tranche, there likely will be at least two distinct employee groupings that require separate valuation. We believe that the difference between the summation of each separate tranche/homogenous group and the average value of the overall grant is immaterial in the estimate of overall compensation expense for companies like Ford.

We feel that the subsequent accounting provisions for certain freestanding financial instruments included in the ED are appropriate in some circumstances, but not in all. According to the ED, if a plan allows employees that retire to hold their options for the remaining contractual term of the grant, the employer must apply FAS 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. In our opinion, this should be an exception to the standard. We do not agree that the accounting for options granted to active employees that later retire should differ from active employees that do not retire before exercise or expiration. The increased complexity of tracking **all** grants on an individual basis, and the subsequent mark-to-market treatment of certain individual grants, but not all, added with aggregation of grants into homogeneous groups and valuation of individual tranches of a grant is not necessary. This increased complexity will only add to confusion, potential error, and increased time necessary to administer this standard.

We agree that fair value is an appropriate measure for share-based compensation, and strongly support a choice of option valuation models. The proposed lattice model requires an assessment of the value employees place on specific assumptions, just short of an actuarial study akin to that

required for FAS 87 and FAS 106 accounting. Our systems are not configured to do this, so we will need an outside service provider to assist in the calculation. Since company specific data is not available, industry estimates will likely be used. Thus, a lattice model will result in an "average" value that we feel is no more accurate than a company specific Black-Scholes model.

### **Income Tax Effects of Share-Based Payments**

We believe that the tracking requirements necessary to measure and maintain deferred tax balances could result in significant recordkeeping efforts while not improving the quality of reported results in any meaningful way. This is particularly evident when tax deductions related to stock based compensation are also immaterial relative to the overall reported results of the company. In addition, recognition of a deferred tax asset given the uncertain nature of realization of a tax benefit (in most cases requiring an increase to the stock price) could produce needless volatility in reported tax rates, result in carrying tax assets with little likelihood of realization and provide for lack of comparability to other stock based compensation deductions that might regularly produce tax benefits from disqualifying events. An alternative accounting method to recognize tax benefits only as realized should be provided.

### **Disclosures**

Share-based payment expense is a small part of many companies' compensation strategy, including Ford's. The disclosure information required by the ED does not add to the reader's understanding of our business risks and results. We understand that detailed disclosures were necessary under FAS 123 because the accounting treatment for options was not consistent--some companies adopted fair value and expensed options in the financial statements but the majority disclosed expense information only in the footnotes. Since all companies will be required to expense stock options, we do not understand why this proposed statement includes more extensive disclosures than FAS 123. The amount of detail required to be disclosed by the ED could be misleading to the reader of the financial statements as to the significance of stock option expense on the overall results of companies like Ford. Also, in those cases that stock option expense has a material impact on financial results, companies will likely include detailed disclosures as a part of their Critical Accounting Estimates. We believe that if the ED is finalized as written many of the required disclosures will be redundant and potentially confusing to the users of the financial statements.

### **Transition**

The proposed ED requires a detailed analysis of share-based transactions and fundamental changes in the way share-based awards are tracked, valued and expensed today. Many companies, like Ford, do not have the historical information necessary to transition to the new valuation requirements. Different types of instruments are awarded to the same employees and their exercise habits may differ accordingly. In addition, companies will need to change their processes, make them Sarbanes-Oxley compliant, and identify and train the additional resources necessary to administer the proposed statement. Service providers, who manage much of the data related to share-based transactions, will need to change their processes in order to provide timely and accurate data. We feel that an effective date of the fiscal year beginning after December 15, 2004 for public entities is not realistic and we are requesting additional time. Registrants should be afforded a transition period long enough to gather sufficient data on a prospective basis in order to comply with the required valuation considerations.

### **Costs & Impact on Ford**

The FASB states that the benefits of implementing the proposed standard outweigh the costs for companies to do so. We strongly disagree with this statement. While we agree that the benefits of expensing options are high, as evidenced by our adoption over a year ago, we believe the ED, as written, generates large marginal costs for small marginal improvements. Additional costs will be incurred to adopt and administer the proposed changes, most notably the additional costs of changing the way we track outstanding grants of stock options for accounting purposes. Presently, for accounting and tax purposes, we track options on grant by grant basis, but if this ED is adopted we will have to track options on an individual basis and analyze distinct characteristics of individual recipients of the options. We must track individual grants, by tranche, from the date of grant, to date(s) of vesting, to date of retirement, and to the date of exercise or expiration. The administrative cost, along with the significant increase in accounting and tax work associated with this standard, could be very large for many companies, including Ford. We do not feel there is an impact on financial statements and a benefit to the users of the financial statements that justifies the increased time, money and effort necessary to administer these provisions of the proposed standard.

When one considers the relatively small impact that stock-based compensation has on the financial statements of companies like Ford, the costs to implement and administer these provisions on an ongoing basis greatly outweigh the benefits received by the users of the financial statements. In 2003, stock option expense was less than 1% of our total labor costs. A very preliminary estimate indicates that we will spend at least \$200,000/year to simply review and compile data into the format mandated by the proposed statement. This would not include Ford employee-specific information but would use market stratification. In addition, we estimate that at least two additional employees will be required to administer the proposed statement and to track and evaluate the information needed for accounting, tax, and human resources purposes. Given the complexity of the proposed statement, we will need the assistance of an outside service provider, and will likely spend a significant amount of time and resources once a prepared provider is identified, even if we retain a Black-Scholes valuation. The adoption of this proposed standard places an administrative and financial burden on companies at a time when there are many other more appropriate and critical tasks that must be administered and maintained, most notably Sarbanes-Oxley compliance.

In conclusion, while we agree with, and have already adopted, the basic provision of expensing share-based payments including stock options, we feel that this proposed standard requires a level of complexity that is neither necessary nor prudent. The proposed standard would place an undue administrative and financial burden on the majority of companies subject to it.

We appreciate this opportunity to share our opinions, and we hope that you will consider our suggestions, which are based on our practical experiences with the early adoption of FAS 123. We would be happy to discuss this with you further if you wish.

Sincerely,

/s/

Patricia A. Little  
Accounting Director