



June 30, 2004

Financial Accounting Standards Board  
ATTN: Director of Major Projects  
401 Merritt 7  
P. O. Box 5116  
Norwalk, Connecticut 06856-5116

RE: Share Based Payment  
An amendment of FASB Statements No. 123 and 95  
File Reference No. 1102-100

To Whom it May Concern:

One of the expressed goals of the Texas Society of Certified Public Accountants (TSCPA) is to speak on behalf of its members when such action is in the best interest of its members and serves the cause of Certified Public Accountants in Texas, as well as the public interest. The TSCPA has established a Professional Standards Committee to represent those interests on accounting and auditing issues.

We are delighted to have the opportunity to react to the issues that were raised in this exposure draft. We have not included a reaction to all the issues presented in the exposure draft. For those issues where we have not provided a comment, we agree with the Board's suggested approach and have no additional comments on the issue.

**Issue 2**

We agree that pro forma disclosures are not an appropriate substitute for recognition of compensation costs in the financial statements. However, since the Board has recommended that compensation costs be recognized only when the employees receive vested interests in equity instruments, we believe there should be pro forma disclosure of the total cost to the enterprise if all potential equity interests have been vested.

**Issue 3**

We disagree that the grant date is the relevant measurement date. It would be more appropriate to measure the value of the equity instruments on the dates the employee vests in them. Once the equity instruments have vested, there should be no further adjustment in the compensation expense recorded if the values either increase or decrease in future periods. However, if the compensation expense is recorded over periods different from the vesting periods, (e.g., cliff vesting at the end of 10 years but the compensation expense amortized equally over the 10-year service period, based on an estimate) an adjustment to compensation expense should be recorded for the cumulative difference between the amount recorded and the amount of the actual expense calculated at the vesting date.

The value of an equity instrument at the grant date has little, if any, bearing on an employee's willingness to work for a company. The employee, who has the option either

to continue working for a company or to leave, continually monitors the value of what he or she expects to receive in the future. If the value of the instruments awarded rise between the grant date and the vesting dates, then the company is "paying more" for the services to be received. If the values fall, the company is paying less. The vesting date is the date the company and the employee make their final agreement that value has been transferred in exchange for services. Measuring the value years before this happens would not produce an accurate picture of the nature of the transaction.

**Issue 6**

The proposed Statement establishes the principle that an employee stock purchase plan transaction is not compensatory if the employee is entitled to purchase shares on terms that are no more favorable than those available to all holders of the same class of shares. The proposed Statement would eliminate the "safe haven" established by Statement No. 123, placing employees on an even plane with any other shareholder. A study on the effect of such a change should be considered. Employees not covered by a stock option plan have no other opportunity to receive an ownership benefit in the company at a discounted amount. Under such circumstances, we believe employees would be less inclined to invest in their employer's stock due to the lack of any incentive.

The proposed change may or may not affect the use of employee stock purchase plans, but at what point should all employee benefits be eliminated or accounted for separately? For example, employee purchase discounts on products employees purchase from their employers commonly amount to as much as 15% of the sales price. These discounts reduce overall earnings of a company, but are not commonly recognized as compensatory.

**Issue 7**

What should be the appropriate basis for attribution of compensation cost? The proposed Statement requires that the cost be recognized over the requisite service period. While this seems to be a rational approach, we believe it creates a significant number of implementation issues. Our belief seems to be validated by the length of the proposed Statement and its related appendices. We wondered if any other approach has been examined. We believe a simpler approach would create fewer implementation issues, such as recognizing the total cost (shares granted multiplied by the average high and low prices) in the same period the share-based compensation is granted. Another approach would be to spread the cost over a fixed period (e.g., three years) and adjust it at the end of the designated period for the actual experience.

**Issue 8**

The guidance provided in the proposed Statement appears sufficient. However, this guidance is quite rigid and tends to eliminate the use of judgment. Such guidance is indicative of a "rules-based" approach to establishing accounting principles. We believe the Board can allow for a greater amount of judgment to be applied in some areas without weakening the overall objectives of the proposed Statement.

**Issue 9**

If the objective is to estimate costs as conservatively as possible, it appears to us that the graded vesting schedule is appropriate. However, we believe this approach does not allow for an appropriate matching of costs and expected performance improvements recognized towards the end of a vesting schedule. We feel the proposed approach does not allow a company to use alternate methods that provide a better matching of costs with company improvements created by the employees covered under the stock-based compensation program.

**Issue 14(a)**

We agree with the Board's position with respect to providing the option of using the fair value or intrinsic value method for nonpublic companies. We believe the fair value method is preferred if it can be implemented using comparable public company volatility measurements for companies in the same industry or other sources that would also provide a reasonable measurement of volatility. Such an approach allows nonpublic companies to have more financial statement comparability to the public companies in their industry. If an industry comparable cannot be found, the intrinsic value method will provide at least some measure of the value of equity issued to employees, albeit with remeasurement over the entire vesting period of the security.

**Issue 14(b)**

We believe the alternative measurement provisions and implementation method (prospective as opposed to the modified prospective method) as well as the additional implementation period will provide nonpublic companies with the options to minimize implementation cost and effort.

**Issue 15**

We do not believe the alternate valuation method offered to nonpublic companies should be extended to SEC small business registrants. These companies have been required to provide the pro forma disclosures for granted options as required by Statement No. 123 even if they had previously chosen to apply the intrinsic value method under APB No. 25. The information required to apply this Statement should already be available and thus implementation time and cost should be minimal.

**Issue 17**

We prefer the provisions of IFRS 2 with regards to issuance of share-based payments to parties other than employees whereby the grant date is not measured until goods have been received or services have been rendered. We feel this is consistent with the treatment for cash-based liabilities to vendors and third parties whereby the issuer does not recognize a liability to pay until goods or services have been received. We would encourage the Board to adopt this provision and modify EITF 96-18 to eliminate the grant date measurement disparity with IFRS 2.

We believe the treatment of share-based payments for nonpublic companies in this Statement is appropriate and does not need to be modified to match IFRS 2. We believe the alternative methods provided by the Board are primarily implementation

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issues and that ultimately, the issuers of the share-based compensation will recognize the expense over the term of the arrangement with the employee whether under this Statement or IFRS 2. We do not see the need for additional convergence to IFRS 2 on this issue.

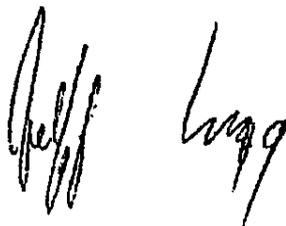
We believe the provision of this Statement as it relates to the reclassification of an equity award to a liability should be changed to be consistent with IFRS 2. In other words, subsequent changes in the value of the liability after conversion should be recognized in the income statement. While this is inconsistent with the treatment for modifications of equity instruments per this Statement, the conversion of the equity instrument to a liability is different than granting a modification of the terms of the same equity instrument. Thus, it is reasonable for the conversion to a liability to have different and distinct treatment for future changes in value consistent with the treatment of other employee benefit related liabilities, such as pensions and other postretirement benefits.

**Issue 18**

The subject matter covered in this proposed Statement has been hotly debated for quite some time and press coverage (including coverage in most national business journals) provides only cursory explanations of "expensing stock options." We believe the Board should exercise care in developing clear and relevant examples of how stock options will be expensed including the dates when the options are valued. Additionally, the Board should make clear the fact that once options are valued, the valuation will not change, and even if the options are not exercised (due to inadequate value) the expense recorded will not be adjusted.

We appreciate the opportunity to present these comments in accordance with the goals of our committee.

Sincerely,

A handwritten signature in black ink, appearing to read "C. Jeff Gregg". The signature is written in a cursive, somewhat stylized font.

C. Jeff Gregg, CPA  
Chair, Professional Standards Committee  
Texas Society of Certified Public Accountants