Letter of Comment No: 5757 File Reference: 1102-100

To: Director of Major Projects File Reference No. 1102 – 100

Letter to FASB re: Exposure Draft on Share-Based Payments

The Pennsylvania Institute of Certified Public Accountants, Accounting and Auditing Procedures Committee would like to make the following comments in response to the exposure draft. While several committee members dissented, the following response represents the prevailing view of the Committee. We wish specifically to address Issues #1, #2, #4(a) and (b), #5 and #14(a) and (b).

While we agree in principal with the Board's assertion that the issuance of stock options represents compensation expense, we disagree with Board's conclusions that fair value is the appropriate measurement basis for non-public entities and that such cost be recognized in the financial statements. Requiring non-public entities to use fair value fails to practically consider the implementation costs and the overall reliability of the valuation techniques. In short, the cost of implementation to small non-public entities is likely to be prohibitive. At the same time, the valuation techniques proffered by the Board, fail to adequately address the unique aspects of many small businesses. Contrary to the Board's position outlined in paragraph 22 of Appendix C to the proposed statement, we believe that the issues faced when using valuation techniques to estimate the fair value of share-based payments are not similar to those faced in valuing loan loss reserves, reserves for deferred taxes, etc. In many cases, for a non-public entity, there is no reliable data upon which to base a valuation. This lack of relevant and reliable data creates potential for wide ranges of estimates. The resulting estimate may not be sufficiently precise, creating unacceptable variability in the financial statements, which ultimately hinders comparability across financial statements of similar entities. While we understand that the Board retained the intrinsic value method for non-public entities, measuring intrinsic value presents similar issues as measuring fair value, (i.e. cost and reliability), if the shares are not actively traded.

Thus, we believe that it is unrealistic to presume that non-public companies incur such exorbitant costs for a theoretical exercise that won't yield reliable numbers. Our concern for the impact of the proposed statement on Share-Based Payments on the non-public entity is not a concern that the theory is wrong, but rather stems from an understanding that this is not a theoretical exercise, but rather a practical, real-life concern for the costs and continuing competitiveness of non-public companies. We request that the Board consider a more balanced approach for non-public entities that will consider these real costs. We therefore request that the Board reconsider retaining, for non-public entities, the disclosure-only approach as permitted in APB Opinion No. 25, Accounting for Stock Issued to Exployees.