

Financial Accounting Standards Board
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Letter of Comment No: 5755
File Reference: 1102-100

Re: Expensing options

My Fellow Accountants,

The comments that follow in no way reflect the views of my employer, a mutual fund organization. I have been a stock fund manager for 17 years and am a CPA.

The argument over accounting for options pits the users of financial statements, including investors like me, against some issuers of financial statements: mainly managements of companies that use options to compensate employees, including management themselves. When I studied accounting, the first thing we learned was that accounting principles exist for the benefit of the users of financial statements. On that basis there should be no question how the FASB ultimately proceeds in the matter of expensing options.

Both sides argue from self-interest. Users of statements, like myself, want complete recognition of revenues and expenses, consistently applied for maximum comparability. Our concern is that if something of value is handed over to an employee as payment for service, that transfer of value is an expense. Without recognition the financial statements are materially incomplete. Some issuers of statements very much want options omitted from the income statement. Their oft-stated concern is that recognition will discourage the use of options.

The "no-expense" partisans claim that expensing would crimp innovation and overturn our country's vital technology industries. But how worthwhile can these enterprises be if they only thrive in the shadows of deceptive accounting? Opponents also point to valuation uncertainty as a justification for pretending that options cost nothing. But how then can boards of directors responsibly issue options if they can't price them? It's plain that options have great value to the fervid opponents of expensing.

As far as valuation methodology, I would prefer there be a real world component beyond pricing models. For example, if Company A wants to issue 100,000 10-year options, they should buy some or all of them from a third party, or at least collect offerings, and use those prices to establish the expense of the options issued. But that's secondary to the main goal, which is expense recognition in broad daylight. If the FASB puts the interests of some issuers of accounting statements ahead of us users, then we have a much bigger problem in our capital markets than what might befall tech if expensing prevails.

Bruce C. Baughman, CPA

