

Letter of Comment No: 63  
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November 4, 2002

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

Re: File Reference No. 1101-001  
Exposure Draft on Accounting for Stock-Based Compensation - Transition and Disclosure -  
an amendment of FASB Statement No. 123

Dear Ms. Bielstein:

J.P. Morgan Chase & Co. appreciates the opportunity to comment on the FASB's Exposure Draft of the Proposed Statement of Financial Accounting Standards, Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123 (the "ED").

We understand the FASB's decision to reconsider the current transition and disclosure requirements of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123), in light of the recent increase in companies adopting fair value accounting for employee stock options. Additionally, we applaud the efforts being made by the FASB and the IASB to bring convergence to accounting standards across the world as seen through their efforts with regard to the accounting for stock-based employee compensation.

The ED proposes two modifications to SFAS 123, alternative transition methods and more frequent and improved disclosure requirements, which we will comment on separately.

#### Alternative Transition Methods

In light of those companies who have elected to adopt the fair value method of accounting for stock-based employee compensation, we understand FASB's decision to consider providing two alternative methods of transition to mitigate the "ramp-up" effect of the current transition method prescribed by SFAS 123. However, financial statement disclosures that lack comparability and consistency do impair the integrity of the information provided and relied upon by financial statement users. It is for this reason that JPMorgan Chase feels that continued use of the "prospective" method as currently required under SFAS 123 should be the only method allowed for transition purposes. Although we are not entirely opposed to the use of either the proposed "modified prospective" or "retroactive" methods, we feel that continued use of the "prospective method," already implemented by companies who have adopted the fair value approach under SFAS 123 prior to this amendment, will provide for the highest degree of comparability for users of such information going forward.

### Modifications to SFAS 123 Disclosure Requirements

JP Morgan Chase is in agreement with the FASB's proposal to provide financial statement users with expanded stock-based compensation disclosures, regardless of the transition method selected and whether or not a company decides to adopt the preferred fair value method prescribed under SFAS 123. We believe this to be a positive step towards providing stock-based compensation disclosures in a more understandable and consistent format. Further, as this change will enhance the transparency of the stock-based compensation disclosures, we advocate disclosing this information within the footnotes to the financial statements, and not on the face of the income statement. However, we do not support including all required disclosures in the Summary of Significant Accounting Policies. It would be more appropriate to disclose the required quantitative information in the stock-based compensation-related footnote.

JPMorgan Chase also does not object to the proposed requirement to disclose proforma stock-based compensation information more frequently by inclusion in interim financial statements. We agree that providing proforma stock-based compensation information throughout the year, rather than only at year-end, aids investors and creditors in making more timely investment/credit decisions.

JPMorgan Chase appreciates the opportunity to submit its views on the ED. If you have any questions or would like to discuss this letter, please do not hesitate to contact me or David M. Morris at (212) 648-0377.

Very truly yours,