



Letter of Comment No: 2550  
File Reference: 1102-100

SCHOOL OF BUSINESS

**Frank C. Minter**  
**Executive-in-Residence**

Ms. Suzanne Q. Bielstein  
Director of Major Projects and Technical Activities  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, CN 06856-5116

May 18, 2004

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Dear Ms. Bielstein:

I appreciate the opportunity to comment on the Board's Exposure Draft entitled Share-Based Payments. I have followed and been a participant in the discussion of this subject from the time it was originally added to the Board's agenda in 1984. Although my views have somewhat modified over this period, my most serious concern over this time has been my view that the compensation expense associated with the issuance of options to employees would not be reliably measured under the Board's proposals and therefore fell short of meeting Concept Statement requirement for recording.

Although the Board has now offered additional ways to measure compensation expense under its fair-value concept, I continue to believe it fails to take into consideration changes in market value subsequent to the initial measurement. I do not argue that the Board's position is probably more theoretically pure, but there is a more accurate measurement. I continue to believe that the change in market value during the reporting period reflects the actual benefit received by the employee during the period and should be the amount recognized as compensation expense.

My second concern deals with the period over which compensation is recognized and recorded. I believe the correct period should be the entire period until the shares vest. Once the shares have vested, the employee then has the opportunity to either exercise or continue to hold. He/She is then no different from any other stockholder making a decision to hold or sell. I came to this opinion because of my own personal situation where when I retired from AT&T my stock options had vested but I could continue to hold then for a total of 10 years. As I was no longer an employee, I did not see how the increase in value of those shares could be recorded as compensation expense by the company. Any increase in value was viewed as a gain from holding equity securities. I believe that compensation expense should be recorded for the period from issuance of the options until the vesting date, but not beyond.

Big GAAP/Little GAAP has been an issue for many years but for the most part the professional standards have treated everyone alike. When the Congress proposed to record expense only for the top five employees of a company, I thought this was bad accounting even though in many companies that would cover the vast majority of such options. (Of course, we all believe that Congress has no role in accounting standards and I along with many others have written letters supporting private sector standard setting a number of times over the years.) But my concern here is that the Board is proposing two different methods of measuring compensation expense and I strongly believe that is wrong. I do not understand why the line is drawn between public and private companies when there are many private companies larger than some public companies. As I have indicated, I prefer the method suggested for private companies but there should only be one method. I do not see any accounting reason for two different measurement methods.

Finally, I continue to be concerned over what will be the result of the issuance of this standard. I recognize the Board has no responsibility for the economic consequences of its pronouncements or the actions management will take as a result of such standards but it is difficult not to acknowledge that impact.

I appreciate the opportunity to comment on this subject.

Yours truly,

A handwritten signature in cursive script, appearing to read "Frank G. Winter". The signature is written in dark ink and is positioned below the typed name "Frank G. Winter".