

Karen Salmansohn

From: Director - FASB
Sent: Thursday, January 30, 2003 11:04 AM
To: Karen Salmansohn
Subject: FW: KPMG's Comment Letter Reference No. 1102-001

file

Importance: High

Letter of Comment No: 56
File Reference: 1102-001
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KPMG Letter on Stock-Based Com...



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-----Original Message-----

From: Guinan, John M [mailto:jguinan@kpmg.com]
Sent: Thursday, January 30, 2003 10:45 AM
To: Director - FASB
Subject: KPMG's Comment Letter to FASB ITC, Accounting For Stock-Based Compensation (File Reference No. 1102-001)
Importance: High

Attached is KPMG's comment letter to the FASB on the Invitation to Comment, Accounting for Stock-Based Compensation: A Comparison of FASB Statement No. 123, Accounting for Stock-Based Compensation, and Its Related Interpretations, and IASB Proposed IFRS, Share-based Payment The File Reference No. is 1102-001.

<<KPMG Letter on Stock-Based Compensation ITC.doc>>

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kpmg

280 Park Avenue
New York, NY 10017

Telephone 212 909 5600
Fax 212 909 5699

January 30, 2003

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

Dear Ms. Bielstein:

FASB Invitation to Comment, *Accounting for Stock-Based Compensation: A Comparison of FASB Statement No. 123, Accounting for Stock-Based Compensation, and Its Related Interpretations, and IASB Proposed IFRS, Share-based Payment* (File Reference 1102-001)

We support the Board's mutual commitment with the International Accounting Standards Board (IASB) to develop high-quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting. As we understand it, the ambitious goal of that convergence effort would be a single set of high-quality standards that would (a) result in financial statements comparable across all countries and capital markets, (b) improve financial statement transparency, (c) enhance the understandability of financial statements, (d) create a level economic-information playing field among all enterprises, and (e) realign the cost of capital.

In principle, we agree with that goal. However, it is not clear to us whether achieving the goal of convergence would result in standards with *identical financial statement results* (that is, no reconciling items) or with *identical fundamental principles*. We urge the Board to clarify its intent before it proceeds further with its efforts to converge.

With a view toward convergence, we support the Board's issuance of the Invitation to Comment, *Accounting for Stock-Based Compensation: A Comparison of FASB Statement No. 123, Accounting for Stock-Based Compensation, and Its Related Interpretations, and IASB Proposed IFRS, Share-based Payment*, as a means of focusing its domestic audience on the same important issues that the IASB is addressing with regard to accounting for stock-based compensation.

We are aware of the time pressures on the IASB to issue its final rule on share-based payment. We are not suggesting that the IASB not fulfill its mandate. However, we are

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concerned that an attempt to achieve true convergence on this subject between the IASB and the FASB may not be possible in the allotted timeframe. Therefore, any current form of convergence on stock-based compensation would result from the FASB adopting the model in the IASB Exposure Draft rather than the two boards working together to develop a single high-quality solution to the accounting for stock-based compensation. We would object to a U.S. standard on stock-based compensation that adopts the IASB model solely to achieve convergence without the full due process of the FASB, including consideration by the FASB about the relative conceptual merits of Statement 123.

In the future, the two boards and, possibly other national boards, will need to work to develop a more synchronized approach to comment periods for exposure drafts on convergent standards. Many international organizations, such as international accounting firms, need to deliberate internally to decide on an international approach to a proposal, especially if it is to become the national accounting standard. For example, as the U.S. member of KPMG International, we are requested to comment on the FASB's Invitation to Comment before KPMG comments on the IASB Exposure Draft. We do not believe the lack of co-terminus deadlines for future convergence projects is in the interest of improved financial reporting. Therefore, to facilitate improved financial reporting for share-based payment under IAS, and possibly U.S. GAAP in the future, our individual comments on the share-based payment Exposure Draft will be incorporated into the KPMG response to the IASB and a copy will be forwarded to the FASB.

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If you have questions about our comments or wish further to discuss any of the matters addressed herein, please contact John Guinan at (212) 909-5449.

Very truly yours,

KPMG LLP