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File Reference No. 1101-001
Accounting for Stock Based-Compensation – Transition and Disclosure
An Amendment of FASB Statement No. 123

Enclosed is our letter of comment on the FASB Exposure Draft of a proposed FASB Statement, *Accounting for Stock-Based Compensation – Transition and Disclosure an amendment of FASB Statement No. 123*, dated October 4, 2002.

If you have any questions concerning our comments, please contact Robert Kueppers (203) 761-3579 or James Kroeker at (203)761-3726.

Yours truly,

November 4, 2002

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Accounting for Stock Based-Compensation – Transition and Disclosure
an Amendment of FASB Statement No. 123

Dear Ms. Bielstein:

We are pleased to comment on the October 4, 2002 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 "Exposure Draft"). We support the Financial Accounting Standard Board's effort to continually improve the financial accounting principles generally accepted in the United States of America and believe the enhanced disclosures of FASB Statement No. 123, *Accounting for Stock-Based Compensation* ("Statement 123") will meet that objective.

However, we question whether providing multiple alternative methods of transition for an entity that voluntarily changes to the fair value method of accounting for employee stock-based compensation will result in an improvement of financial reporting. Rather, we believe the proposed transition amendment has the potential to result in an increased lack of consistency and comparability between reported results. We believe that the practical outcome of the Exposure Draft would be to permit four generally accepted methods of accounting for stock-based compensation issued to employees (three methods under Statement 123 and an election to continue accounting for options under the intrinsic value method), the outcome of which has the potential to increase the confusion that exists surrounding the accounting for stock compensation. Further, we believe that permitting an election between four methods of accounting for stock-based compensation is inconsistent with one of the fundamental concepts discussed in Concepts Statement 2, *Qualitative Characteristics of Accounting Information.* ("CON 2"). In CON 2, the FASB stated:

Information about a particular enterprise gains greatly in usefulness if it can be compared with similar information about other enterprises and with similar information about the same enterprise for some other period or some other point in time. Comparability between enterprises and consistency in the application of methods over time increases in the informational value of comparisons or relative economic opportunities or performance. The significance of information, especially quantitative information, depends to a great extent on the user's ability to relate it to some benchmark.

While we question whether multiple transition methods will result in any meaningful improvement in financial reporting, we acknowledge the potential for the misleading implications of the "ramp up" effect that results from prospective application. Therefore, in order to balance the project with our concerns regarding comparability and consistency, the Board should consider expanding the required pro forma disclosures to enhance the comparability of the information reported by different entities. The requirement should include a complete pro forma income statement as if the fair value method had been applied to all awards ("all awards" herein refers to the definition of all awards in the Exposure Draft), or, in the alternative, the pro forma effects on all income statement components that are impacted by the fair value method of accounting for employee stock-based compensation.

We also encourage the Board to develop application guidance that fully considers and illustrates all of the significant implications of each transition method. In the absence of further guidance we are concerned that the project, as with most new accounting standards, will result in the need for future interpretive guidance to ensure consistent application of three separate transition alternatives in practice. While it is difficult, in the absence of field-testing, to foresee all of the possible implementation issues, the following are illustrative of our concern:

- Under the transition approach described in paragraph 2b (the "prospective recognition for unvested awards and new awards" method), the accounting for the "unvested portion of previously issued awards" is addressed in the Exposure Draft. However, it is unclear how an entity would account for forfeitures under this mixed attribution approach. For example, would an entity reverse compensation cost attributable to prior years only to the extent recognized in the income statement or would an entity reverse expense, as if it had applied Statement 123 from the date of grant.

- Under the "retroactive restatement" method described in paragraph 2c, it is not clear whether the Board contemplated requiring restatement of previously reported balance sheet amounts (other than deferred taxes and deferred compensation). For example, under the retroactive restatement method, the basis of internally constructed fixed assets, capitalized costs, and goodwill arising in a business combination could differ from the amounts previously reported under an intrinsic value approach. This in turn could result in different amortization, depreciation and impairment calculations. These complexities are not illustrated or discussed in the Exposure Draft.

We agree that the amended disclosure provisions of Statement 123 to require enhanced interim disclosures and the impact of an entity's accounting policy decisions with respect to stock-based employee compensation on reported net income will improve the overall financial reporting of most enterprises and should be included in a final standard.

If you have any questions concerning our comments, please contact Robert Kueppers (203) 761-3579 or James Kroeker at (203) 761-3726.

Yours truly,