

Letter of Comment No: 17
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TO: Financial Accounting Standards Board

From: Faculty at the University of Illinois at Urbana-Champaign

Re: **A comment on the Exposure Draft for Revision of FAS 123**

Date: November 1, 2002

The undersigned professors have met and discussed the proposed amendment to FAS 123, *Accounting for Stock-Based Compensation*. We have a few remarks that we would like to share with the Board.

First, we fail to see the benefits of the proposed amendment. The proposal allows for several embedded choices for a reporting entity to make. From the users' standpoint, we believe that the effect of adopting these choices will be to reduce the comparability of financial statements. Comparability has already been a concern and the proposal may exacerbate this issue.

Second, while we appreciate the benefit of moving toward convergence with international accounting standards, we do not fully understand the reasons for postponing action on issuing a more reasoned standard. In particular, why does the FASB wish to wait for the IASB to lead on this matter? The question is pertinent because the accounting outlined in the pre-FAS 123 Exposure Draft has been widely viewed as providing a theoretically supported method. Disclosure problems regarding earnings differences due to the two methods could be eliminated by requiring all companies to expense stock-based compensation.

Third, if other considerations (unknown to us) require postponing the promulgation of a complete revision of FAS 123, transitional adjustments must not add complexity to the users of financial statements. Of the three alternatives proposed, some of our group believe that the third one improves comparability and should be the only one permitted.

Finally, the Board continues to refer to the accounting under FAS 123 as "fair-value basis," while in fact the valuation is frozen at the fair value estimated at the time of the grant, which is more akin to historical cost than to fair valuation.

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