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November 4, 2003

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

Dear Ms. Bielstein

Re: File Reference No. 1102-001

In view of the FASB's recent decision to require stock option expensing in 2005, I am compelled to throw my hat into the ring with the opponents to the FASB's decision. My reasons are simple; no option-pricing model for measurement purposes exists, and none can be developed, that will ever be able to compute the actual value ultimately received by the stock option holder.

Although the calculated results of whatever model is used may be called "fair value", such amount will equal or approximate neither the actual value nor the fair market value (as that term is generally defined). Consequently, the proponents' of expensing promises of providing a clearer financial picture of a company are misguided. In fact, expensing will obfuscate actual operating results for the report periods. This contention is supported by the rather obvious fact that virtually every company's management excludes non-cash stock compensation as an expense component in its management reports that measure the progress and status of the company's financial results of operations and financial condition for either an annual or interim accounting period.

The adverse, substantial impact on reported GAAP net income caused by irrelevant, unreliable and inconsistent reporting of non-cash stock compensation can only result in less, not more, trustworthy financial statements because the quality of reported earnings will be reduced, not increased. The lower reported earnings (and in many cases net losses) caused by non-cash stock option expense will compel savvy investors and analysts to disregard the charges in an attempt to understand the real quality of earnings and assess the company's

historical operating success and future operating potential. Also, more companies will report earnings on both a GAAP and non-GAAP basis in their quarterly earnings reports in order to facilitate investors' and other users' understanding of the quality of their reported earnings.

Inasmuch as the reporting of net income as a range has never been seriously considered as preferable, or even acceptable, to users of financial statements, how can mandated accounting policies, such as stock option expensing, be called "generally accepted" when their impact must be disregarded in order to better understand the quality of reported earnings? The answer is they are not truly "generally accepted"; they are instead "mandated", like in tax law where the intent in not to measure true economic income but rather taxable income under laws in effect during the reporting year.

Requiring stock options to be expensed can only reduce reported GAAP earnings (for many companies, in the extreme). I shudder to think of the adverse impact on many individual company's stock values and the stock market as a whole. This will result in millions of investors losing a significant amount of their savings, especially for retirement and other necessary purposes. And for what perceived good? It's not because there is inadequate disclosure of stock options in financial statements today. Rather the disclosures are comprehensive and relevant, and the impact of options on earnings per share (most stock investors favorite data point) is always clearly disclosed already.

In summary, I strongly argue that current generally accepted accounting principals regarding stock options are more desirable because they provide the users of financial statements with relevant and reliable information that is not misleading (unlike expensing that will likely be misleading).

Nonetheless, I recognize the considerable pressure being applied by persons from various quarters with well-intentioned, but in my opinion misguided, motives to require the expensing of stock options. Some do seem to want punish companies for alleged "extravagant use" of options, which obviously is an invalid and nonproductive reason to require expensing. To punish all companies for the abuses of a few is, to state the obvious, unfair, counter-productive, unnecessary and inappropriate. Whatever the proponents' reasons, the financial press seems to love the controversy and will not let it go away quietly.

My recommendation is to settle this contentious topic by giving both the proponents and opponents of expensing a partial victory by requiring stock compensation and the related tax affects to be reported as a component of "other comprehensive income". That way the proponents can say that financial statements are more transparent and provide, in their opinion, a clearer financial picture of a company. On the other hand, the opponents can continue to report net income on a GAAP basis without having to also mention in earnings releases certain costs and expenses on a non-GAAP basis in order to eliminate the adverse affect of the non-cash stock compensation and thereby clarify the quality and enhance the predictability of earnings from operations.

It seems inevitable that expensing of stock options in some manner will be required (hopefully as a component of other comprehensive income rather than as a charge against GAAP-based net income) so I wish to comment on the stock option compensation measurement guidance currently being considered by the FASB and IASB. For the sake of efficiency, and to avoid redundant comments, I will use will use Microsoft Corporation's comment letter (reference no. 253) as a baseline for my comments.

In general, I strongly agree with the position of Microsoft, as expressed in the above referenced letter to you by Bob Laux, Microsoft's Director, External Reporting, and the responses to Issues 1 through 17 attached to that letter. So my following remarks are limited to being supplementary to Microsoft's on the Issues referenced below.

Issue 2(a): Should use of an option-pricing model be mandated for measurement purposes?

Supplemental response: Absolutely yes. Additionally, it must be made very clear in financial statement disclosures that whatever option pricing model is mandated, it can only merely attempt to quantify "fair value" but cannot and does not purport to measure "actual value" or "fair market value" as that term is generally defined. Shareholders must not be mislead into believing that the amount of stock compensation reported equals or approximates the value ultimately received by the option holder (except by pure chance).

Issue 2(c): If you agree that an accounting standard should not mandate use of a particular option-pricing model, do you believe that additional disclosures should be made . . .? If so, what . . .?

Supplemental response: I disagree that an accounting standard should not mandate use of a particular model. Weather or not one model is

mandated, the model used and the inputs (facts, estimates and significant assumptions) should be clearly and concisely disclosed in the financial statements.

Issue 2(d): Are modifications to an option-pricing model needed to address certain features of employee stock options?

Supplemental response: A public company's historical stock price volatility often is not a reliable indicator of its future volatility for a multitude of reasons unrelated to the company itself. A nonpublic company's historical price volatility, if any (and generally there is none), is rarely, if ever, indicative of its future volatility. Consequently, use of a volatility factor in an option-pricing model is problematic in many cases and ought to be excluded from any attempted "fair value" calculation.

Issue 4: Do you believe that the fair value of equity awards granted to nonemployees that include performance conditions can be measured with sufficient reliability to justify a grant-date measurement method?

Supplemental response: If the award vests over the anticipated period of the nonemployee's performance, or vests based on the accomplishment of specified tasks, milestones, accomplishment, etc., the stock-based compensation should be computed (actual, or estimated if necessary) and charged to income during the period of performance. The apparent value of grants that are fully vested at date of grant ought to be allocated between compensation for past services, if any, and future services. The past services component ought to be expensed at date of grant and the future services component ought to be amortized over the expected or contracted performance period.

Issue 7: Should the effect of forfeiture be incorporated into the estimate of fair value (IASB approach)?

Supplemental response: How can the probability of forfeiture be predicted with any degree of reliability in most cases? The simple answer is it cannot be because there are too many factors influencing most companies' employee turnover, both in general and in specific jobs or employee classifications. Rather the amount of stock compensation previously charged to income with respect to forfeitures should be reversed to income in the period an option is cancelled. Likewise, whatever tax benefit was associated with the previous stock compensation charge ought to be reversed as an increase in the income tax provision during the period of the forfeiture. At least then,

these non-cash entries will not cause a distortion in the normal relationship of pretax income to the income tax expense.

If forfeitures are considered in computing the fair value amount at date of grant, then to the extent actual forfeitures exceed estimated forfeitures at grant date, the accounting for such excess forfeitures should be as described in the paragraph above. Of course, if actual forfeitures are less than estimated at grant date, the accounting should be the reverse of the above in the period when the lower forfeiture experience can be determined.

Issue 8: Should failure of an award holder to satisfy the conditions required to retain or receive the promised benefits affect the amount of compensation expenses recognized related to that award?

Supplemental response: The accounting for stock or stock option awards cancelled for nonperformance should follow the accounting described above for forfeitures greater than estimated in computing the stock compensation charge and related income tax benefit in a prior period.

Issue 9: Do you agree that the result of the IASB's approach to calculate the fair value of equity instruments of nonpublic entities would be closer to fair value than minimum value?

Supplemental response: If a nonpublic company's stock award agreement specifies the methodology for determining the future value of the equity instrument, such as in many shareholder buy-sell agreements, the volatility factor may be implied by past stock valuations under other such agreements or historical operating results and financial positions, as may be applicable in the circumstances. Otherwise a volatility factor of zero would likely be appropriate in most cases.

As mentioned in my supplemental response to issue 2(d), volatility ought to be excluded from any mandated compensation measurement model because historical volatility is too often not a reliable indicator of future reliability due to circumstances beyond the control or influence of the issuing entity.

Issue 12: Should the actual outcome of performance awards affect the total compensation expense incurred?

Supplemental response: My supplemental response to issue 4 above addresses performance awards to nonemployees. This issue 12 apparently addresses performance awards to employees. I believe the accounting should be the same of both employee and nonemployees.

Furthermore, in cases where the award is not cancelled (or reduced) for nonperformance, no adjustment to current compensation should be made in the period the holder sells or exchanges of the equity instrument to reflect the difference between the actual gain realized by the award holder and the estimated gain used to record compensation in a prior period. To do otherwise would obfuscate the quality of economic earnings and operating results for the entity for the subsequent accounting period.

Issue 16: Would proposed disclosures by the IFRS expanding the disclosure requirements of Statement 123 be more informative to users of financial statements?

Supplemental response: Information overload and alternative views and calculations of the same basic facts do not add intelligibility and transparency to financial statements. Rather such disclosures seem conflicting and confusing and contribute to the perception of many that financial statements contain arbitrary and contrived results of operations and indecipherable disclosures.

Thank you for the opportunity to express my views to the FASB. I appreciate the difficulty of the FASB's task in reaching a fair and balanced conclusion. Hopefully my comments will be of some value in the FASB's deliberations.

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January 31, 2003

Ms. Suzanne Bielstein Director of Major Projects and Technical Financial Accounting Standards Board 401 Merritt 7

Re: File Reference No. 1102-001

Norwalk, CT 06856-5116

Letter of Comment No: File Reference: 1102-001 Date Received: |-3/-03

Dear Sue:

Microsoft appreciates the opportunity to respond to the Invitation to Comment (ITC), "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". We commend the FASB staff for what we believe is a thorough and well written ITC. In connection with drafting our response to this ITC, we are also in the process of drafting a response to the IASB's Exposure Draft (ED). In drafting our response to that ED, we found ourselves confused on a number of the proposals and, instead of referring to the ED's Basis for Conclusions and Implementation Guidance, we found ourselves referring to the ITC for the much needed clarity. Going forward, this ITC should serve as the model for comparing U.S. GAAP to proposals from the IASB. In addition, as indicated in the ITC that the FASB is not seeking comments on certain issues at this time, this response letter does not comment on whether stock options granted to employees results in compensation expense for the issuing entity.

As indicated in FASB Concepts Statement 2, Qualitative Characteristics of Accounting Information, relevance and reliability are the two primary qualities that make accounting information useful for decision making. However, as also indicated in CON 2, comparability is a quality that interacts with relevance and reliability to contribute to the usefulness of information. Microsoft is a strong proponent of principles-based accounting standards and we believe that the amount of interpretive and implementation guidance in accounting standards to try to ensure comparability between entities is the biggest culprit in driving much of the detail and complexity in current accounting standards. However, we do recognize that the relative weight to be given to relevance, reliability, and comparability must vary according to circumstances.

We are aware of a lot of research currently being conducted in efforts to accurately measure the fair value of employee stock options at grant date and believe it is incumbent on the FASB to closely monitor the various research being performed. Nevertheless, we are not currently aware of a valuation model from any of this research that appears to be superior to other methods. For example, we are aware of a binomial model with 16 inputs required in an effort to properly value employee stock options. We can only imagine the comparability problems between companies as each company selects what it believes is its best estimate of each of the 16 inputs to the model.

Given this comparability issue, Microsoft believes that an accounting standard should mandate an option-pricing model for valuation purposes that takes into account the following five factors at grant date: the exercise price, the expected life of the option, the current price of the underlying stock, expected dividends on the underlying stock, and the risk-free interest rate.

Microsoft believes that expected volstility should be excluded from the current Statement 123 calculation of the fair value of an employee stock option for public entities, similar to the current Statement 123 calculation for nonpublic entities. We would readily admit that excluding expected volatility from an option pricing model does not theoretically result in fair value. However, in our opinion, excluding volatility from an option pricing model is similar to the substitution of expected life for contractual life under Statement 123, which is a way to adjust for the effect of the nontransferability of employee stock options. Microsoft believes excluding volatility is a way to adjust for other factors not taken into account in Statement 123 when valuing employee stock options, such as the effect of blackout periods.

In addition, excluding volatility for public emitties would create a level paying field with nonpublic entities under Statement 123. While not having in-depth expertise on this issue, we concur with the FASB+s observations concerning the difficulty nonpublic entities would encounter in estimating expected volatility. Accordingly, we are opposed to the IASB+s requirement that all entities include expected volatility in calculating the fair value of employee stock options. In addition, we were quite taken aback with the comments in paragraph BC139 of the IASB+s ED which indicates that the expected volatility of net assets or earnings could be used as a besis for estimating expected share price volatility. We trust that standard setters would not even suggest that results from a mixed attribute accounting model including historical costs and fair value measurements would serve as a proxy for estimating share price volatility.

Also, Microsoft is strongly opposed to the IASB's units-of-service method and the IASB requirement that all of the tax benefits derived from stock-based compensation arrangements be recognized in the income statement. Our comments on those issues as

well as our responses to the other primary issues raised in the ITC are attached. If you have any questions, please do not hesitate to contact me at (425) 703-6094.

Sincerely,

Bob Laux Director, External Reporting Issue 1: Statement 123 provides a scope exclusion for ESOPs and certain ESPPs, and the Proposed IFRS does not. Which view do you support and why?

Response: Microsoft supports the IASB+s view. With respect to ESPPs and in the spirit of principles-based standards, if these rights given to employees are truly immaterial, there is not a need for a specific exclusion.

Issue 2: In measuring the fair value of stock options granted to employees, both Statement 123 and the Proposed IFRS require use of an option-pricing model that takes into account six specific assumptions. The standards provide supplemental guidance for use in selecting those assumptions.

Issue 2(a): Do you believe that an accounting standard should mandate the use of an option-pricing model for measurement purposes? If not, what other approaches do you believe would provide more consistent and reliable estimates of the fair value of employee stock options granted and why?

Response: As indicated in FASB Concepts Statement 2, Qualitative Characteristics of Accounting Information:

Reterance and reliability are the two primary qualities that make accounting information useful for decision making. Subject to constraints imposed by cost and materiality, increased relevance and increased reliability are the characteristics that make information a more desirable commodity — that is, one useful in making decisions. If either of those qualities is completely missing, the information will not be useful. Though, ideally, the choice of an accounting alternative should produce information that is both more reliable and more relevant, it may be necessary to sacrifice some of one quality for a gain in another.

However, as also indicated in CON 2, comparability is a quality that interacts with relevance and reliability to contribute to the usefulness of information:

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 applicability of methods over time increases the informational value of comparisons of 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.

Microsoft is a strong proponent of principles-based accounting standards and we believe that the amount of interpretive and implementation guidance in accounting standards to try to ensure comparability between entities is the biggest culprit in driving much of the detail and complexity in current accounting standards. However, we do recognize that the relative weight to be given to relevance, reliability, and comparability must vary according to circumstances.

Microsoft is aware of a lot of research currently being conducted in efforts to accurately measure the fair value of employee stock options and we believe it is incumbent on the FASB to closely monitor the various research being performed. Nevertheless, we are not currently aware of a valuation model from any of this research that appears to be superior to other methods. For example, we are aware of a binomial model with 16 inputs required in an effort to properly value employee stock options. We can only imagine the comparability problems between companies as each company selects what it believes is its best estimate of each of the 16 inputs to the model.

Accordingly, at the present time and as elaborated upon in our response to the following subissues, Microsoft believes an accounting standard should mandate the use of an option-pricing model for measurement purposes. However, the FASB should continuously monitor developments in this area and revisit this requirement if it becomes apparent that other methods become acceptable that do not cause significant comparability issues.

Issue 2(b): If you agree that an accounting standard should mandate the use of an option-pricing model, do you believe that a particular model should be mandated? If so, which model should be required to be used and why?

Response: Microsoft believes that an accounting standard should mandate an optionpricing model that takes into account the following five factors at grant date: the exercise price, the expected life of the option, the current price of the underlying stock, expected dividends on the underlying stock, and the risk-five interest rate. Again, consistency and comparability between entities weighs heavily upon our position on this issue. Our reasons for excluding the expected volatility of the underlying stock are discussed in the subissue below.

issue 2(c): If you agree that an accounting standard should not mandate the use of a particular option-pricing model, do you believe that additional disclosures should be made to improve the user+s ability to compare the reported financial results of different enterprises? If so, what types of additional information should be required to be disclosed?

Response: Disclosures should include the option-pricing model used and the inputs to the model.

Issue 2(6): Statement 123 and the Proposed IFRS require that certain modifications be made to the outcome of an option-pricing model to address certain features of employee stock options: If you believe that other modifications should be made to improve the constitency and reliability of those outcomes, please describe those modifications and why they should be required.

Response: Microsoft believes that expected volatility should be excluded from the current Statement 123 calculation of the fair value of an employee stock option for public entities, similar to the current Statement 123 calculation for nonpublic entities. We would readily admit that excluding expected volatility from an option pricing model does not theoretically result in fair value. However, in our opinion, excluding volatility from an option pricing model is similar to the substitution of expected life for contractual life under Statement 123, which is a way to adjust for the effect of the nontransferability of employee stock options. Microsoft believes excluding volatility is a way to adjust for other factors not taken into account in Statement 123 when valuing employee stock options, such as the effect of blackout periods.

In addition, excluding volatility for public entities would create a level paying field with nonpublic entities under Statement 123. While not having in-depth expertise on this issue, we concur with the FASB+s observations concerning the difficulty nonpublic entities would encounter in estimating expected volatility. Accordingly, we are opposed to the IASB+s requirement that all entities include expected volatility in calculating the fair value of employer stock options. In addition, we were quite taken aback with the comments in paragraph BC139 of the IASB+s ED which indicates that the expected volatility of not assets or examings could be used as a basis for estimating expected share price volatility. We trust that standard setters would not even suggest that results from a mixed attribute accounting model including historical costs and fair value measurements would serve as a proxy in estimating share price volatility.

Issue 2(e): Do you believe that additional guidance for selecting the factors used in option-pricing models is necessary to provide added consistency and comparability of reported results? If so, what types of guidance should be provided and in which areas?

Response: Microsoft believes that a m in-depth discussion of the factors and the use of examples with specific fact patterns would be useful guidance in trying to provide added consistency and comparability of reported results. For instance, guidance such as the items to consider when estimating the expected life of an option along with fact specific examples

Issue 3: Do you believe that employee and nonemployee transactions are distinct and, therefore, warrant different measurement dates for determining the fair value of equity instruments granted? If so, why? If not, why not?

Response: While we believe employee and nonemployee transactions are somewhat distinct, the fair value for both transactions should be determined at the grant date, as the complexity inherent in guidance such as HITE I Saue No. 96-18 is not justified based on the somewhat limited distinction between these two types of transactions. To be quite frank, we do not believe the use of stock options for nonemployee transactions is all that prevalent as to justify the time and effort that has been expended debating this issue.

Issue 4: Do you believe that the fair value of equity awards granted to nonemployees that include performance conditions can be measured with sufficient reliability to justify a grant-date measurement method? If so, why? I foot, why not? Response: Yes, as we would hope both counterparties to the transaction would have thoroughly considered the performance conditions before entering into such a transaction.

Issue 5: Do you believe the notion of issuance is conceptually of importance in the design of a standard on stock-based compensation? If so, why? If not, why not?

Response: Yes, Microsoft believes that if an accounting standard defers to the expected value of options to be issued in measuring services received, the notion of whether the options are actually issued is conceptually important.

Issue 6: Do you believe an equity instrument subject to vesting or other performance conditions is issued, as defined by Statement 123, at the grant date? If so, why? If not, why not?

Response: No, equity instruments are not issued until the issuer has received valuable consideration in exchange for the equity instruments.

Issue 7: Do you believe that the effect of forfeiture should be incorporated into the estimate of fair value per equity instrument (IASB approach)? If so, why? If not, why not?

Response: As indicated previously, we believe there are a number of items that could be incorporated into the estimate of fair value per equity instrument. However, with regards to the important issue of consistency and comparability, Microsoft believes that an accounting standard should mandate an option-pricing model that takes into account the following five factors at grant date: the exercise price, the expected life of the option, the current price of the underlying stock, expected dividends on the underlying stock, and the risk-free interest rate.

issue 8: Should failure of an award holder to satisfy the conditions that entitle the holder to retain or receive the promised benefits affect the amount of compensation expense that should be recognized related to that award? If so, why? If not, why not?

Response: Absolutely, if an award holder fails to satisfy the conditions inherent in an option grant and an entity is not required to issue the corresponding equity instruments, we fail to see a recognition event requiring recording in the financial statements.

Issue 9: Do you agree that the result of the LISB+s approach to calculate the fair value of equity instruments of nonpublic entities would be closer to fair value than minimum value? If so, why? If not, why not?

Response: We would readily admit that excluding expected volatility from an option pricing model does not theoretically result in fair value. However, in our opinion excluding volatility from an option pricing model is similar to the substitution of expected life for contractual life, which is a way to adjust for the effect of the nontransferability of employee stock options. Microsoft believes excluding volatility is a way to adjust for other factors not taken into account when valuing employee stock options. Also, while not having in-depth expertise on this issue, we concur with the FASB+s observations concerning the difficulty nonpublic entities would encounter in estimating expected volatility. In addition, we were quite taken aback with the comments in paragraph BC139 of the IASB+s ED which indicates that the expected volatility of net assets or earnings could be used as a basis for estimating expected share price volatility. We trust that standard setters would not even suggest that results from a mixed attribute accounting model including historical costs and fair value measurements would serve as a proxy in estimating share price volatility.

Issue 10: Which of the two attribution methods described by the standards do you believe is more representationally faithful of the economics of stock-based compensation arrangements and why?

Response: The attribution method prescribed by Statement 123. While there are a number of reasons we believe the attribution method prescribed by Statement 123 is more representationally faithful, it is also imprortant that standard setters recognize the complexity inherent in the IASB+s units-of-service method. As indicated in the FASB+s Proposal, "Principles-Based Approach to U.S. Standard Setting", an increase in the complexity of accounting standards negatively impacts the quality and transparency of financial accounting and reporting. For instance, we observe that it takes ten pages (noting the actual standard is only sixteen pages) to provide four examples with somewhat straight forward fact patterns for the IASB to try and explain the units-of-service method in their ED. In addition, the FASB found it necessary to provide yet more examples in the ITC in order to illustrate the difference between the two standards.

Issue 11: Statement 123 does not ascribe value to services received in exchange for equity instruments that are later forfeited (that is, recognized compensation expense is reversed upon forfeiture), whereas the Proposed IFRS actibes value to such services through its units-of-service attribution method (that is, recognized compensation expense is not reversed upon forfeiture). If you support the Proposed IFRS+x view, do you believe the units-of-service method ascribes an appropriate value to services received prior to forfeiture? If 90, why? If not, why not?

Response: Microsoft is strongly opposed to the IASB+s units-of-service method.

Issue 12: Do you believe that the actual outcome of performance awards should affect the total compensation expense incurred by an enterprise? If so, why? If not, why not?

Response: Yes, if an award holder fails to satisfy the conditions inherent in an option grant and an entity is not required to issue the corresponding equity instruments, we fail to see a recomition event requiring recording in the financial statements.

Issue 13: Do you believe that this issue is important in considering an attribution model+s validity? If so, why? If not, why not?

Response: Yes, for reasons elaborated upon above.

Issue 14: Do you believe that the measurement-date criteria in Issue 96-18 accurately reflect the economics of transactions with nonemployees? If not, why not?

Response: The fair value for transactions with employees and nonemployees should be determined on the grant date, as the complexity inherent in the guidance in EITF Issue No. 96-18 is not justified based on the somewhat limited distinction between these two types of transactions.

Issue 15: Da you believe that all of the tax benefits derived from stock-based compensation arrangements should be recognized in the income statement? If so, why? If not, why not?

Response: No, when realized tax benefits from equity awards differ from the recorded tax benefits based on the cumulative amount of stock-based compensation expense recognized, the difference should be directly recorded to additional paid-in capital. This is consistent with paragraph 33 of FASB Statement No. 109, Accounting for Income Taxes, which indicates the following:

Income tax expense or benefit for the year shall be allocated among continuing operations, discontinued operations, extraordinary items, and items charged or credited directly to sharcholders+ equity (paragraph 36). The amount allocated to continuing operations is the tax effects of the pretax income or loss from continuing operations that occurred during the year, plus or minus income tax effects of (a) changes in circumstances that cause a change in judgment about the realization of deferred tax assets in future years (paragraph 26), (b) changes in tax laws or rates (paragraph 27), (c) changes in tax status (paragraph 28), and (d) tax-deductible dividends paid to shareholders ... The remainder is allocated to items other than continuing operations in accordance with the provisions of paragraph 38.

Accordingly, the income tax benefit reflected in the income statement related to stock-based compensation should be based on the expense for stock-based compensation actually recognized in the income statement. Assuming there are not discontinued operations or extraordinary items, any differences between the tax benefit recognized on the income statement and the actual income tax benefit received should be recorded directly to shareholders* equity.

Issue 16: As discussed in paragraph 83 of this Invitation to Comment, the Proposed IFRS expands on the disclosure requirements in Statement 123. Do you believe that those expanded disclosures would be more informative to users of financial statement? I fs. why? If not, why not? (Which of the disclosure requirements should be eliminated or modified in that case?)

Response: The incorporation in the IASB ED of financial reporting disclosures currently required under Statement 123 indicates to us a lack of a "clean sheet' approach in examining what information would be most information to users of financial statements. For instance, if standard setters decide that the fair value of stock options should be recognized in the financial statements based on grant date fair value using an option pricing model, we fail to see the need for the extensive disclosure of the weighted average exercise price of options outstanding at a particular point in time. The earnings per share footnote already provides information on the dilutive effect of stock options and wer find it somewhat curious that if standard setters reject intrinsic value as a measurement of the fair value of stock options, that disclosures that convey that information would still be so prevalent.

Issue 17: Please describe any additional disclosures that you believe should be required in order to inform a user of financial statements about the economics of stock-based compensation arrangements.

Response: With respect to Statement 123 and entities that elect to estimate at grant date the amount of equity instruments expected to be forfeited, we believe a disclosure of the percentage of equity instruments expected to be forfeited would be useful for purposes of comparability between entities.

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