

Teachers Insurance and Annuity Association College Retirement Equities Fund

730 Third Avenue/New York, NY 10017-3206 212 490-9000 Peter C. Clapman Semor Vice President & Chief Counsel Corporate Governance Tel: 212-916-4232 Fax: 212-916-5813 pelapman@tiaa-cref.org

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November 12, 2002

Ms. Suzanne Q. Bielstein
Director of Major Projects and Technical Activities
File Reference No. 1101-001
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Ms. Bielstein:

TIAA-CREF is writing in response to your exposure draft, "Accounting for Stock-Based Compensation—Transition and Disclosure."

We support the amendments to both FASB Statement 123, Accounting for Stock-Based Compensation, and APB Opinion No. 28, Interim Financial Reporting, with the following comments.

Our primary concern related to the accounting for stock-based compensation is the accounting choice currently provided in Statement 123. We understand the FASB will shortly release an Invitation to Comment based on the proposals from the International Accounting Standards Board (IASB), which are expected to require the expensing of all stock-based compensation. We fully support that result.

Transition Alternatives

Generally, three allowed alternative methods for transition to a new accounting model is not preferred. Users would be better served by a single method adopted by all preparers at the same time. The transition to a preferred choice within GAAP alternatives, particularly for stock-based compensation, however, is an unusual circumstance. Disclosures of pro forma results have been applied since 1996, providing unique information to users prior to a change in accounting recognition. The timing of adoption of the preferred expensing alternative is at the discretion of preparers. We understand why preparers would want to eliminate the "ramp up" effects of the current Statement 123 transition requirement, given the existence of the disclosures. We also understand why the FASB would want to permit restatement, providing the greatest comparability for all periods presented. Therefore, we support the transition alternatives provided in the Exposure Draft.

Although a lack of comparability across companies is certainly not desirable, we recognize that it is inevitable in the short term. Many companies will continue to choose to apply the recognition provisions of APB Opinion No 25, Accounting for Stock Issued to Employees, until that choice is eliminated.

If we were to select a single method from among the three, we would choose the method currently provided in Statement 123—the prospective method for new grants. We believe that method provides greater incentive for companies to reconsider the types of stock-based awards that they have been granting. We believe that performance-based awards might better align employee interests with those of shareholders, and removal of the accounting bias toward fixed awards will allow companies to weigh alternative awards on a level playing field.

One of the reasons that we support three alternatives for transition is because we expect this unusual time to be short-lived, until the FASB amends Statement 123 to require recognition of expense for all stock-based compensation on the same basis as the IASB. At that time, we expect that there should be a single method of transition prescribed for all companies.

Disclosures

We are supportive of the new disclosures for interim (quarterly) reporting. We are supportive of requiring disclosure of the method used for recognition in the accounting policies note. However, the tabular presentation described in amended paragraph 45(c) should not be required to be within the accounting policies note. Preparers should be permitted to place that information in either that note or in a separate note on equity compensation.

If you have questions about our views or if you would like additional information, please contact me, or contact Elizabeth Fender at (212) 916-5428.

Sincerely,

Peter Clapman

Senior Vice President, Chief Counsel-Corporate Governance