## Stacev Sutav

Letter of Comment No: 105A -File Reference: 1101-SCII Subject:

FW: Income Tax Effects of Equity-Based Compensation

Date Received: 10/13/03

----Original Message----

From: David Chamberlain [mailto:david.chamberlain@tp-options.com]

Sent: Monday, October 13, 2003 2:17 AM

To: Leslie Seidman: Edward Trott: Mike Crooch; Gary Schieneman; Robert Herz; Katherine

Schipper

Cc: Michael Tovey; Wendy Metcalfe; Kimberley Crook

Subject: Income Tax Effects of Equity-Based Compensation

## Dear Distinguished FAS Board Members:

Transfer Pricing Options Consulting (TPOC) is currently preparing detailed comments on accounting for income tax effects of equity-based compensation (EBC), which we intend to submit to both the FASB and the IASB in advance of the Boards' joint meeting on October

As a tax practitioner in California's Silicon Valley, TPOC has seen firsthand how current standards, which treat some tax effects of EBC as equity transactions, lead to noneconomic behavior. Companies sometimes adopt tax planning strategies to reduce effective tax rates at the expense of alternatives yielding greater economic benefits. TPOC believes that passing significant tax effects of EBC directly through equity is similar to disclosing EBC expense in footnotes: To many preparers and users of financial statements, such items are "out of sight, out-of-mind."

As you prepare for your meeting this Wednesday, TPOC simply urges you to keep your minds open to the possibility of recognizing all tax effects of EBC transactions in the income statement.

This does NOT mean that the mark-to-market tax accounting suggested by the IASB (as illustrated in Appendix E to ED 2) must - or should - be adopted. In fact, no radical departure from current U.S. standards is required; and the issues on Wednesday's agenda need not become moot.

TPOC's key recommendation is very straight-forward: recognize "windfall" EBC-related tax benefits (or detriments) at the time they are realized for tax purposes (as under current standards), but recognize them on the income statement itself as an "extraordinary" component of current tax expense (rather than flowing directly to equity).

TPOC's written comments will elaborate on these observations and recommendations within a principles-based framework.

Thank you for your tireless efforts on this important standards-setting project, and for your consideration of these comments.

Sincerely,

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