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November 4, 2002

Ms. Suzanne Q. Bielstein Director, Major Projects and Technical Activities Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116 Letter of Comment No: 4/2File Reference: 1101-001 Date Received: 11/5/02

Attn: File Reference 1101-001

Re: Comments on Exposure Draft on New Transition and Disclosure Rules for Employee Stock Options

Dear Ms Rielstein:

I am writing on behalf of the Software Finance and Tax Executives Council (SoFTEC) to express its comments on the Exposure Draft (ED) setting forth proposed new transition and disclosure rules for stock based compensation. While SoFTEC does not believe that firms should be required to expense stock options, it recognizes that some firms will elect to use that method for accounting for stock options. SoFTEC believes that the first transition rule alternative, applied prospectively only, provides for the least disruption. In addition, we believe that any additional stock options disclosures should promote reliability and comparability of financial statements between reporting periods and across similarly situated companies. SoFTEC believes that a rule requiring quarterly disclosures of stock options "costs" would undermine both of these goals.

SoFTEC is a trade association providing software industry focused public policy advocacy in the areas of tax, finance and accounting. Most all SoFTEC members provide stock options to their employees and thus would be affected by the any new rules regarding how they are accounted for. SoFTEC, therefore, has an interest in the proposed new rules.

A. Transition Rules:

The ED proposes three alternative transition rules:

- Apply the recognition provisions to all employee awards granted, modified, or settled after the beginning of the fiscal year in which the recognition provisions are first applied.
- b. Recognize stock-based employee compensation cost from the beginning of the fiscal year in which the recognition provisions are first applied as if the fair value based accounting method in this Statement had been used to

account for all employee awards granted, modified, or settled in fiscal years beginning after December 15, 1994.

c. Restate all periods presented to reflect stock-based employee compensation cost under the fair value based accounting method in this Statement for all employee awards granted, modified, or settled in fiscal years beginning after December 15, 1994. Restatement of periods prior to those presented is permitted but not required.

We believe that the purpose of providing a transition rule is to reduce, as much as possible, the distortion and disruption caused by switching from the footnote disclosure method to the expense method of accounting for stock options. We continue to believe that there is no reliable method for appraising the value of non-traded, unvested employee stock options. The to our knowledge, there has been no study of the efficacy of the available valuation methods which concludes that any method values such options with accuracy sufficient for financial accounting purposes.

We question the wisdom of providing alternative transition methods and permitting firms to choose among them. There can be little question but that such an approach would erode comparability. We suggest that the Board select a single transition rule and require those moving from the footnote disclosure method to the expense method to use that single rule.

Our first inclination is to support the third alternative, which would enhance comparability of current and past results. However, any transition rule which requires that firms use existing methods to value stock options granted in prior periods, because of the prevailing unrealistically high stock prices from the recent past, would produce gross distortion of financial statements. For example, did options granted by telecom companies two years ago really cost those companies more than options they granted this year at far lower strike prices? The third alternative might have the effect of discouraging companies from switching to the expense method.

For this reason, we favor the first alternative of only requiring companies to treat as an expense those options granted after the effective date of the change in method of accounting. This will eliminate from the calculation those options granted in prior periods when stock prices were unrealistically high, thus generating unrealistically high option "values". Also, because the first alternative is the least disruptive, it's adoption might encourage more companies to switch to the expensing method, which the Board continues to believe is the preferred method.

B. Disclosure:

The ED also proposes that all companies, both those using the footnote disclosure and the expense methods of accounting for stock options, provide enhanced disclosures regarding stock options grants and that such disclosures be provided on a more frequent basis. While generally, SoFTEC has no problems with enhanced disclosures of stock

options, we are concerned that the more frequent disclosures contemplated by the ED will give users of financial statements a false sense of security in the efficacy of the stock options valuation models. We reiterate our concern that there has been no authoritative study of the application of models designed to value short-term options traded on an exchange to un-traded, unvested, long-term employee stock options. Without some evidence that the valuation methods are reliable, the repeated use of such models in financial statements could mislead financial statement users.

In addition, we are concerned that the proposed additional disclosures for generally accepted accounting principles, when added to the additional disclosures recently mandated by the Security and Exchange Commission, will result in disclosure overload with the result that all of the additional stock options disclosures will be lost in the clutter. Some way to harmonize the two sets of disclosure rules should be considered.

We hope you find these comments helpful and look forward to continuing to work with the Board on this and other financial accounting issues of interest to software companies.

Respectfully submitted,

Mark E. Nebergall President

Software Finance and Tax Executives Council