

Letter of Comment No: 52  
File Reference: 1101-001  
Date Received: 11/5/02



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November 4, 2002

Ms. Suzanne Bielstein  
Director of Major Projects and Technical Activities  
Financial Account Standards Board  
401 Merritt 7, P.O. Box 5116  
Norwalk, CT 06856-5116

Re: File Reference 1101-001

Dear Ms. Bielstein:

We appreciate the opportunity to comment on the proposed amendment to FASB Statement No. 123, *Accounting for Stock-Based Compensation – Transition and Disclosure* ("FAS 123"). Merrill Lynch supports the Board's effort to improve financial reporting and commends the Board for its prompt response to this matter that has been the subject of significant investor concern in recent months.

We support the Board's decision to provide issuers of stock-based awards with three alternative transition methods. We recognize that retroactive restatement and prospective recognition for unvested and new awards will address the issue of comparability of reported results within the financial statements. We also strongly support continuation of the current prospective transition method for new awards. Should the Board decide to revisit transition methods, we recommend that, at a minimum, this method be retained. We believe that the recent debate concerning whether stock options should be expensed in the income statement has encouraged many issuers to voluntarily adopt FAS 123, and that any proposal to remove the current prospective method may discourage some issuers from adopting the fair value method of accounting for stock options. We recognize that some constituents may raise concerns regarding the lack of comparability that will exist if all three transition methods are approved. However, we do not believe that narrowing the transition choices will eliminate inconsistency among reported results as companies will still have the choice of reporting under either the intrinsic or fair value method, which impairs comparability to some extent even under today's rules.

In support of the Board's efforts to harmonize U.S. and International accounting standards, and in light of the International Accounting Standards Board's upcoming release of an exposure draft, *Accounting for Share-Based Payments*, we would also urge the Board to be open to revisiting the methodology outlined in FAS 123 for determining the fair value of an employee stock option, particularly as it relates to the non-transferability feature of the stock award. We believe that as more issuers voluntarily adopt the FAS 123 model, more thought will be given to the methodology used to determine fair value. We question whether the Black-Scholes model, which attempts to address non-transferability by considering the expected rather than contractual life of a stock option, adequately reflects the non-transferability feature. We believe that as more refined techniques and models evolve to allow issuers to better capture the economics of an employee stock option, including the non-transferability feature, the Board should consider modifications to the current fair value measurement provisions of FAS 123.

Once again, we appreciate the opportunity to provide our comments to you. We would be happy to participate in any potential discussions that may result from your continued deliberations on the issue.

Sincerely,

/s/ Esther Mills

Esther Mills  
First Vice President