

International Employee Stock Options Coalition

November 4, 2002

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VIA E-MAIL AND OVERNIGHT COURIER

Financial Accounting Standards Board
MP&T Director – File Reference 1101-001
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Sir or Madam:

The International Employee Stock Options Coalition offers its comments on the Proposed Statement of Financial Accounting Standards, *Accounting for Stock-Based Compensation – Transition and Disclosure (an amendment of FASB Statement No. 123)*, dated October 4, 2002 (the “Exposure Draft”). We appreciate the opportunity to offer our views to the Board.

The International Employee Stock Options Coalition is comprised of a diverse range of industries, including high-tech, manufacturing and service companies, in the U.S. and abroad that support broad-based employee stock option plans. We view the continued availability of broad-based employee stock option plans as essential to the U.S. economy and any action that would chill or eliminate the use of broad-based employee stock option plans should be avoided. In this regard, and as a preliminary matter, the Coalition agrees with the underlying premise of FASB Statement No. 123 – the issue of employee stock options does not lend itself to a “one size fits all” approach. We commend FASB for continuing to recognize this fact through the flexible approach presented in the Exposure Draft’s transition rule amendments.

Amendments to Disclosure Provisions

Our comments focus on the proposed amendments to the disclosure provisions of FASB Statement No. 123.

More prominent and consistent display of information relating to employee stock options is appropriate. While providing the information in the “Summary of Significant Accounting Policies” is certainly one appropriate location for the disclosures,¹ we believe that the Board should also consider requiring, instead, a separate schedule that summarizes all required employee stock option disclosures, including the new disclosures required by the SEC.² This separate schedule also could include any additional, voluntary disclosures that a particular issuer chooses to provide to its stockholders. We believe that financial statements would be made more “user friendly” by including all stock option information in a single location, separate from the myriad other financial statement information provided, and displaying it in a more prominent fashion. We hope that the Board will consider our suggestion.

¹ As noted in the Exposure Draft, APB Opinion No. 22, *Disclosure of Accounting Policies*, paragraph 15, expresses a preference for disclosure of significant accounting policies either before the notes to the financial statements or as the initial note.

² For annual reports on Form 10-K filed after March 15, 2002, and for proxy and information statements for stockholder meetings or action occurring on or after June 15, 2002, the SEC now requires an Equity Compensation Table that reflects the total number of securities that the issuer has remaining for issuance under all of its equity compensation plans and the weighted average exercise price of options, warrants, and rights outstanding under these plans, aggregated by plans that have been approved by stockholders and those that have not. SEC Releases 33-8048, 34-45189.

The proposed amendments to the disclosure provisions of FASB Statement No. 123, however, raise an issue that we believe is essential for the Board to consider – the reliability of the information that it requires be disclosed. We continue to believe that stock options do not represent a corporate “expense” in the traditional sense. Moreover, in our view, there is no accurate, reliable and meaningful method today to value employee stock options. Indeed, an increasing number of commentators and other experts have noted the significant problems with the most commonly used method, the so-called Black-Scholes model. For example, a recent study by Deloitte & Touche found that “There is a lack of comfort with the available methods for valuing employee stock options. Companies feel these valuation methods were not intended for ten-year employee stock options and therefore have more weaknesses than strengths.” Survey on Expensing Employee Stock Options, Deloitte & Touche (September 27, 2002), p. 3. Many of the unique aspects of employee stock options are not accounted for in current option pricing models or in the current valuation standard of FASB Statement No. 123. Accordingly, while we strongly support quarterly disclosure of substantial information relating to employee stock options, we do not believe FASB should require the disclosure of inaccurate and misleading numbers four times a year, as opposed to once.

The problems with valuation impact all companies – those that have elected to expense their employee stock options under FASB Statement No. 123 as well as those that continue to use APB Opinion No. 25 but which have to disclose the purported “fair value” of employee stock options in the notes to the financial statements. Indeed, numerous companies that have recently

announced that they plan to adopt the expensing standard of FASB Statement No. 123 have stated publicly that the current valuation standard is flawed.

Just last week, Chairman Herz was reported as saying “in order for [financial information] to be relevant, it has to be sufficiently reliable.” Energy Traders Feel the Effects of FASB Changes, Wall Street Journal, (October 28, 2002). At the time FASB Statement No. 123 was adopted, the Board believed that current option pricing models and the current valuation standard it adopted were an adequate way to value employee stock options. The historical information gathered in the seven years since the issuance of Statement 123 shows that the current valuation standard does not provide information that is “sufficiently reliable.” As a result, we continue to believe that the Board has taken the right approach by maintaining the flexibility provided by the current standard, and by not requiring mandatory expensing of employee stock options.

Sincerely,

Business Software Alliance

The BSA is the foremost organization dedicated to promoting a safe and legal online world. It is the voice of the world's software, hardware and Internet sectors before governments and with consumers in the international marketplace. BSA members represent the fastest growing industries in the world. BSA educates computer users on software copyrights and cyber security; advocates public policy that fosters innovation and expands trade opportunities; and fights software piracy. Established in 1988, BSA has programs in 65 countries worldwide.

Financial Executives International (FEI)

FEI is a professional association representing the interests of more than 15,000 CFOs, treasurers, controllers, and other senior financial executives from over 8,000 major companies throughout the United States and Canada representing both providers and users of financial information.

Information Technology Industry Council (ITI)

ITI is the leading voice of the high-tech industry. ITI promotes policies that advance industry leadership in technology and innovation, open access to new and emerging markets, support e-commerce expansion, protect consumer choice, and enhance the global competitiveness of its member companies.

Massachusetts Software and Internet Council

The mission of the Council is to promote the Massachusetts software and Internet industry; to assist executives in starting, managing and growing their companies; and to help software and Internet companies be successful in global markets.

The NASDAQ Stock Market

NASDAQ is the world's largest electronic stock market. With approximately 3,800 companies, NASDAQ lists more companies and trades more shares per day than any other U.S. market. Over the past five years, NASDAQ has outpaced all other U.S. markets in listing IPOs. It is home to category-defining companies that are leaders across all areas of business including technology, retail, communications, financial services, media and biotechnology industries. NASDAQ is a key driver of capital formation.

The National Venture Capital Association (NVCA)

The National Venture Capital Association represents over 450 venture capital and private equity organizations. NVCA's mission is to foster the understanding of the importance of venture capital to the vitality of the U.S. and global economies, to stimulate the flow of equity capital to emerging growth companies by representing the public policy interests of the venture capital and private equity communities at all levels of government, to maintain high professional standards, facilitate networking opportunities and to provide research data and professional development for its members.

SEMI

Based in San Jose, California, SEMI is an international industry association serving more than 2,500 companies participating in the semiconductor and flat panel display equipment and materials markets.

The Semiconductor Industry Association (SIA)

SIA is the leading voice for the semiconductor industry and has represented U.S.-based manufacturers since 1977. SIA member companies comprise more than 90% of U.S.-based semiconductor production. Collectively, the chip industry employs a domestic workforce of 284,000 people.

The Technology Network (TechNet)

TechNet is a national network of more than 200 chief executive officers and senior partners of the nation's leading technology companies in the fields of information technology, biotechnology, venture capital, investment banking and law.