## Karen Salmansohn

From: Sent: To: Subject: Director - FASB Friday, January 31, 20 Karen Salmansohn FW: ACCOUNTING F Letter of Comment No: 13/ File Reference: 1102-001 Date Received: /-3/-03



----Original Message----

From: Thamotheram, Raj [mailto:rthamotheram@uss.co.uk]

Sent: Friday, January 31, 2003 1:39 PM

To: Director - FASB

Subject: ACCOUNTING FOR STOCK-BASED COMPENSATION

> Dear Sir

> I am writing to express USS Ltd's strong support for the proposal to introduce full and proper accounting for share based payments.

> With a significant percentage of our assets invested in the US market, and given also how much impact US practices on remuneration have globally, I trust you will consider our views seriously. You will see from our website - http://www.usshq.co.uk and then follow links to SRSI/thematic engagement/US corporate governance practice - USS and other pension funds are increasingly concerned about the partial progress that has been made in resolving the problems that have come to light in the last year or so.

> USS Ltd is of the strong opinion that there is no alternative but for 'stock-based compensation' to be recognised as an expense. We are fully aware of the debate about the pros and cons of the various options for doing this but we do not consider this to be a reason for doing nothing. One option if FASB does not wish to endorse one method (e.g. fair value) would be to endorse two different methods which companies could then use and report on if they so desired.

There is little doubt that the non-expensed stock-option based compensation system has been highly detrimental to the interests of beneficial shareholders of US companies. Hence, we strongly support clear and decisive action to ensure that such significant costs to investors are properly reflected in the accounts. Without this, we and other investors are operating with highly inadequate market information and will not be able to reward companies for long-term wealth creation. As has been noted by many US experts, this will steadily undermine the legitimacy of market mechanisms in the US and beyond. Reestablishing confidence in the US market is of importance to all of us, and action on this issue would go a long way to convincing USS Ltd and other large non-US investors that genuine reform is well on track.

> It is also important to ensure that the US accounting system is not used as an excuse for divorcing stock based payments from sound corporate performance and we would therefore urge that punitive treatment of performance linked awards be stopped.

Yours faithfully
Raj Thamotheram

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> (Dr) Raj Thamotheram
> Senior Adviser, Socially Responsible & Sustainable Investment

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> USS Ltd
> 13th Floor
> 99 Bishopsgate
> London EC2M 3XD
>
> Tel: 020 7972 6397 (direct)
> Tel: 020 7972 0300 (switchboard)
> Fax: 020 7628 0662
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### Corporate Information

Universities Superannuation Scheme Limited Registered in England No 1167127

#### Registered Office:

Royal Liver Building, Liverpool, L3 1PY, United Kingdom Telephone 0044 (0) 151 227 4711 FAX 0044 (0) 151 236 3173

# London Investment Office:

13th Floor, 99 Bishopsgate, EC2M 3XD, United Kingdom Telephone 0044 (0) 20 7972 0300 FAX 0044 (0) 20 7628 0662

#### Directors

Professor Sir Graeme Davies (Chairman), C D Donald (Deputy Chairman), A S Bell, L Collinson, Angela Crum Ewing, Professor Sir Martin Harris, Sir Howard Newby, Michael S Potts, Professor Charles Sutcliffe, J W D Trythall, Baroness Warwick of Undercliffe.