Karen Salmansohn

 From:
 Director - FASB

 Sent:
 Friday, January 31,

 To:
 Karen Salmansohn

 Subject:
 FW: Response to St

Letter of Comment No: 128
File Reference: 1102-001
Date Received: 1-3/-13





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----Original Message-----

From: Ted Bruce [mailto:ted.bruce@DPACTECH.COM]

Sent: Friday, January 31, 2003 2:29 PM

To: Director - FASB

Subject: Response to Stock Option Expensing

- * It is inappropriate to characterize stock options as an expense: Stock options are a unique compensation device which never result in a cash expenditure from the issuing company. Requiring that the estimated value of options be treated as an expense would give investors a misleading picture of a company's financial performance. Expensing options would not add clarity to financial statements.
- * The estimated value of options is already disclosed: Under FAS 123, companies already disclose to financial statement users the estimated value of options, either as an expense or in a footnote to the income statement. This is appropriate treatment due to the dubiousness of treating options as an expense. Those companies that treat options as an expense typically do not have substantial options programs and the impact of such an expense usually is immaterial. For those companies for which such an expense would be material, footnote disclosure gives investors the opportunity to judge for themselves what impact options grants might have on the financial performance of the enterprise.
- * Valuation models are unproven: There has been no systematic study of the efficacy of the Black-Scholes model, or any other valuation model, when applied to long term, unvested, non-tradable employee options. The existing valuation models were developed to price very short-term, publicly traded options which are exercised on expiration.
- * Use of existing valuation models erodes comparability: The existing valuation models require the use of estimates. Different companies will use different models and different estimates for the inputs to the models. Thus, it will be difficult, if not impossible to compare the financial statements of potentially similar companies.

FASB should wait for IASB to complete its stock options accounting project before proceeding.

Ted Bruce
 <<Ted Bruce (E-mail).vcf>>