

PHILLIPS-VAN HEUSEN CORPORATION

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June 25, 2004

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Director of Major Projects
Financial Accounting Standards Board
401 Merritt 7
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Letter of Comment No: 5440
File Reference: 1102-100

Re: File Reference No. 1102-100

Delivered by email to director@fasb.org

We appreciate the opportunity to comment on the Exposure Draft, *Share-Based Payment – an amendment of FASB Statements No. 123 and 95*.

We would like to specifically offer our comments on the tax questions posed in Issue 11:

Issue 11: This proposed Statement changes the method of accounting for income tax effects established in Statement 123 as originally issued. Paragraphs 41-44 of Appendix A describe the proposed method of accounting for income tax effects and paragraphs C128-C138 describe the Board's rationale. That method also differs from the one required in International Financial Reporting Standard (IFRS) 2, *Share-Based Payment*. Do you agree with the method of accounting for income taxes established by this proposed Statement? If not, what method (including the method established in IFRS 2) do you prefer, and why?

We do not agree with the method of accounting for income taxes established by this proposed Statement.

We agree with the Board's conclusion in paragraphs C128 and C129 that the option grant and exercise are separate transactions (the grant by the company being consideration for services and the exercise by the employee being an equity transaction). In accordance with this view, we believe that the amount of income tax benefit recognized in the income statement for the option grant should be reflective of the amount recognized as compensation expense, while any subsequent differences in realized tax benefits, whether positive or negative, should be recognized in additional paid-in capital along with the impacts of the underlying option exercise. We are unable to understand the logic in the Board's conclusion that any deficiency arising upon realization of tax benefits should be recognized in the income statement.

Further, the proposed Statement's requirement to calculate and account for the tax impacts of share-based payments at the individual employee level, versus the portfolio approach allowed in Statement 123, is theoretically inconsistent with how such awards are valued. From a realistic perspective, stock options are valued using a portfolio approach. Inherent in this valuation approach is the reality that, even if the option holders as a group realize the same ultimate amount of intrinsic value that was recognized as compensation cost by the company, certain options will be exercised before this value is achieved (which would result in a tax deficiency, or excess deferred tax assets charged to earnings under the proposed Statement), while others will be held and exercised at amounts above the estimated value (which would result in the realization of excess tax benefits, credited to equity under the proposed Statement). We believe the Board should consider this inherent portfolio valuation assumption when reaching its final conclusions on accounting for the tax impacts of these transactions.

The requirement to account for the deferred tax consequences at an individual employee level is not feasible without a significant amount of effort and resources to build and maintain systems capable of tracking the tax and cash flow impacts at the individual employee level. This task is made even more complex in the case of large, multinational enterprises that must contemplate multiple taxing jurisdictions and movements of their employees between these jurisdictions. The complexity is intensified for companies that have broad-based employee stock option plans. The tracking of deferred taxes at the individual employee level will also require the tracking of tax legislation and regulatory changes with respect to the deductibility of stock options on an individual basis.

We believe that a preferable method to accounting for income taxes related to share-based payments uses a portfolio approach and recognizes all differences between the tax amounts initially recognized and ultimately realized as additional paid-in capital. We believe that this would make the financial statements more meaningful because there would be no true-up of the tax benefit in the income statement, which is consistent with the Board's proposed approach to have no true-up of compensation expense. Our suggestion would also avoid the potentially bizarre result of a company's effective tax rate being impacted by its stock price. We also believe that this method would have the added benefit of greatly simplifying the requisite accounting.

Thank you for your consideration of our comments. Should you wish to discuss our comments, please contact me at 212-381-3503.

Sincerely,

/s/ Emanuel Chirico

Emanuel Chirico

Executive Vice President and Chief Financial Officer