

ikon

From: Ram Jagadeesan [ram_jagadeesan@hotmail.com]
Sent: Tuesday, June 01, 2004 8:26 PM
To: Director - FASB
Subject: File Reference No. 1102-100

Letter of Comment No: 2950
File Reference: 1102-100

To,

The Director Of Major Projects,
FASB

Dear Sir/Madam,

This is a response to the share based payment exposure draft:
http://www.fasb.org/draft/ed_share-based_payment.pdf

Issue 1: The Board has reaffirmed the conclusion in Statement 123 that employee services received in exchange for equity instruments give rise to recognizable compensation cost as the services are used in the issuing entity's operations (refer to paragraphs C13-C15). Based on that conclusion, this proposed Statement requires that such compensation cost be recognized in the financial statements. Do you agree with the Board's conclusions? If not, please provide your alternative view and the basis for it.

No.
The true cost of stock options to shareholders is the dilution of ownership and earnings. This proposal seems to be trying to capture a "hypothetical lost opportunity cost", by comparing stock options to what an enterprise could have received if it had sold the equivalent options in the market. This is not a real cost to the enterprise. Perhaps, the board should instead focus on better ways to quantify the dilution that happens when options are exercised.

Issue 2: Statement 123 permitted enterprises the option of continuing to use Opinion 25's intrinsic value method of accounting for share-based payments to employees provided those enterprises supplementally disclosed pro forma net income and related pro forma earnings per share information (if earnings per share is presented) as if the fair-value-based method of accounting had been used. For the reasons described in paragraphs C26-C30, the Board concluded that such pro forma disclosures are not an appropriate substitute for recognition of compensation cost in the financial statements. Do you agree with that conclusion? If not, why not?

No.
Yes, in a way. The Board should instead focus on the dilution with exercise and not on expense with grant.

Issue 3: This proposed Statement would require that public companies measure the compensation cost related to employee services received in exchange for equity instruments issued based on the grant-date fair value of those instruments.

Paragraphs

C16-C19 and C53 explain why the Board believes fair value is the relevant measurement attribute and grant date is the relevant measurement date. Do you agree with that view?
If not, what alternative measurement attribute and measurement date would you suggest and why?

I do not agree with this view.

The true cost of an option to shareholders occurs when an option is exercised.

Any cost should try to quantify the dilution, rather than some hypothetical expense.

True shareholder cost may or may not materialize. For example, lots of options were granted between 1999 and 2001, which will in all probability remain under water and will never be exercised, and hence may not result in any real shareholder cost.

I view employee stock options as a key tool that allows the enterprise to align employees' interests with it's own, and hence increase productivity and innovation. I am deeply concerned that FASB's proposal, while not capturing the true costs of employee stock options to shareholders, would cause enterprises to either stop issuing or sharply reduce the number of stock options given out to rank and file employees.

Thank you,

Ram Jagadeesan

Stop worrying about overloading your inbox - get MSN Hotmail Extra Storage!
<http://join.msn.click-url.com/go/onm00200362ave/direct/01/>