

Letter of Comment No: 258A  
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March 31, 2003

Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

**File Reference No. 1102-001**

**Invitation to Comment - Accounting for Stock-Based Compensation**

Dear Sirs:

We are pleased to provide our response to the FASB's "Invitation to Comment - Accounting for Stock-Based Compensation: A Comparison of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, and Its Related Interpretations, and IASB Proposed IFRS, *Share-based Payment*," dated November 18, 2002 (the "Invitation").

As we indicated in our preliminary response to the Invitation dated February 3, 2003, we deferred providing detailed recommendations with respect to the differences between the IASB Proposed IFRS, *Share-based Payment* ("Proposed IFRS") and FASB Statement No. 123, *Accounting for Stock-Based Compensation* ("Statement 123") until completion of our response to the IASB. Our response to the IASB was submitted on March 13, 2003. Our response to the IASB includes our views with respect to each of the significant issues outlined in the Invitation. Accordingly, our response to the IASB is attached to this letter.

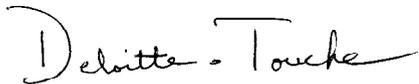
As indicated in our preliminary response, we agree conceptually with the principle behind the proposed IFRS, that the accounting for exchange transactions should be measured and recognized at fair value when the transaction involves the exchange of goods or services for an entity's own equity shares. As such, we believe that share-based payments to employees represent an element of compensation and that the most relevant measurement of that compensation is fair value. However, in our response to the IASB we expressed concern with respect to certain provisions of the Proposed IFRS. Our principal comments and concerns are summarized as follows:

- The Proposed IFRS would require vesting provisions to be incorporated into the determination of fair value of an equity instrument. We are concerned about the ability to obtain reliable estimates of fair value and the unintended effect of providing an incentive to increase the complexity of awards with the goal of reducing the fair value if vesting conditions are factored into the valuation of equity instruments. Accordingly, we propose a model in which fair value is determined without respect to vesting conditions. Consistent with this approach, if a previously granted award fails to vest, we propose ceasing expense recognition at the date that services are no longer provided. As an alternative, we would also support the current approach of reversing compensation if an award does not vest, similar to a cash bonus that is not paid because performance criteria are not met.
- The Proposed IFRS would provide for a grant date measurement for all transactions. We believe that share-based payments should be measured at the date both parties are firmly committed to execute the exchange transaction. However, in the absence of an explicit commitment to perform, we believe that the fair value of the arrangement should be measured at the point when substantive services by the counterparty commence. For employee awards, the grant date would usually represent the measurement date because the employee is already performing services for the issuer.
- The Proposed IFRS requires accounting for certain financial instruments issued in exchange for goods and services as equity even though such instruments may not meet the definition of equity under other IFRS standards. We believe the form of consideration received in exchange for a financial instrument (i.e. cash as opposed to goods and services) should not result in a different determination of whether an instrument is a liability or equity subsequent to issuance. In that regard, we encourage the FASB to ensure that any new standard on stock based compensation is consistent with the conclusions reached by the FASB in its liabilities and equity project.

We support convergence around high quality accounting standards globally. Accordingly, we encourage the FASB to work closely with the IASB and other national standard setters to develop a single, high-quality standard for the accounting for stock-based compensation that will be applied globally. We would be pleased to discuss with you in further detail our views with respect to how the differences between the Proposed IFRS and Statement 123 can be eliminated.

If you have any questions regarding our response, please contact Robert Kueppers at 203-761-3579 or James Kroeker at 203-761-3726.

Yours truly,

A handwritten signature in cursive script that reads "Deloitte - Touche". The signature is written in dark ink and is positioned at the bottom of the page.