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Letter of Comment No: 216
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Re: File Reference No. 1102-001

Dear MP&T Director:

Regarding your invitation to comment on "Accounting for Stock-Based Compensation: A Comparison of FASB 123, *Accounting for Stock-Based Compensation*, and its Related Interpretations, and IASB Proposed IFRS, *Share-base Payment*", PPG Industries, Inc. (PPG) is pleased to submit its views on this important subject. PPG is a Fortune 500 company with sales of $8 billion and is a leading global producer of coatings, glass and chemical products. The company issues stock options and other stock based compensation and employs approximately 34,000 employees worldwide.

We understand that the Board is considering whether to add a project to its technical agenda in the near term to reconsider the issue of accounting for stock-based compensation. We believe that a reconsideration of the current accounting for stock-based compensation is needed and strongly encourage the Board to add such a project to its technical agenda in the near future. When SFAS No. 123 was originally written in the mid-1990's, the FASB, in the face of strong opposition to its proposal to recognize stock-based compensation in the income statement using a fair value method, allowed for disclosure only of the amount of compensation cost that would have been recognized under the fair value method. Because only two public companies chose at that time to expense stock options based on the fair value method, the fact that the standard allowed for a choice in accounting for stock options did not have an impact on the comparability of financial statements.

Nearly a decade later, accounting for stock options is again being strongly influenced by public opinion. In the aftermath of a crisis in corporate governance at certain companies that began in 2001, a number of companies announced their intent in 2002 to begin expensing stock options, as they view this alternative as being a more transparent accounting treatment. With more companies choosing to expense stock options, a lack of comparability between certain companies and industries will result.

We believe that the Board should issue an Exposure Draft for a new standard or a Discussion Memorandum related to the accounting for stock-based compensation so that the Board and its constituents can engage in an exchange of views concerning this subject and, in the process, resolve conceptual matters such as measuring fair value, that were not fully resolved when SFAS No. 123 was issued.

Determining the Fair Value of Employee Options

We do not believe that the Black-Scholes or other option-pricing models produce decision-useful information for financial statement users on the compensation cost of options granted to employees. The variability of the estimates of fair value that results from using a reasonable range of estimates for each assumption that underlie these option-pricing models suggests to us that a single point estimate of fair value at the date of grant is not a decision-useful estimate.

In paragraph 20 of the Invitation to Comment, the defense of the FASB position that option-pricing models produce measurements of fair value that are sufficiently reliable for inclusion in financial statements includes the statement that

> "(b) the imprecision associated with using option-pricing models would not necessarily be greater than the imprecision inherent in other complex accruals, including those for pensions and other post-retirement benefits."

While the degree of imprecision may be no greater, the key issue is that the current accounting for other complex accruals, including those for pensions and other post-retirement benefits, requires that the original estimate be adjusted subsequently for differences between actual results and the assumptions used in the original measurement of the estimate. In particular, SFAS Nos. 87 and 106 require that experience gains and losses resulting from differences between actual results and assumed amounts for items such as return on plan assets, mortality and health care cost inflation, be measured, deferred and amortized through the income statement if the aggregate amount exceeds an objectively measured threshold. A major objection we have to SFAS No. 123 is that there is no such after-the-fact adjustment of the option's estimated fair value as measured at the grant date based on numerous estimated assumptions. As a result, expense can be recognized under SFAS No. 123 for options that remain underwater for their entire life and expire unexercised. In our view, in this situation, the option is ultimately determined to have had no value and the grantor of such an option should be able to reverse the previously recorded expense.

We would also like to submit the following comments on certain of the specific issues identified in the invitation to comment.

Issue 2(a): Do you believe that an accounting standard should mandate the use of an option-pricing model for measurement purposes? If not, what other approaches do you believe would provide more consistent and reliable estimates of the fair value of employee stock options granted and why?

In the interest of transparency and comparability, we believe that the accounting standard should mandate the use of an option-pricing model for measuring the fair value of an option. We also believe that the standard should include a mechanism to adjust the initially recorded estimate of fair value for significant changes in the assumptions used in the option-pricing model.

We also believe that, in reconsidering SFAS No. 123 and before concluding that fair value should be measured using an option-pricing model, consideration should be given to the alternative approach of measuring the fair value of the option by estimating the value of the service rendered by the employee in exchange for the option.

An ongoing process within most public corporations is an annual aggregation of the value of all the component parts of its compensation program in order to determine that its program is competitive with that of other companies competing for the services of its managers and executives. The value assigned to the stock option component of the overall compensation package may be a more determinable estimate of the fair value of the option than the amount obtained by using an option-pricing model. This approach is more in line with the IFRS measurement philosophy that focuses on measuring the fair value of the goods or services received by the grantor of an equity-settled, share-based payment. The IFRS, however, seeks to measure the fair value of the services received by reference to the fair value of the equity instrument granted, as measured by an option-pricing model. Our suggestion is to consider a more direct means of measuring the fair value of the services received.

Issue 2(e): Do you believe that additional guidance for selecting the factors used in option-pricing models is necessary to provide added consistency and comparability of reported results?

We also believe it is important that the Board mandate a methodology for computing the fair value and give more explicit guidance on the appropriate ranges for the assumptions that are to be made in order to improve the consistency and comparability of these estimates of fair value from one company to the next.

Issue 5: Do you believe the notion of issuance is conceptually of importance in the design of a standard on stock-based compensation? If so, why? If not, why not?

Yes. If the option is never issued, then the grantor has incurred no cost. This result is only achieved by the FASB approach in which issuance is a key element of the recognition principle of SFAS No. 123.

Issue 7. Do you believe that the effect of forfeiture should be incorporated into the estimate of fair value per equity instrument (IASB approach)? If so, why? If not, why not?

The effect of forfeiture should not be incorporated into the estimate of fair value per equity instrument. If an option is forfeited, the service expected by the grantor at the time the option was granted was not received and, therefore, the option forfeited had no cost to the grantor. This result is achieved by the FASB approach in SFAS No. 123 but not in the IASB approach.

Conclusion
We appreciate this opportunity to share some of our views on a very important financial reporting issue. We also look forward to participating in a future, public re-deliberation of SFAS No. 123 in order to establish an accounting principle that results in a fair representation of the cost of stock options that will be applied consistently by all public companies. Should you have any questions concerning our comments, please contact Kim Edvardsson, Director, Financial Accounting, at 412-434-3238.

Yours truly,

William N. Hannag

cc: K. M. Edvardsson
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