January 31, 2003

Financial Accounting Standards Bc 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116 Letter of Comment No: File Reference: 1102-001

Date Received: /-3/-03

Re: Comment on the Recognition of Stock Option Costs; File Reference No. 1102-001

Members and Staff of the Board:

In response to the Financial Accounting Standards Board's (FASB) 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), Institutional Shareholder Services (ISS) reiterates our support for FASB's ongoing efforts to improve the accuracy and consistency of accounting practices for stock options and other forms of equity-based compensation. The statement represents the views of ISS and not necessarily those of our clients.

ISS notes the substantial common ground between the proposed guidance on accounting for stock-based compensation included in the International Accounting Standards Board's (IASB) exposure draft and the current "preferred" accounting for stock-based compensation under FASB Statement 123. While some technical differences exist between the IASB and FASB proposals, ISS is confident that consensus can be reached between the two sets of standard-setters that comes as close as possible to a uniform global standard.

It is clear that end-users of financial disclosure documents—investors, large and small—overwhelmingly support the "fair value" approach favored by both the IASB and the FASB. Membership organizations representing investors—from the Council of Institutional Investors to the Association of Investment Management and Research—have endorsed FASB's decision to revisit its unfortunate decision during the 1990s to allow "pro forma" footnote disclosure in lieu of consistent recognition of compensation costs in financial statements.

Investors support the core conclusions by the IASB and the FASB that stock-based compensation should be recognized as an expense and that the amount of compensation expense should be based on the fair value of stock-based awards at grant date. While the technical "differences" outlined for discussion merit attention, the areas of discord pale in comparison to the fundamental agreement between the FASB and the IASB that the "intrinsic value" based method of accounting for options is inadequate, outmoded and misleading.

We urge FASB to reject the claims of groups such as the International Employee Stock Option Coalition, the Nasdaq Stock Market and the Semiconductor Industry Association that stock options cannot be fairly valued. These arguments are not only self-serving, they are transparently false.

Instead, we urge the FASB to make an impartial and reasoned judgment on the proper accounting treatment of stock options, keeping in mind that its obligation is to investors and the public, not to special interests that benefit from current rules

Thank you for this opportunity to comment. ISS looks forward to providing more substantive comments when the Board proposes its new "fair value" rules later this year.

Sincerely,

James E. Heard Chief Executive Officer Institutional Shareholder Services