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Letter of Comment No: 1662
File Reference: 1102-100

From: teh@austin.rr.com
Sent: Thursday, April 22, 2004 9:18 AM
To: Director - FASB
Subject: File Reference No. 1102-100 (Expensing of stock options)

To: Chairman Robert H. Herz,
Re: File Reference No. 1102-100 (Expensing of stock options)

Hello,

I wanted to express my opposition to the proposed FASB plan changing how companies account for stock options. This is an example of good intentions outstripping common sense. The fact remains that any stock option valuation attempt is a guess. Any attempt to assign future values of current options is imprecise. By definition if the FASB were able to create a model or methodology that could accomplish this valuation goal, the entire FASB should stop being accountants and change professions to become brokers.

The plan instead tries to compensate for this inherent flaw by deliberately adopting an artifically high valuation model. Good intentions, bad solution. Stock options are just like any other financial construct with variable future value. The best course of action is to ensure that companies are delivering full disclosure of facts related to stock options. That will enable the market and market participants to choose their preferred set of analytical model(s).

That is the only approach that aligns with the fundamental precepts of our market. Compensating for methodology flaws via deliberately high valuations will cripple and end use of a tool which has proven to be of immense benefit to U.S. companies, workers and the economy by driving up innovation and productivity.

Another fundamental flaw in the proposed plan is the assertion that stock options are an expense. Stock options represent a ownership share of the company. When a company issues stock options there is no use of company assets... which is what an expense is. A stock option transaction is not an expense, it is an ownership transfer activity that is accounted for when options are exercised. The true cost (which is known _when_ it's incurred) is then reflected in the dilution of earnings per share (EPS).

One fact that the FASB seems to have overlooked is that the use of stock options is a tool that the company owners choose to use. If this was a bad tool, then the owners... not the FASB, would choose to not use it. Company owners do choose to utilize this tool because they see value (and benefit) to themselves via this promise of ownership transfer.

It's more than self-interest (tho that is a basic tenent of American capitalism which the FASB should exercise great care to not harm in executing of it's accounting and knowledge dissemenation function). U.S. companies needs the flexibility to use stock options to compete with countries on a global basis.

Imposing an artifically high valuation model in an attempt to impose conservatism in this activity is a knee-jerk retreat to accounting dogma. If you can't model it precisely, at then you can't go wrong over-estimating it. If the FASB's action were to be applicable to every player in the global market, then at least the resultant harm would be equally impactful. Instead a direct result will be a negative impact to American high tech leadership, innovation and job creation.

The FASB needs to be reminded of the 'first, do no harm' credo.

Thank You,
Teh Cheng
Austin, TX