Karen Salmansohn

From: Director - FASB

Sent: Wednesday, February 12

To: Karen Salmansohn

Subject: FW: Response Letter

Letter of Comment No: 126 A

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----Original Message--

From: mark.s.neagle@us.pwcglobal.com [mailto:mark.s.neagle@us.pwcglobal.com]

Sent: Tuesday, February 11, 2003 5:21 PM

To: Director - FASB

Subject: Response Letter

Attached is 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. A hard copy will follow shortly.



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February 10, 2003

Ms. Suzanne Q. Bielstein Director of Major Projects and Technical Activities Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, Connecticut 06856-5116

Reference No. 1102-001

Dear Ms. Bielstein.

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the Financial Accounting Standards Board'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. We commend the Board for issuing this Invitation to Comment on stock-based awards. We also encourage the Board to add a project on stock-based awards to its agenda in the near term.

Support for a Fair Value Model

We support development of a model for stock-based compensation that measures all awards at their fair value. We believe that the intrinsic value model presently used by many companies is inconsistent with the view that fair value is the measurement attribute that is most relevant to users of financial statements. We therefore believe that the current guidance, in which companies may choose to use either a fair value or an intrinsic value model, should be superseded. However, we do not believe that the Board should simply require mandatory adoption of the accounting provisions of FAS 123. Instead, we believe that the Board should comprehensively consider the accounting for stock-based compensation.

At the time FAS 123 was issued, the Board decided to defer further consideration of certain liability and equity issues, most notably as they related to stock repurchase agreements of closely held entities. Since that time, however, the Board has spent a considerable amount of time reconsidering the accounting for instruments that have characteristics of liabilities and equity and, as part of that project, the definition of a liability. We believe that the Board, as a

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result, has developed considerable knowledge in that area. The Board has also proposed potentially amending the definition of a liability found in Concepts Statement No. 6, *Elements of Financial Statements*. Because of the issues that continue to arise with respect to that definition in the application of existing stock compensation literature, we encourage the Board to consider liability and equity issues in any reconsideration of stock-based compensation.

Support for a New Model for Stock-based Awards

FAS 123 includes several models for differing situations, including:

- · measurement of employee vs. nonemployee stock-based compensation,
- · cash-based versus equity-based awards, and
- · public company versus private company valuation methods

In addition, a separate model governs accounting for equity instruments issued for goods and services versus those issued in capital raising activities. We encourage the Board to adopt a principles-based approach that would narrow or eliminate the differences between these differing models. While we acknowledge the complexity of many stock-based transactions, we are hopeful that a new standard could be developed that achieves a reasonable degree of simplicity and that reflects the underlying economics of transactions.

Our Views on a Grant Date Model

We support a grant date model because we believe that such a model is more conceptually consistent than the modified grant date model of FAS 123. A grant date model is also being proposed by the International Accounting Standards Board; the adoption of a similar model in the United States could therefore eliminate a significant point of divergence between US GAAP and IFRS.

At the same time, we acknowledge that the adoption of a grant date model would place significant additional stress upon a company's ability to reliably determine the fair value of its stock-based awards, especially those with performance features. We understand from discussions with valuations experts that the more complex an award's vesting terms, the more difficult the valuation issues and the wider the range of values that might be assigned by different valuation practitioners. That is, under certain circumstances such information may not be sufficiently reliable and comparable among companies.

Given the potentially significant impact of the adoption of a grant date model, we strongly encourage the Board to seek the counsel of valuation experts in deciding whether valuation techniques are sufficiently robust to make such a model operational. Should the Board conclude that it is, we believe that any standard predicated upon a grant date notion must also include significant guidance about how valuation experts, preparers, and auditors should think about valuation issues in determining and auditing fair values. We encourage the Board to



provide a framework that focuses on the valuation process rather than just a model based upon estimating the impact of the occurrence of a future event.

Finally, we believe that if concerns about those issues cannot be overcome, an alternative to the grant date model should be considered, including potentially the modified grant date model or a vesting date model. We observe that a vesting date model may also eliminate differences between accounting for cash-based and stock-based compensation plans. We acknowledge that a vesting date model is a very different accounting model conceptually and may create greater volatility in the income statement. We believe that the grant date model is preferable and have drafted our responses to the Board's specific questions based upon that belief.

Transition Considerations and Perceived Competitive Disadvantages

If the Board adds a project to its agenda, any new standard should be issued with an effective date that is the same as any IFRS on share-based payments. We believe that this would eliminate concerns about potential competitive disadvantages that could result from divergent accounting standards. We also believe that it would underscore the importance the Board ascribes to its working relationship with the IASB.

We appreciate the opportunity to express our views in this letter. Our responses to the specific questions contained in the Invitation to Comment are included in the attached appendix. If you have any questions regarding our comments, please feel free to contact Paul Kepple at (973) 236-5293, or Mark Neagle at (973) 236-7204.

Sincerely,

PricewaterhouseCoopers LLP



PRIMARY SIMILARITIES AND DIFFERENCES

Issue 1: Statement 123 provides a scope exclusion for ESOPs and certain ESPPs, and the Proposed IFRS does not. Which view do you support and why?

We support the development of standards that are based upon principles and that contain few, if any, exceptions to those principles. We therefore support the view expressed in the Proposed IFRS that removes exceptions for such plans. In our view, ESOPs and ESPPs are programs that are established in order to remunerate employees for service. We therefore believe that such programs should be accounted for in a manner consistent with other stock-based compensation plans.

Issue 2: In measuring the fair value of stock options granted to employees, both Statement 123 and the Proposed IFRS require use of an option-pricing model that takes into account six specific assumptions. The standards provide supplemental guidance for use in selecting those assumptions.

As noted in our cover letter, we have significant concerns about the ability of existing valuation techniques to reliably measure the fair value of complex awards at their date of grant. We therefore would not wish the Board to restrict its deliberations to simply a consideration of different option-pricing models. Moreover, we are not convinced that an option-pricing model is the only method — or necessarily the most appropriate method — to measure the fair value of stock options. Instead, we believe that the Board must consider valuation issues comprehensively as part of any new project on stock-based compensation.

Our discussions with valuation experts lead us to believe that the measurement issues associated with a grant date model can be extremely complex, particularly in the case of performance awards.

Consider a stock option award to a chief executive officer with vesting based upon achievement of specified corporate goals. Further assume that the exercise price fluctuates based upon performance relative to those goals. For example, the option is for 1,000,000 shares. In order to vest in the option, the following conditions must be met:

- the company's stock price appreciation must exceed the S&P 500 Index appreciation through the one year anniversary date of the grant
- the company's key product product X must achieve a market share of at least 25% by the one year anniversary of the grant
- the company must maintain an overall 85% employee retention rate through the one year anniversary of the grant

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In addition to these vesting provisions, the exercise price is adjusted downward from the grant date value if the company exceeds the minimum vesting thresholds. For example, if market share exceeds 30% for product X, the exercise price is reduced by \$5 per share.

We believe that it is likely that awards of this nature, based heavily upon performance, will become much more prevalent under a fair value grant date model.

Under a grant date model, a grantor would be required to estimate the fair value of the award taking into consideration the likelihood that the specific performance objectives could be achieved. While we acknowledge there will be considerable subjectivity in forming those estimates, we also understand that in order to determine the fair value of the award, the impact of the achievement of those performance targets on the company's value would have to be estimated. That is, a valuation specialist would be required to estimate the probability of the performance hurdle being achieved and, if it were to be achieved, the impact of, say an increase in market share, on the value of the enterprise. We also observe that because a grant date model has not been used before, valuation experts have not heretofore had to grapple with these sorts of measurement issues.

In the development of any standard based upon a grant date model, we believe that valuation issues must be studied in conjunction with preparers, valuation experts, auditors and academics. As a result of those efforts, we would hope that the Board would also provide greater guidance on measuring the fair value of share-based awards in the form of broad principles that will yield reliable information and promote consistent application. That guidance would ideally summarize the Board's views about how constituents should think about valuation issues. For example, we are familiar with the factors that are presently used in valuing stock options under an option-pricing model. We are aware, however, that some believe that there are other factors that should be considered in order to achieve a more reliable estimate of fair value, for example, an award's vesting provisions, nontransferability features, or the ability to "early exercise." We believe that the Board should share their thought process (perhaps in the basis for conclusions), including enumerating the issues it considered in the development of new guidance.

As stated in our cover letter, if concerns about those valuation issues cannot be overcome, we believe that an alternative to the grant date model should be considered, including potentially a modified grant date model or a vesting date model. We understand that a vesting date model will not entirely eliminate valuation issues. However the complexities of grant date valuation could be reduced, because under a vesting date model, compensation expense is remeasured until a final measurement date is reached. It should also be recognized that an exercise date model would introduce greater volatility into financial statements.

Despite our concerns about valuation issues, we believe that a grant date model is the preferable conceptual model. Our responses to the following questions have been written based upon that view.

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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?

No, for the reasons cited in our cover letter and our response to Issue 2, above.

Issue 2(b): If you agree that an accounting standard should mandate the use of an option-pricing model, do you believe that a particular model should be mandated? If so, which model should be required to be used and why?

No, for the reasons cited in our cover letter and our response to Issue 2, above.

Issue 2(c): If you agree that an accounting standard should not mandate the use of a particular option-pricing model, do you believe that additional disclosures should be made to improve the user's ability to compare the reported financial results of different enterprises? If so, what types of additional information should be required to be disclosed?

Because we do not believe that a single valuation model should be mandated, we expect users would be very interested in the method a company employs to value stock-based grants. Naturally, the nature of the disclosures would depend significantly upon the Board's decisions regarding the measurement of fair value. For example, if the Board's framework requires consideration of numerous factors and assumptions, that information should be disclosed. We also encourage the Board to include information about the impact that changes in those factors and assumptions would have on fair value estimates. While we cannot cite the specific types of disclosures that might be required, we would expect that the requirements of any new standard to be sufficiently robust to provide transparency for share-based transactions. Additionally, the Board should encourage the use of plain English, so that disclosures can be understood by the average investor.

Issue 2(d): Statement 123 and the Proposed IFRS require that certain modifications be made to the outcome of an option-pricing model to address certain features of employee stock options. If you believe that other modifications should be made to improve the consistency and reliability of those outcomes, please describe those modifications and why they should be required.

As noted in our response to Issue 2, we are aware of proponents of valuation techniques that would require the use of additional factors beyond those used in current option-pricing models. Some of the factors more frequently cited are the impact of vesting provisions, nontransferability provisions, or the ability to "early exercise" an award. We encourage the Board to reach out to a broad range of subject matter experts in order to gain first hand knowledge of the types of valuation techniques that might yield reliable fair value measures. As noted above, we are hopeful that those discussions could lead to greater guidance from the Board on that topic.



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? If so, what types of guidance should be provided and in which areas?

Please refer to our response to Issue 2.

Issue 3: Do you believe that employee and nonemployee transactions are distinct and, therefore, warrant different measurement dates for determining the fair value of equity instruments granted? If so, why? If not, why not?

Consistent with our response to Question 1, we favor standards that adhere to basic principles. Toward that end, we do not believe that there is a conceptual basis to account for transactions between employees and nonemployees differently. We view both transactions as the exchange of consideration for services rendered or to be rendered. Accordingly, we believe that those transactions should be accounted for similarly.

Issue 4: Do you believe that the fair value of equity awards granted to nonemployees that include performance conditions can be measured with sufficient reliability to justify a grant-date measurement method? If so, why? If not, why not?

As stated above, we see no meaningful conceptual distinction when measuring the fair value of equity awards granted to employees versus those granted to nonemployees. Additionally, we expect that, should the Board follow a grant date approach, performance conditions will become more prevalent in employee awards. Accordingly, we believe that the accounting for awards granted to nonemployees, with or without a performance feature, should be accounted for in the same manner as employee awards.

As noted in our cover letter, however, this approach will require robust valuation techniques. We understand from our discussions with valuation experts that reliable measurements of the fair value of awards with multiple performance conditions can be extremely complex. While we support a grant date approach conceptually, we believe that such issues must be carefully considered before any new standard can be issued.

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?

We believe that the notion of "issuance" is of secondary importance to that of "grants" of stock-based compensation. We note that both FAS 123 and the Proposed IFRS are grant date models, although FAS 123 is a modified grant date model.

We believe that at the grant date the grantor has issued an equity instrument - a right to receive a stock-based award upon completion of specified service. We also note that at the grant date,



the parties to the transaction have come to a mutual agreement as to the terms of the transaction. Accordingly, we believe that the accounting model should focus on that event. We therefore also believe that the fair value of the right to receive the equity award should be measured at the grant date if it can be done reliably.

Issue 6: Do you believe an equity instrument subject to vesting or other performance conditions is issued, as defined by Statement 123, at the grant date? If so, why? If not, why not?

Based upon the definition in FAS 123, which differs from our view, we do not believe that an award that is subject to future performance is "issued" for accounting purposes at the grant date. Said differently, because, most stock-based awards require the provision of services, we do not believe that such an award has been issued, as that term is used in FAS 123 until those services have been provided.

As more fully explained in our response to Issue 5, we believe that the notion of issuance is of secondary importance to that of grants of stock-based-compensation.

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?

We believe that the fair value of the right to receive a stock-based award should be measured at the grant date. In order to capture the fair value of an award, we believe that the value of the right that is granted should incorporate an estimate of the probability that that right will not vest in the future.

Issue 8: Should failure of an award holder to satisfy the conditions that entitle the holder to retain or receive the promised benefits affect the amount of compensation expense that should be recognized related to that reward? If so, why? If not, why not?

As noted in our response to Issue 7, we believe that the principles that are inherent in a grant date model must be followed consistently. Accordingly, we support a model that incorporates the effect of forfeitures in the initial valuation of the stock-based award and recognizes that value as the grantee renders service. Accordingly, in a scenario where an employee renders service but fails to meet a specified vesting requirement, we believe that all or a portion of the award's value should be recognized for the service received by the grantor. We believe that including forfeitures in the calculation of fair value appropriately measures the service provided.



Issue 9: Do you agree that the result of the IASB's approach to calculate the fair value of equity instruments of nonpublic entities would be closer to fair value than minimum value? If so, why? If not, why not?

We believe that requiring similar measurement methodologies – that is, fair value – for both public and non-public companies is consistent with a principles-based approach. Because we do not believe that the minimum value method appropriately measures fair value, we do not advocate its inclusion in any future standard on stock-based compensation.

Issue 10: Which of the two attribution methods described by the standards do you believe is more representationally faithful of the economics of stock-based compensation arrangements and why?

We agree with the general principle contained in both FAS 123 and the Proposed IFRS that compensation cost is recognized as an expense over the period in which the employee provides service to the grantor. As noted above, we favor a model in which the grantor recognizes the value of the award granted over one that is based upon whether that award vests. Accordingly, we believe that the Proposed IFRS provides a method that is more representative of the value of the goods or services received, as measured by the value of the stock-based award granted.

We observe, however, that the examples of the application of the units-of-service method included in the Proposed IFRS are based upon awards to a large group of relatively homogenous employees. We are uncertain how such a model would be applied to a grant to single employee, for example, the grant of a large award to an entity's CEO or an award that only vests upon achievement of a performance goal.

We are also concerned with the potential complexity of the units-of-service method. We would not be averse to the attribution of cost using a simpler method, for example, a straight-line attribution model.

Issue 11: Statement 123 does not ascribe value to services received in exchange for equity instruments that are later forfeited (that is, recognized compensation expense is reversed upon forfeiture), whereas the Proposed IFRS ascribes value to such services through its units-of-service attribution method (that is, recognized compensation expense is not reversed upon forfeiture). If you support the Proposed IFRS's view, do you believe the units-of-service method ascribes an appropriate value to services received prior to forfeiture? If so, why? If not, why not?

For the reasons stated in our response to Issue 10, we believe the value of stock-based awards should be recognized as the grantee renders service, even if the grantee fails to vest in the award. We believe that approach is consistent with the underlying logic of the grant date model. We generally believe that the units-of-service method achieves that objective.



However, as noted in our response to Issue 10, we believe that the application of the units-of-service method, as described in the Proposed IFRS, should be clarified to permit consistent application in situations that differ from those illustrated, e.g., a grant that only vests upon achievement of a performance goal.

Issue 12: Do you believe that the actual outcome of performance awards should affect the total compensation expense incurred by an enterprise? If so, why? If not, why not?

As described in our response to Issue 10, we believe that compensation cost should reflect the value of the equity instrument granted, independent of the actual outcome of the specified performance condition.

Issue 13: Do you believe that this issue is important in considering an attribution model's validity? If so, why? If not, why not?

We agree with the conclusions reached by the FASB and, preliminarily, by the IASB that the cost of stock-based awards should be attributed to the service period rather than the award's expected life. We believe that the vesting term represents the period the grantee must work in order to obtain the award.

We recognize that some may assert that this is inconsistent with the fact that an award's expected life is used in estimating the fair value of the award. However, because we share the view that the fair value of a stock-based award should be recognized as service is provided, we do not believe that modifying the attribution model to allocate the value of the award over its expected life is appropriate. We view this as two different conceptual issues: a valuation issue and an attribution issue. Accordingly, we do not see the use of different periods as inappropriate. We also believe that a grantee's decision to hold an award after it has vested is an individual investment decision that should not affect cost attribution.

Issue 14: Do you believe that the measurement-date criteria in Issue 96-18 accurately reflect the economics of transactions with nonemployees? If not, why not?

As previously noted, we see no conceptual distinction between awards granted to employees and those granted to nonemployees. We would therefore favor a single model that will be applied consistently to both classes of service providers. Because Issue 96-18 is a modified vesting date model, we would advocate that it be superseded by a grant date model in order to achieve greater consistency. Moreover, we do not believe that the Issue 96-18 model accurately reflects the economics of transactions with nonemployees. We note that the terms of an award are negotiated at the inception of an exchange transaction and each party understands that provision of specified services will result in an equity award with specified terms (a certain number of shares or the right to purchase a certain number of shares at an agreed-upon price per share). The fact that the fair value of that equity instrument may later

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change or that the counterparty may choose not to provide the specified services should not alter the terms of that original exchange. We observe that this is consistent with the accounting for other types of equity instruments, such as warrants issued to an investor accounted for under APB Opinion No. 14, Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants, as interpreted. Consider a case in which the issuer's stock price declines precipitously following the grant of an option award. In that case, the fair value of that award may decline to near zero, however the services bargained for at the inception of the arrangement and ultimately received by the grantor may have significant value (for example, as measured by the price commanded by similar services in the open market). Accordingly, we believe that a model that measures the fair value of the equity instrument granted based upon the initial terms of the award more accurately reflects the economics of the transaction.

Issue 15: Do you believe that all of the tax benefits derived from stock-based compensation arrangements should be recognized in the income statement? If so, why? If not, why not?

We do not believe that all tax benefits derived from stock-based compensation arrangements should be recognized in income. We agree with the Board's view that it would not be appropriate to recognize a tax benefit from the exercise of employee stock options — that is, in excess of the deferred tax benefit recognized in the income statement at the time of grant — in the income statement because such tax benefits represent additional proceeds to the grantor from the issuance of stock, that is, the benefit arises as a result of a capital transaction.

We are also troubled by the fact that, under the model proposed by the IASB, an entity might recognize income in respect of future tax benefits that exceeds the compensation expense associated with the award. In short, we do not believe that a company can earn income by issuing stock-based awards.

Issue 16: As discussed in paragraph 83 of this Invitation to Comment, the Proposed IFRS expands on the disclosure requirements in Statement 123. Do you believe that those expanded disclosures would be more informative to users of financial statements? If so, why? If not, why not? (Which of the disclosure requirements should be eliminated or modified in that case?)

Our answer to this question is dependent upon the outcome of the Board's deliberations over fair value measurements, as noted in our response to Issue 2(c). If the Board were to determine that an option-pricing model is an acceptable method for measuring the fair value of awards under a grant date model, the disclosures cited will be useful to investors. However, because we are hopeful that the Board will consider valuation issues comprehensively, it may come to a different conclusion. Accordingly, the types of disclosures that will assist users in understanding a company's stock-based transactions may be significantly different than those listed in the Proposed IFRS. We could envision disclosures that, for example, include



information about the techniques and assumptions used by the company to estimate the value of stock-based transactions and how changes in those factors and assumptions would affect those estimates. Additionally, the Board should encourage the use of plain English, so that disclosures can be understood by the average investor. In summary, we believe that whatever valuation model is followed, disclosures should be sufficiently robust to enable users of financial information to make informed decisions about an entity's stock-based transactions.

Issue 17: Please describe any additional disclosures that you believe should be required in order to inform a user of financial statements about the economics of stock-based compensation arrangements.

Please refer to our response to Issue 16.

SECONDARY SIMILARITIES AND DIFFERENCES

Issue A1: Statement 123 distinguishes between a principal stockholder and a stockholder for certain transactions and the Proposed IFS does not. Which view do you support and why?

We support the view in the Proposed IFRS that does not distinguish between stockholders. We believe that a transaction should be presumed to be a compensatory arrangement, unless there is clearly another purpose, for example, where the relationship between the stockholder and the recipient is one that would normally be expected to result in generosity (i.e., an immediate family relationship).

Issue A2: Do you believe that a probability-weighted average amount of the range should be used when no amount in the range is better than any other? If so, why? If not, what other amount within the range would you propose when no amount in the range is better than any other?

We support the use of the probability-weighted average amount when no amount in the range is better than another. We believe this provides an amount that is closer to an award's fair value.

Issue A3: Do you agree that option-pricing techniques have sufficiently evolved since Statement 123 was issued to address reload features and, if so, should Statement 123's requirement be changed? If not, why not?

We believe that a reload option is economically different than one that does not include a reload feature and that conceptually this should be considered in valuing the reload option when it is granted. However, based upon discussion with valuation experts, we are not convinced that valuation techniques have evolved sufficiently to reliably value a reload option



at its grant date. However, consistent with our other comments about the need for the Board to comprehensively consider valuation issues, we would encourage a reconsideration of this issue in any future Board project on stock-based compensation.

Issue A4: Do you believe there are circumstances in which an entity may not be able to reasonably estimate the fair value of equity instruments at the grant date? If so, please provide examples of such circumstances and describe how those equity instruments should be accounted for until a reasonable estimate is determinable.

As described in our cover letter, we have significant concerns about the issue of reliable valuation of stock-based awards in a grant date model, particularly for those awards with complex performance vesting criteria. If, after studying this issue, the Board were to decide that those valuation concerns could not be overcome, we would encourage the Board to consider an alternative model, e.g., a modified grant date or a vesting date model.

Issue A5: Do you believe there is a single grant date or multiple grant dates for the preceding example? Why?

A single grant date – the date at which Enterprise B and the CEO have a mutual understanding of the terms of the award.

Issue A6: Should SARs be measured at fair value rather than intrinsic value? If so, why? If not, why not?

Consistent with our support for a principles-based approach, we support valuing all stock-based awards, including SARs, at fair value.

Issue A7: In accounting for equity award modifications, should the fair value of the original award be calculated using (a) the shorter of the remaining expected life of the original award or the expected life of the modified award or (b) the remaining expected life of the original award? Why?

We support the notion in the Proposed IFRS that the incremental fair value arising from the modification of an award should be recognized. We support an approach that compares the fair values of the original and the modified award at the date of the transaction. Those fair value estimates would incorporate the expected lives at the transaction date. We believe that such an approach is conceptually superior, as it reflects the negotiated exchange between the grantor and grantee.

We recognize that FAS 123 requires that the value of the original award must be measured using the shorter of its remaining expected life or the expected life of the modified award in order to avoid a circumstance where the modification results in a reduction of compensation



expense. However, we believe that if the transaction is recorded using the current fair values of both the original and modified awards, that situation would be rare.

Issue A8: Do you believe that an accounting standard on stock-based compensation should include provisions for distinguishing between repricing and other modification events? Why?

We do not support differentiating between modifications to an award's exercise price and any other modification event. Under a principles-based approach, we believe the accounting for all modifications should follow a single model.

Issue A9: Which method of accounting for settlements of unvested awards do you believe is more representationally faithful and why?

We support the approach for settlements of unvested awards set forth in FAS 123, wherein the settlement of an unvested award is considered to be a deemed acceleration of that award's vesting and a simultaneous repurchase. We note that the IASB viewed this approach as preferable during its deliberations of the issue. Furthermore, we do not believe this approach is inconsistent with other aspects of a grant date model. Under a grant date model, the subsequent occurrence of events in accordance with the original terms of a stock-based award (for example, forfeitures), do not have an accounting consequence. However, we believe that recognition should be given to mutually agreed amendments to the original terms of an award. We would therefore view a settlement transaction as similar to a new grant date, in that the grantor and grantee reach a new agreement as to the terms of the award. In addition, because further grantee service is not required, continued recognition of compensation expense should likewise not be required.

Issue A 10: The Proposed IFRS considers certain factors, including past practice or a stated policy of settling in cash, in evaluating how an entity should account for certain contracts that can be settled in cash or equity, at the entity's option. Do you agree with this view? If so, why? If not, why not?

We believe that past practice or a stated policy are relevant in determining the appropriate accounting for an award. A model that simply evaluates the issuer's ability to settle an award in cash without reference to that issuer's past history (for example, a history of settling all past awards in cash) may not, in our view, appropriately reflect the substance of the arrangement.