



RICHARD KETCHUM
DEPUTY VICE CHAIRMAN
PRESIDENT
THE NASDAQ STOCK MARKET, INC.
1500 BROADWAY, SUITE 3002
NEW YORK, NY 10036
P 212 768 2352 F 212 827 0306
richard.ketchum@nasdaq.com

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MP&T Director - File Reference 1102-001
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Letter of Comment No: 255
File Reference: 1102-001
Date Received: 2-4-03

Re: Invitation to Comment on Accounting for Stock Options

Dear Sir or Madam:

The NASDAQ Stock Market welcomes this opportunity to present our views on the question of expensing of stock options. NASDAQ is a signator on the comment letter submitted by the International Employee Stock Options Coalition. We have been actively involved in the stock option policy debate since its inception and have had a consistent position recognizing the value of employee stock options. Attached is a copy of the op ed article by our Chairman, Hardwick Simmons, that appeared in the January 31 edition of the *Wall Street Journal*.

NASDAQ is the world's largest electronic stock market. With approximately 3,800 companies, NASDAQ lists more companies and trades more shares per day than any other U.S. market. Over the past five years, NASDAQ has outpaced all other U.S. markets in listing IPOs. It is home to category-defining companies that are leaders across all areas of business including technology, retail, communications, financial services, media, transportation and technology industries. NASDAQ is a key driver of capital formation in the U.S. economy.

NASDAQ believes that expensing of stock options is actually a less transparent approach to informing investors of the financial impact of stock options on their ownership interests and could have long-term negative effects on stock prices, raise the cost of capital, and reduce economic growth. Stock options have been an indispensable ingredient in the growth of many of the high tech and other firms that are listed on NASDAQ's market. Without stock options programs, these companies would have been constrained from attracting the high-quality talent that they utilized to change the world through innovation and new technologies stock options have a proven power to transform industries and accelerate national prosperity. Options have helped our companies cultivate subsequent generations of entrepreneurs – and keep alive a prosperous cycle of risk-taking, job creation, and economic growth.

NASDAQ hopes that the instances of excess that have been disclosed in the last year involving corporate leaders and grants to them of stock options will not cloud the value of this tool to incentivize workers that has made significant contributions to the American economy and its growth. NASDAQ believes that expensing stock options will only serve to obfuscate a company's financial situation and punish its employees. Expensing stock options will do little to enhance corporate conduct or end accounting abuses. NASDAQ has supported rules that require shareholder approval of stock option plans, which should appropriately empower shareholders and further limit the potential for abuse.

NASDAQ strongly supports clear and full disclosure of employee stock option transactions. However, we are unaware of any existing formula that could be applied that would provide the desired level of transparency in a readily useable and understandable format. The Black-Scholes model was never designed to be used in the valuation of stock options that are not freely transferable in a trading environment. Until a model is devised that accurately values employee stock options, any new regime aimed at transparency could lead to heightened confusion instead of clarity.

NASDAQ shares FASB's goal of helping to restore confidence in American business. We also have a challenging responsibility to fix what is broken without harming what is not. Stock options are not the problem and expensing them is not the solution. Any departure from the proven tenets of SFAS 123 should be undertaken only if it is certain that a new policy will have the desired results. NASDAQ stands ready to work with the FASB on a policy that preserves the positive role of stock options, avoids penalizing emerging growth companies, and provides investors with clear and accurate information as to the impact of options and their ownership interests.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard Ketchum". The signature is fluid and cursive, with the first name "Richard" and last name "Ketchum" clearly distinguishable.

Richard Ketchum
Attachment

The Best Option

By Wick Simmons

NEW YORK—The debate over how corporate accountants should treat the granting of stock options is coming to a close. Tomorrow, the Financial Accounting Standards Board (FASB) will end the public comment period and craft a final proposal on whether stock options should be treated like any other corporate expense.

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To many investors, this may sound like an arcane debate among accountants. In fact, the stakes are enormous.

Stock options have a proven power to transform industries and accelerate national prosperity. But if companies are forced to treat options like salaries or manufacturing costs, many will decide they can't afford to continue this form of potential compensation. To avoid that mistake, we need to remember how companies grow. In the last two decades, entrepreneurs, new companies and ambitious visionaries moved the world's fulcrum to the U.S., motivated largely by stock options. When given the right incentives, our economy roars.

In most of the world, the most skilled engineers, marketers and software developers stay put. (Why leave an established firm to take a chance on a new venture?) But in the U.S., aspiring companies use stock options to attract the best and the brightest. The process has made the U.S. a magnet for human capital and helped perpetuate the cycle of risk-taking, job creation and economic growth.

In the past months of discussions over corporate misconduct, some have raised doubts about systemic integrity and charged that the lure of stock options is a corrupting influence. Those people believe that curtailing their use will promote greater transparency. Nothing could be further from the truth: Expensing options will only

serve to further obfuscate a company's financial situation and punish its employees. Far from being an incentive solely benefiting senior executives, nearly 60% of high-tech firms make stock options available all the way down the line.

It's no coincidence that the most dynamic sectors of the American economy are also the ones that use stock options most extensively. Companies like Microsoft and Intel will be the ones that suffer most from the elimination of one of their most effective compensation tools. And what about the thousands of promising compa-

nies that no one has heard of yet? Without the ability to attract talent and offer recruits a stake in the company's financial success, the new

sprouts may never grow into the next generation of high-tech multinationals.

If these sorts of side effects weren't galling enough to discourage the regulators from such ill-advised efforts on behalf of "transparency," the new stock option accounting will also cost Americans jobs. According to a recent study, eliminating stock options would cut 3.5% off GDP over the next decade—a staggering \$2.3 trillion loss of economic output.

The FASB has a daunting mandate—to help restore confidence in American business. But it must fix what is broken without harming what is not. Stock options are not the problem and expensing them is not a solution.

The key to the U.S.'s unprecedented economic prosperity is a system that recognizes the best talent and ensures that it is always available to the most promising ventures. Sacrificing that competitive advantage for a cosmetic change in accounting rules may appeal to some today, but it will prove to be horribly shortsighted in the years to come.

Mr. Simmons is chairman and chief executive of the Nasdaq stock market.

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