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File Reference 1101-001

October 7, 2002

**Letter of Comment No:** 1  
**File Reference:** 1101-001  
**Date Received:** 10/7/02

Ms. Susan Bielstein  
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Ms. Bielstein,

I am writing to briefly comment upon the Exposure Draft of the Proposed Statement, "Accounting for Stock-Based Compensation - Transition and Disclosure." At the outset, I would like to commend the Board for its quick action on an issue that emerged only about three months ago. I believe that the Board's timetable for completion of the project - as well as the effective dates in the exposure draft - is completely achievable. Overall, the amendment will improve the financial reporting related to accounting for stock-based compensation, particularly with regard to interim disclosures about such costs. There are still ways to improve the exposure draft, however.

The issues addressed by the exposure draft are not novel. Statement No. 123 was issued in 1995, and the pro forma disclosures regarding the effects of stock-based compensation have been around since the 1996 annual reports. Should a firm choose to adopt a policy of fair value recognition of stock-based compensation, I believe analysts and investors are familiar enough with the footnote information that a retroactive restatement of all periods in which an income statement is presented would be the most concise form of presentation available. Some preparers might argue that a required retroactive restatement might be confusing to financial statement users. Such an argument is condescending to financial statement users. How confusing could it be? It would only be a move of footnote information into the income statement, after financial statement users have had more than five years of getting acquainted with the footnote information.

I realize that the retroactive restatement method of transition is permitted under the proposal, and I would recommend that it be the only method allowed. I object to permitting the continuation of the prospective method for only new grants of stock-based compensation. It was a transition method that made plausible sense in 1995, but given the years of experience with the footnote information available to investors, the prospective approach does not seem to be as relevant today. Financial reporting is satisfactorily improved in this area only when a financial statement user does not have to resort to footnoted information in order to find an amount that should have been reported in a basic financial statement. For that reason, I find the second transition alternative (prospective expense treatment for new grants and unvested existing awards) to be only slightly less objectionable. While this approach would provide added relevance to earnings reported currently and in the future, a financial statement user would still need to consult footnote disclosures to compare current earnings to a relevant performance figure for prior periods.

I realize that firms are *voluntarily* switching to reporting stock-based compensation recognition, and that they may have already announced such plans based on the availability of the prospective method. To limit them to only the retroactive restatement method might appear to be similar to changing the rules of the game after it's begun. I would propose that the two prospective methods could be allowed for companies that chose to do so *before* the effective dates of the final standard, with only the retroactive restatement method being allowed afterwards. In other words, create a (shallow) safe harbor for firms that choose the prospective methods.

I believe that the interim footnote disclosures have been sorely needed ever since the issuance of Statement No. 123, and that the cost of providing them should be minimal for financial statement preparers. I propose some ways to enhance that information. It would be easy to say that the full package of disclosures supplied by Statement No. 123 should be replicated in the interim financial statements, but that would be unreasonable given the time constraints faced by firms in interim reporting. Certain of the disclosures have more relevance than others on an interim basis, and that is where my focus lies:

- First of all, there needs to be a requirement for interim information about option activity. Many analysts are starting to try factoring an option compensation expense into their earnings forecasts. Firms are not likely to be forthcoming in helping analysts come to a reasonable estimate, so the disclosures should be rich enough to allow analysts and users to come to their own conclusions. Given the "lapsing" effect of stock compensation over the vesting period, it is imperative to know the number of new options granted in order to make even rudimentary estimates of future stock compensation expense. The optimal disclosures regarding option activity would be a table showing the beginning balance, grants, exercises, forfeitures, cancellations, and ending balance. The minimum disclosures for option activity would be the options granted.

- Likewise, optimal interim disclosures would include fair value information for the options granted. The (weighted-average) assumptions used in estimating the fair value should be a part of these disclosures. Minimum disclosures would be only the fair values of the options granted; this would at least help in determining future "fair value lapsing." Knowing the assumptions would help analysts and users assess reasonableness of the fair values.

- The amount of stock-based compensation contained in expense lines of the income statement (or would contain it if a recognition policy was in place) should be disclosed. Knowing which parties in a firm are most affected by stock compensation (Management? Production workers? Research engineers?) would impart qualitative information to financial statement users about the interests of a firm's different employees in the firm's stock price. Knowing which lines of the income statement contain the compensation expense, whether actual or pro forma, would help financial statement users make this assessment.

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That concludes my remarks. I appreciate the opportunity to offer my comments; if you have any questions, don't hesitate to call.

Sincerely,

Jack Ciesielski