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August 5, 2002

Mr. Robert Herz  
Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

**Letter of Comment No:** 4  
**File Reference:** 1101-SCU  
**Date Received:** 08/05/02

Dear Mr. Herz:

We are writing to encourage you to strongly consider changing FASB's position on the issue of expensing costs related to employee stock options. From our view, there is no single more important accounting issue on the current landscape. We support the proposed limited-scope fast-track project related to the transition provisions of FAS 123.

#### About GMO

We are an institutional money management firm responsible for more than \$25bn of client assets (\$7.5bn of which are invested in equities of U.S. companies and \$12bn of non-U.S. firms). We have been actively managing institutional assets for over twenty years. We presently serve U.S. institutional investors, including major endowments, foundations, and public and private pension funds, which represent thousands of individuals and which have substantial educational and societal responsibilities. In addition, we serve several mutual fund firms and therefore millions of shareholders. While we are not a large firm, our investment performance affects many. We are a private firm, answering to no one but our clients and ourselves.

#### Our Position

We are not experts in accounting theory. However, we believe we do have a sound understanding of how companies earn profits and what shareholders expect for a return on their investment – the basic elements of valuing a company's equity. As investors, we see no justification for excluding the cost of employee stock options from the determination of net income.

We support the proposed limited-scope fast-track project related to the transition provisions of FAS 123. We look forward to commenting further on detail aspects of this project. In general, our strong preference is for FASB to require expense treatment on a prospective basis and for companies to clearly disclose, in a footnote, the expense that would have been recorded for all years since 1995.

As mentioned above, we also manage \$12bn of international equities. As such, we are quite interested in seeing greater harmony between U.S. GAAP and international accounting standards. We support your efforts in working closely with the IASB and look forward to further changes in U.S. stock-based compensation accounting as part of that general objective.

Regards,

Jeremy Grantham  
Chairman and Investment Strategist

  
Scott Eston  
Chief Operating Officer