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Letter of Comment No: 2015
File Reference: 1102-100

From: Luis Rodriguez (luisr) [luisr@cisco.com]
Sent: Tuesday, April 27, 2004 3:37 AM
To: Director - FASB
Subject: File Reference No. 1102-100, Attn: Chairman Robert H. Herz. Re: Stock Option Expense

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Attention: Chairman Robert H. Herz

Dear Sir,

I am writing this letter to express my opposition to the Financial Accounting Standards Board (FASB) proposal to treat stock options as an expense. My opposition is based in two areas, intent and consequences. The new proposal does not achieve its goal of improving corporate governance nor does it improve accounting practices. In addition, it does not measure the economic impact and consequences on the US economy.

One of the major motivators in passing the new FASB rule on expensing stock options has been the abuse of corporate officers in manipulating their company stock prices for personal benefit. Stock holders and Boards of Directors, representing the interest of the stock holders, have strived to align the interest of the owners with those of the corporate officers. As such, the compensation package of most executives includes stock and company stock options. Expensing those stock options will not change the relationship between the interest of the stock holders and those of officers in charge of their company. The duty of the corporate officers is to improve the value of the company's underlying stock and they will continue to do so. The FASB rule misses the mark here since it does not prevent the manipulation of stock or illegal activities; it only makes it more expensive.

The FASB rule also misses the mark on accounting practices since it imposes expensing stock options without specifying a valuation mechanism. Hence, it leaves to individual companies to figure out how to expense those options. Unfortunately, Black-Scholes, binomial, Crystal Ball and others are not accurate indicators of a true cost of to a company of employee stock options. This will lead to inaccurate financial reporting and further confusion on the real value of a company.

The above two points would be enough to reject this new rule, however, the lack of any studies on the impact on US economy seals the case against expensing stock options. Broad base stock options have turned employees into company owners and they benefit from the stock appreciation through their daily work and efforts. That is the fiber that America is made of. Eliminating stock options will make all of us employees with no ownership on the companies that we work for. Furthermore, it will put America at a disadvantage with countries like China and India that provide stock options to their employees; many of which, also, trade their stock in US stock exchanges. We are already losing our high tech jobs to other countries; the new rule will further accelerate the deterioration of our technology base and our economy.

If the FASB wants to keep its function as an independent body it should provide rules that improve accounting practices and help the US economy. Imposing rules that hurt this country with no value added to corporate governance is not only anti-American but plain dumb.

Luis A. Rodriguez

4/27/2004