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-----Original Message-----

From: Lorentz, John [mailto:John.Lorentz@21st.com]
Sent: Wednesday, April 23, 2003 6:12 PM
To: Director - FASB
Subject: Accounting for Stock-Based Compensation

I note with dismay that the FASB has once again added employee stock options to its agenda.

It is even more dismaying to see that 'international convergence' is being touted as a key reason for doing so.

If you must go through the motions again, please address the following this time around in "plain English:"

* The fair-value-based accounting model is just plain goofy for starters - it involves a debit to expense and a credit to equity. In other words, shareholders' equity is not really affected by the 'cost' of a typical non-traded employee stock option. What other type of 'cost' in the accounting model has this sort of effect? Answer: None! Doesn't the odd nature of such accounting really just prove that this is a 'cost' that doesn't belong in the financials?

* The true 'cost' exists only in the form of potential dilution of existing shareholder interests. Everyone knows this - why can't you adopt an accounting that accords with reality?

* For most employee stock options, which cannot be traded, there really is no such thing as a 'fair value' as defined - rather there is only an estimate of the fair value based on some sort of method. This is really just a "let's pretend there's a fair value even though there really isn't one" kind of value.

That is precisely the kind of thing that got companies like Enron into trouble in the first place. You need to get away from this sort of thing in the accounting model, not add more instances.

Since there is no trading market for these options, it really is impossible to determine "the amount at which [the option] could be bought or sold in a current transaction between willing parties...." So, why is fair value a proper objective in a situation in which it is inherently impossible to achieve the objective?

If they must be valued, then the proper value for these non-traded employee stock options would seem to be the present value of the ultimate gain, if any, realized by the employee on the eventual exercise of the option. However, that, too, seems like an impossible number to estimate reliably. These are contingencies, at best, whose probability of occurrence is unascertainable; in the FASB 5 sense, they are not "reasonably estimable." Why is use of any such shaky estimates appropriate in the accounting model? [Please spare us the 'a best estimate is better than no estimate' circular reasoning this time around! Plainly, in the case of Enron and others, that line of thought has proven to be objectively incorrect.]

* Some of the most visible & vocal proponents of expensing stock options represent companies that either don't offer them at all or only in small volumes; shouldn't that tell you something?

There are more important fish for the FASB to fry than to re-hash this again. Please abandon this project.

Sincerely,

John M. Lorentz
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