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From: JOSEPH.SCLAFANI@chase.com
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To: Director - FASB
Subject: File Reference No. 1102-100

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J.P. Morgan Chase & Co. appreciates the opportunity to provide its views on the Financial Accounting Standards Board's ("FASB") Exposure Draft ("ED") of its Proposed Statement of Financial Accounting Standards, Share-Based Payment, an amendment of FASB Statements No. 123 and 95.

JPMorgan Chase supports the Board's view that share-based payments granted to employees in exchange for requisite service is compensation expense to be recognized in the financial statements at fair value. However, we have concerns with specific areas of the ED as follows:

No preference with respect to specific valuation models should be designated. Although the lattice model may potentially provide a better theoretical estimate of fair value over other models, it's complexity does not justify the Board's preference of such model.
Current guidance on employee stock purchase plans should be carried forward to the proposed standard. Minimal discounts should not be viewed as compensatory.
Current guidance on income taxes should be carried forward to the proposed standard. Such guidance has proven to be workable in practice and captures the substance of the transaction.
Entities that adopted SFAS 123 prior to January 1, 2004 should be allowed to continue to follow the transition guidance provided in SFAS 148.

Our comments in response to FASB's questions are presented in the attached document.

If you have any questions or would like to discuss our comments, please do not hesitate to contact me at (212) 270-7559 or David M. Morris at (212) 648-0377.

(See attached file: ED-Share-Based Payment-6-30-04.doc)

JPMorgan Chase & Co.

Share-Based Payment
an amendment of FASB Statements No. 123 And 95

Comments on Specific Issues of The Board

Recognition of Compensation Cost

Issue 1: **The Board has reaffirmed the conclusion in Statement 123 that employee services received in exchange for equity instruments give rise to recognizable compensation cost as the services are used in the issuing entity's operations (refer to paragraphs C13–C15). Based on that conclusion, this proposed Statement requires that such compensation cost be recognized in the financial statements. Do you agree with the Board's conclusions? If not, please provide your alternative view and the basis for it.**
Yes, JPMorgan Chase agrees that share-based payments to employees are compensation costs to be recognized in the financial statements.

Issue 2: **Statement 123 permitted enterprises the option of continuing to use Opinion 25's intrinsic value method of accounting for share-based payments to employees provided those enterprises supplementally disclosed pro forma net income and related pro forma earnings per share information (if earnings per share is presented) as if the fair-value-based method of accounting had been used. For the reasons described in paragraphs C26–C30, the Board concluded that such pro forma disclosures are not an appropriate substitute for recognition of compensation cost in the financial statements. Do you agree with that conclusion? If not, why not?**
Yes, we agree that pro forma disclosure is not an appropriate substitute for recognition of compensation costs in the financial statements.

Measurement Attribute and Measurement Date

Issue 3: **This proposed Statement would require that public companies measure the compensation cost related to employee services received in exchange for equity instruments issued based on the grant-date fair value of those instruments. Paragraphs C16–C19 and C53 explain why the Board believes fair value is the relevant measurement attribute and grant date is the relevant measurement date. Do you agree with that view? If not, what alternative measurement attribute and measurement date would you suggest and why?**
Yes, JPMorgan Chase concurs that fair value measurement at grant date is the most appropriate way to attribute the cost of issuing equity awards to employees.

Fair Value Measurement

Issue 4(a): **This proposed Statement indicates that observable market prices of identical or similar equity or liability instruments in active markets are the best evidence of fair value and, if available, should be used to measure the fair value of**

equity and liability instruments awarded in share-based payment arrangements with employees. In the absence of an observable market price, this proposed Statement requires that the fair value of equity share options awarded to employees be estimated using an appropriate valuation technique that takes into consideration various factors, including (at a minimum) the exercise price of the option, the expected term of the option, the current price of the underlying share, the expected volatility of the underlying share price, the expected dividends on the underlying share, and the risk-free interest rate (paragraph 19 of Appendix A). Due to the absence of observable market prices, the fair value of most, if not all, share options issued to employees would be measured using an option-pricing model. Some constituents have expressed concern about the consistency and comparability of fair value estimates developed from such models. This proposed Statement elaborates on and expands the guidance in Statement 123 for developing the assumptions to be used in an option-pricing model (paragraphs B13–B30). Do you believe that this proposed Statement provides sufficient guidance to ensure that the fair value measurement objective is applied with reasonable consistency? If not, what additional guidance is needed and why?
Yes, we believe that when using a closed-form model, the ED provides sufficient guidance. The guidance establishes a basis for a reasonably consistent process of valuation that can be built upon as the structure of share-based payments evolve over time. Closed-form models serve as a base standard and provide a level of consistency and comparability in financial information. However, this is not the case with the lattice model. Because the lattice model requires a company to provide numerous distinct inputs, it is subject to significant variability, resulting in inconsistent valuation results from company to company and adds an element of subjectivity to the process. See our response to Issue 4(b) for further comments related to the lattice model.

Issue 4(b): **Some constituents assert that the fair value of employee share options cannot be measured with sufficient reliability for recognition in the financial statements. In making that assertion, they note that the Black-Scholes-Merton formula and similar closed-form models do not produce reasonable estimates of the fair value because they do not adequately take into account the unique characteristics of employee share options. For the reasons described in paragraphs C21–C25, the Board concluded that fair value can be measured with an option-pricing model with sufficient reliability. Board members agree, however, that closed-form models may not necessarily be the best available technique for estimating the fair value of employee share options—they believe that a lattice model (as defined in paragraph E1) is preferable because it offers the greater flexibility needed to reflect the unique characteristics of employee share options and similar instruments. However, for the reasons noted in paragraph C24, the Board decided not to require the use of a lattice model at this time. Do you agree with the Board's conclusion that the fair value of employee share options can be measured with sufficient reliability? If not, why not? Do you agree with the Board's conclusion that a lattice model is preferable because it offers greater flexibility needed to reflect the unique characteristics of employee share options. If not, why not?**

The market has demonstrated that option-pricing models are the appropriate tools to price options, and consistent with market practice, the value of employee stock options should be measured using an option-pricing model. However, we believe that no one particular option-pricing model should be mandated by the Board. We support the use of reliable models, such as a Black-Scholes or binomial model, but strongly object to the Board's statement in paragraph B18 of the ED that the lattice model is preferable to all other pricing models. A lattice model is not "more accurate" in producing "more reasonable results." It is not a better estimate of "fair value" just because more "best estimate" assumptions can be incorporated into the model to predict future employee behavior. There is no "right" model to value utility maximizing behavior. Further, we strongly encourage the Board to reconsider the cost-benefit relationship of applying a lattice model given the monumental effort required in gathering historical data and the negligible difference in derived results.

Both models (a simple Black-Scholes or binomial model) will produce similar "fair values" with reasonable results. This was demonstrated by our own company-sponsored analysis shortly after the release of SFAS 123, which did not result in significant differences when comparing one valuation model against the other. Incorporating multiple inputs, even if supported by historical data, does not mean that those assumptions produce accurate predictions for future behavior of current employees. For example, early exercise and lapse are based on a large number of human psychological and wealth/utility maximizing decisions that are not easily captured and modeled with reliable accuracy. In fact, with so many assumptions, the possibility of error may be higher than with a single expected life assumption, resulting in a distorted "fair value" versus the Black-Scholes estimate.

Additionally, the effort and additional cost that will be required to obtain the historical data needed to feed a lattice model is not justifiable. For example, not all stock databases maintain the required exercise and post-vesting termination information, such as original vesting dates, after options become exercisable or are modified (e.g., effect of a merger, award acceleration or performance achievement). For awards that vest in tranches, it may be difficult to segregate and determine from which tranche an exercise occurred. A further challenge is the identification of heritage award grants and fair values in cases where companies have merged since stock databases may only store data relating to the surviving company. Accumulating data on vested options that were in the money, but ultimately forfeited would involve the tracking of multiple heritage company historical values over the life of each award grant. Monumental efforts such as these do not justify an outcome that is only marginally different than results from a simple Black-Scholes or binomial model.

Finally, a lattice model's superior results have not been proven in academic studies nor can it probably ever be truly proven until active markets evolve sufficiently to allow validation. Therefore, we recommend no bias or preference be stated regarding the use of models. A company should be able to decide based on its own cost/benefit analysis whether to estimate the fair value of its award grants either using a Black-Scholes, binomial or other appropriate valuation model.

Issue 4(c): **Some respondents to the Invitation to Comment suggested that the FASB prescribe a single method of estimating expected volatility or even a uniform volatility assumption that would be used for all companies. Other respondents to the Invitation to Comment disagreed with such an approach. Additionally, some parties believe that historical volatility, which has been commonly used as the estimate of expected volatility under Statement 123 as originally issued, is often not an appropriate measure to use. The proposed Statement would require enterprises to make their best estimate of expected volatility (as well as other assumptions) by applying the guidance provided in paragraphs B24–B26 to their specific facts and circumstances. In that regard, the proposed Statement provides guidance on information other than historical volatility that should be used in estimating expected volatility, and explicitly notes that defaulting to historical volatility as the estimate of expected volatility without taking into consideration other available information is not appropriate. If you believe the Board should require a specific method of estimating expected volatility, please explain the method you prefer.**
We do not believe that historical volatility is the best estimate of expected future volatility under most circumstances as history is not a predictor of future behavior. The correct volatility to use is future expected volatility. For a particular stock, volatility is best estimated from bid prices for call options in active markets (e.g., listed options, options embedded in convertible securities and OTC options). In cases when such options do not exist, employers can use, just as market participants do, a beta-adjusted volatility estimate for such stock's volatility (i.e., using benchmark index implied volatilities from S&P 500 or NASDAQ 100 multiplied by the company's estimated Beta). Companies should be able to use any method acceptable in current practice.

Issue 4(d): **This proposed Statement provides guidance on how the unique characteristics of employee share options would be considered in estimating their grant-date fair value. For example, to take into account the nontransferability of employee share options, this proposed Statement would require that fair value be estimated using the expected term (which is determined by adjusting the option's contractual term for expected early exercise and post-vesting employment termination behaviors) rather than its contractual term. Moreover, the Board decided that compensation cost should be recognized only for those equity instruments that vest to take into account the risk of forfeiture due to vesting conditions. Do you agree that those methods give appropriate recognition to the unique characteristics of employee share options? If not, what alternative method would more accurately reflect the impact of those factors in estimating the option's fair value? Please provide the basis for your position.**
Yes, JPMorgan Chase agrees that the proposed methods are reasonable and workable approaches to reflect the unique characteristics of employee stock options.

Issue 5: **In developing this proposed Statement, the Board acknowledged that there may be circumstances in which it is not possible to reasonably estimate the fair value of an equity instrument. In those cases, the Board decided to require that compensation cost be measured using an intrinsic value method with**

remeasurement through the settlement date (paragraphs 21 and 22 of Appendix A). Do you agree that the intrinsic value method with remeasurement through the settlement date is the appropriate alternative accounting treatment when it is not possible to reasonably estimate the fair value? (Refer to paragraphs C66 and C67 for the Board's reasons for selecting that method.) If not, what other alternative do you prefer, and why?
Yes, we agree that in the absence of reliable data to estimate fair value at grant date, intrinsic value would be an appropriate method to estimate fair value. However, we expect that use of such method should be rare and only used as a last recourse.

Employee Stock Purchase Plans

Issue 6: **For the reasons described in paragraph C75, this proposed Statement establishes the principle that an employee stock purchase plan transaction is not compensatory if the employee is entitled to purchase shares on terms that are no more favorable than those available to all holders of the same class of the shares. Do you agree with that principle? If not, why not?**
No, JPMorgan Chase strongly disagrees with the Board's conclusion with regard to employee stock purchase plans ("ESPPs"). The Board's conclusion is based on a "treat no one differently model." Yet, from a corporate finance perspective, the discount offered to employees is often a pass-through of the savings generated from the fees normally incurred to sell common shares in the market to raise capital due to varying regulatory requirements and costs to access other investor populations. An ESPP enables a company to raise capital through an already "captive audience" but on a completely voluntary basis, and, therefore, the 5% or less discount is not a compensation benefit to employees, but merely a sharing of the expense that otherwise would have been incurred. Although we agree that significant disparities between the terms of a stock purchase for an employee versus a nonemployee should result in recognizable compensation costs, a minimal discount (e.g., 5% or less) should not be deemed compensation. It is unreasonable for FASB to discourage such practice.

Attribution of Compensation Cost

Issue 7: **This proposed Statement would require that compensation cost be recognized in the financial statements over the requisite service period, which is the period over which employee services are provided in exchange for the employer's equity instruments. Do you believe that the requisite service period is the appropriate basis for attribution? If not, what basis should be used?**
Yes, JPMorgan Chase agrees that compensation expense should be recognized over the requisite service period of employees receiving equity instruments.

Issue 8: **Determining the requisite service period would require analysis of the terms and conditions of an award, particularly when the award contains more than one service, performance, or market condition. Paragraphs B37–B49 provides guidance on estimating the requisite service period. Do you believe that guidance to be sufficient? If not, how should it be expanded or clarified?**

Yes, we believe that the guidance provided in the ED is adequate.

Issue 9: **For the reasons described in paragraphs C89–C91, the Board concluded that this proposed Statement would require a single method of accruing compensation cost for awards with a graded vesting schedule. This proposed Statement considers an award with a graded vesting schedule to be in substance separate awards, each with a different fair value measurement and requisite service period, and would require that they be accounted for separately. That treatment results in a recognition pattern that attributes more compensation cost to early portions of the combined vesting period of an award and less compensation cost to later portions. Do you agree with that accounting treatment? If not, why not?**
Yes, JPMorgan Chase agrees that awards vesting at different points in time should be recognized ratably over each separate vesting schedule.

<u>Modifications and Settlements</u>

Issue 10: **This proposed Statement establishes several principles that guide the accounting for modifications and settlements, including cancellations of awards of equity instruments (paragraph 35 of Appendix A). Paragraphs C96–C115 explains the factors considered by the Board in developing those principles and the related implementation guidance provided in Appendix B. Do you believe those principles are appropriate? If you believe that additional or different principles should apply to modification and settlement transactions, please describe those principles and how they would change the guidance provided in Appendix B.**
Yes, we believe that the principles to be applied to modification and settlement transactions are appropriate.

<u>Income Taxes</u>

Issue 11: **This proposed Statement changes the method of accounting for income tax effects established in Statement 123 as originally issued. Paragraphs 41–44 of Appendix A describe the proposed method of accounting for income tax effects and paragraphs C128–C138 describe the Board's rationale. That method also differs from the one required in International Financial Reporting Standard (IFRS) 2, *Share-based Payment.* Do you agree with the method of accounting for income taxes established by this proposed Statement? If not, what method (including the method established in IFRS 2) do you prefer, and why?**
No, JP Morgan Chase disagrees with the Board's method of accounting for income taxes related to share-based payments as proposed in the ED.

SFAS 109 states that one of the objectives of income tax accounting is to recognize deferred assets or liabilities for future tax consequences of events that have been recognized in the financial statements. Accordingly, taxes to be paid or refunded in future years are the result of past, current, and future events, which are macro-economic in nature (i.e., the future price of company stock). While initial tax benefits are recorded based on compensation expense recognized in current earnings, the actual tax benefits realized by law are based on actions taken by employees at future dates in response to market values. Paragraph C129 specifically points to the fact that "the total tax deduction pertains to two separate transactions or events:

a. A transaction in which employees render services as consideration for an award of shares, share options, or other forms of share-based payment. Use of those services in the entity's operations results in compensation cost, which is an income statement item.
b. An equity transaction, such as the exercise of share options. That equity transaction will be affected by share price changes between the date an award of options is granted and the date the award is exercised or otherwise settled."

Therefore, tax benefits resulting from subsequent equity-related transactions, which are unrelated to the current operating activities of the entity, should be accounted for as equity transactions. Accordingly, we support the concept that <u>all</u> changes subsequent to the vesting period, not just excess tax benefits, should be an equity adjustment.

The Board's proposal of a tax methodology based on an "individual" approach to an equity transaction is contradictory to the concepts of SFAS 109. The "individual" approach proposed in the ED is much more granular and inconsistent with a "pooling" or "aggregate portfolio" approach that companies envision when award decisions are made and awards are expensed over the vesting period. Linkage of an individual's final exercise decision with the original equity transaction occurring years before would require larger companies to perform detailed tracking and portfolio computations for literally tens of thousands of individual awards to determine the resulting tax "shortage" or "excess." Implementation of the proposed "individual" approach not only would be a monumentally time consuming and costly exercise to perform from period to period, but would also be drastically inconsistent with the "aggregate portfolio" approach used by companies when granting stock-based compensation awards to employees.

The proposed "individual" approach also would result in asymmetrical accounting. To illustrate, if an employee exercises an option and the resulting allowable deduction is less than the related expense previously recognized, then P&L expense results from the shortfall in the tax benefit. Subsequently, if another employee exercises an option and the resulting allowable deduction exceeds the related expense previously recognized, then an incremental tax benefit is created. This benefit would be taken to equity and could not be utilized to offset P&L expense resulting from the shortfall in the tax benefit. These results, multiplied by tens of thousands of option exercises, could result in significant earnings volatility and a mismatch of compensation expense and the related income tax benefit.

Therefore, we recommend that all changes in value to share-based awards resulting in a tax adjustment should be in equity consistent with the Board's view that they relate to equity transactions. Should the Board fail to accept this recommendation, then it should maintain in the proposed standard the tax method currently prescribed by SFAS 123. The "aggregate portfolio" approach better aligns deferred tax accounting with the broad events which ultimately determine the aggregate shortfall or excess in the tax benefit.

We would also like to point out to the Board that paragraph C129, where it states that the tax deduction for an award of share-based employee compensation is based on intrinsic value on date of exercise, is technically incorrect. Section 83 of the Internal Revenue Code and the Regulations issued thereunder indicate that in the case of non-qualified stock options, employees recognize taxable income at the date of exercise or other disposition (e.g., the sale of the option to a third party) measured by the excess of the amount realized over the amount paid, if any. The employer is allowed a tax deduction equal to the compensation income realized by the employee. Although a majority of stock options result in the employee receiving intrinsic value, there can be other option programs (e.g., Transferable Stock Options), where employees receive more than intrinsic value if they sell the option (i.e., the sales price of the option exceeds its intrinsic value). Thus in the Transferable Stock Option situation, the employee recognizes taxable income and the employer is allowed a tax deduction greater than the intrinsic value. The Board should rectify this error in paragraph C129 as well as other relevant discussions on tax treatment in the proposed standard.

Disclosures

Issue 12: **Because compensation cost would be recognized for share-based compensation transactions, the Board concluded that it was appropriate to reconsider and modify the information required to be disclosed for such transactions. The Board also decided to frame the disclosure requirements of this proposed Statement in terms of disclosure objectives (paragraph 46 of Appendix A). Those objectives are supplemented by related implementation guidance describing the minimum disclosures required to meet those objectives (paragraphs B191–B193). Do you believe that the disclosure objectives set forth in this proposed Statement are appropriate and complete? If not, what would you change and why? Do you believe that the minimum required disclosures are sufficient to meet those disclosure objectives? If not, what additional disclosures should be required? Please provide an example of any additional disclosure you would suggest.**

In general, JPMorgan Chase is in favor of disclosure which enhances the meaningfulness of financial information presented to financial statement users. We believe that the objectives set forth in paragraphs B191-B193 are appropriate in that they provide general guidance as to the substance of information that requires disclosure, yet allows each company to assess what information should be disclosed. However, the illustration provided in B191-B193 is more detailed than necessary to meet the disclosure objectives set forth by the Board. For example, disclosures of the intrinsic value of awards, when fair value would now be required, are neither pertinent nor useful to financial statement users.

Transition

Issue 13: **This proposed Statement would require the modified prospective method of transition for public companies and would not permit retrospective application (paragraphs 20 and 21). The Board's rationale for that decision is discussed in paragraphs C157–C162. Do you agree with the transition provisions of this proposed Statement? If not, why not? Do you believe that entities should be permitted to elect retrospective application upon adoption of this proposed Statement? If so, why?**
We strongly object to the Board's proposed requirement that all companies apply the modified prospective method for transition purposes. With the issuance of SFAS 148, companies who took the initiative to adopt SFAS 123 were permitted a choice of transition methods. During the deliberations on SFAS 148, the Board carefully considered transition alternatives and provided reasoning in paragraphs A12-A14 of that standard as to why alternate methods would be permitted, despite expressed opposition, and stated that adoption prior to January 1, 2004 would allow companies those transition alternatives. To now relinquish that conclusion, within a relatively short period of time after issuance of SFAS 148, is unreasonable. This will discourage companies in the future from adopting preferred methods of accounting when decisions of FASB are subject to constant revision. Accordingly, to now require those companies, that transitioned using previously acceptable methods, to expense its outstanding awards will discourage companies from being "good citizens" and adopting preferred methods of accounting.

<u>Nonpublic Entities</u>

Issue 14(a): **This proposed Statement would permit nonpublic entities to elect to use an intrinsic value method of accounting (with final measurement of compensation cost at the settlement date) rather than the fair-value-based method, which is preferable. Do you agree with the Board's conclusion to allow an intrinsic value method for nonpublic entities? If not, why not?**
No, JPMorgan Chase believes that all share-based plans should follow the same accounting. The valuation issue was recently addressed by the AICPA in its Practice Aid, *Valuation of Privately-Held-Company Equity Securities Issued as Compensation*, which contains guidance related to key areas of stock-based compensation including fair value determination under GAAP. See our response to Issue 5 for our view on the use of the intrinsic value method.

Issue 14(b): **Consistent with its mission, when the Board developed this proposed Statement it evaluated whether it would fill a significant need and whether the costs imposed to apply this proposed Statement, as compared to other alternatives, would be justified in relation to the overall benefits of the resulting information. As part of that evaluation, the Board carefully considered the impact of this proposed Statement on nonpublic entities and made several decisions to mitigate the incremental costs those entities would incur in complying with its provisions. For example, the Board decided to permit those entities to elect to use either the fair-value-based method or the intrinsic value method (with final measurement of compensation cost at settlement date) of accounting for share-based compensation**

arrangements. Additionally, the Board selected transition provisions that it believes will minimize costs of transition (most nonpublic entities would use a prospective method of transition rather than the modified prospective method required for public entities). Moreover, the Board decided to extend the effective date of this proposed Statement for nonpublic entities to provide them additional time to study its requirements and plan for transition. Do you believe those decisions are appropriate? If not, why not? Should other modifications of this proposed Statement's provisions be made for those entities?
No, we believe that all companies should be subject to the same accounting. Accordingly, nonpublic companies should be required to expense share-based payments based on fair value and subject to the same transition methods as prescribed for public companies in order to promote comparability and consistency of financial information. However, we would not be opposed to providing nonpublic companies additional time to adopt.

<u>Small Business Issuers</u>

Issue 15: **Some argue that the cost-benefit considerations that led the Board to propose certain accounting alternatives for nonpublic entities should apply equally to small business issuers, as defined by the Securities Act of 1933 and the Securities Exchange Act of 1934. Do you believe that some or all of those alternatives should be extended to those public entities?**
No, see our response to Issue 14(a).

<u>Cash Flows</u>

Issue 16: **For the reasons discussed in paragraphs C139–C143, the Board decided that this proposed Statement would amend FASB Statement No. 95, *Statement of Cash Flows,* to require that excess tax benefits, as defined by this proposed Statement, be reported as a financing cash inflow rather than as a reduction of taxes paid (paragraphs 17–19). Do you agree with reflecting those excess tax benefits as financing cash inflows? If not, why not?**
Yes, JPMorgan Chase would not be opposed to the classification of those tax benefits recorded directly to equity as a financing activity in the Statement of Cash Flows. We agree that the change in value employees receive, as well as the related tax benefits, are equity-related and, therefore, should be classified along with other forms of equity-type transactions.

<u>Differences between This Proposed Statement and IFRS 2</u>

Issue 17: **Certain accounting treatments for share-based payment transactions with employees in this proposed Statement differ from those in IFRS 2, including the accounting for nonpublic enterprises, income tax effects, and certain modifications. Those differences are described more fully in Appendix C. If you prefer the accounting treatment accorded by IFRS 2, please identify the difference and provide the basis for your preference. If you prefer the accounting treatment in the**

proposed Statement, do you believe the Board nonetheless should consider adopting the accounting treatment prescribed in IFRS 2 in the interest of achieving convergence?
We believe that the scope of the proposed ED should be amended to include all share-based payments regardless of who receives such payments. The proposed standard should apply to both employees and nonemployees. With regard to fair value, we support the IASB's approach in advocating the use of any accepted valuation methodology, which includes the relevant inputs and assumptions, rather than expressing a strong preference for application of a particular model. See our response to Issue 4(b) for further comments related to the lattice model.

However, with regard to the accounting for income taxes related to share-based payments, we do not support either the IASB's view that deferred taxes should be adjusted each period based on the current market price or FASB's current proposal. See our response to Issue 11 for our views on income taxes.

Although international convergence of accounting standards is an important goal in which FASB and the IASB are working towards, application of accounting guidance that more appropriately reflects the substance of a transaction should be the determining factor in adopting any final standard.

Understandability of This Proposed Statement

Issue 18: **The Board's objective is to issue financial accounting standards that can be read and understood by those possessing a reasonable level of accounting knowledge, a reasonable understanding of the business and economic activities covered by the accounting standard, and a willingness to study the standard with reasonable diligence. Do you believe that this proposed Statement, taken as a whole, achieves that objective?**
Yes, we believe that, overall, the ED achieves the objective.