Letter of Comment No: 4813
File Reference: 1102-100

State of Connecticut

Office of the Treasurer

DENISE L. NAPPIER
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June 29, 2004

Director of Major Projects—File Reference 1102-100
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File No. 1102-100

Dear Director:

As principal fiduciary of the Connecticut Retirement Plans and Trust Funds (CRPTF), which has approximately $20 billion in assets, I would like to offer comments on the Financial Accounting Standards Board's proposal regarding stock option expensing.

I strongly support the FASB's proposed rule on the expensing of stock options – File No. 1102-100. The basic thrust of this rule is that companies must recognize the fair value of stock options as an expense during the period in which these options were earned. In correspondence to the Board in 2000, I urged that rule-making be pursued on this issue and therefore I am very pleased that the Board is proposing the adoption of this rule.

In addition, consistent with that longstanding position, I would like to concur with the comments submitted on this matter by The Council of Institutional Investors, of which the Connecticut pension fund is a member. A number of points they raise bear special emphasis, as highlighted below.

Stock options, like all other forms of compensation, transfer assets of the corporation to employees. When an employee is paid a salary, the corporation transfers cash from the company's assets to the employee. When an employee is granted a stock option, the corporation transfers ownership rights from all the other owners of the company to the employee. This is an expense of the company, and needs to be properly disclosed and accounted for accordingly.

In my view, requiring that all options be expensed, along with meaningful disclosure of relevant assumptions, is essential in order for financial statements to accurately reflect the financial condition of any company in which we invest our pension fund assets. Since these audited financial statements are the primary source of financial information available to investors, the integrity of these statements is critical to our pension fund, its investment managers, and our fund's beneficiaries. We believe the approach you have outlined is the most appropriate one for companies operating in the United States and will result in a more reliable estimate of the cost of stock-based compensation arrangements.

I congratulate the Board for its work on the issue of stock option expensing, and urge the Board to adopt the proposed rule without change. Please feel free to contact me with any questions.

Sincerely,

Denise L. Nappier

Denise L. Nappier
Connecticut State Treasurer

cc: Robert H. Herz, Chair, FASB
Senator Richard C. Shelby
Senator Paul S. Sarbanes
Congressman Michael G. Oxley
Congressman Richard H. Baker
Bryan Corbett, Counsel, Senate Committee on Banking, Housing and Urban Affairs
Jeffrey P. Mahoney, FASB
Senator Christopher J. Dodd
Senator Joseph I. Lieberman
Congressman John B. Larson
Congressman Rosa DeLauro
Congressman Rob Simmons
Congressman Christopher Shays
Congresswoman Nancy Johnson