



Letter of Comment No: 6426  
File Reference: 1102-100

June 28, 2004

Director of Major Projects  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

RE: File Reference No. 1102-100  
Exposure Draft: Proposed Statement of Financial Accounting Standards, Share-  
Based Payment, an amendment of FASB Statements No. 123 and 95

Dear Director,

E\*TRADE FINANCIAL is the nation's largest provider of stock plan administration software and/or services, providing support to over 2,500 US-based corporations that offer equity-based incentives to over 1.3 million employees. As a service provider in this industry, we monitor developments in equity compensation practices so that we can inform our clients of new developments and ensure that our software and services are in compliance with current regulations and standards. As part of our regular work, we are constantly in communication with the financial and accounting departments of our customers and regularly engage in discourse as to their practice and plans relating to the treatment of equity compensation awards. We have followed the developments in accounting practices concerning employee stock options and other compensatory equity arrangements for many years and respectfully submit the following comments.

Our stock plan administration software and services have been designed to enable our customer companies to account for equity compensation grants in accordance with current rules of the FASB, including the currently applicable FASB Statement No. 123. Our software programs are the result of several years of development, and, as discussed in more detail below, any changes to functionality to account for changes to accounting rules are developed through a rigorous and time-consuming practice to ensure the highest level of technical accuracy for our customers. In accordance with the rules of Statement No. 123, the stock plan administration software that we provide currently enables our clients to compute the fair value of employee stock options using the Black-Scholes model. The software includes reports that can be used to analyze historical stock volatility and exercise behavior and includes reports that calculate the amount of expense that must be recognized or disclosed over a specified time period for the company's stock options, stock appreciation rights, and restricted stock awards.

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Since the FASB released its exposure draft on the proposed statement of financial accounting standards for share-based payments on March 31, 2004, we have undertaken an intensive analysis of the technical and practical impact of those rules, not only for our own software products and services, but also how the proposed rules may impact the financial statements of our customers. As set forth more fully below, the analysis we have completed to date causes us to have a number of concerns related to the technical and the practical implementation of the standard as proposed. Perhaps the most pressing concern we express is that the short time frame allowed between announcement of the final rule and its proposed implementation date will not provide sufficient time for either us or our clients to develop systems sufficiently rigorous to allow for the fullest and most accurate and robust systems to ensure the full and accurate implementation to the standard. In addition, we strongly feel that there remain significant open issues as to the practical implementation of the standard as proposed and that, without full consideration of those practical implications, companies will be unable to adopt the standard accurately and consistently as the FASB intends. While we agree that the proposed standard sets a theoretical standard for accounting for the cost of stock options in financial statements, the amount of calculation and interpretation required to implement the standard will result in vastly inconsistent reporting which bears a serious risk of inaccuracy. Ultimately, we request the FASB to delay the implementation of its proposed standard for at least twelve months, and that during the interim period the matters set forth in this letter be considered and that guidance on those issues be included in any final standard.

**Fair Value Measurement**

We do not feel that the exposure draft provides sufficient guidance on how the fair value of employee stock options should be measured. As we research development of a lattice-based model, we have found a great deal of uncertainty with respect to how the model should address post-vesting termination behavior along with fluctuations in volatility and dividend yield. We are also concerned about the wide latitude the exposure draft allows for the inclusion of additional inputs. We have found reluctance on the part of industry practitioners to develop standardized models; instead the prevailing belief seems to be that to compute a truly accurate fair value, each company will need a customized model.

The costs companies could incur for development of customized models could easily be in the hundreds of thousands of dollars. As a service provider, we cannot afford to develop customized models for all of our clients. We plan to include only a rudimentary binomial model in our software and we expect that companies that can afford to do so will develop their own models rather than use the model available in our software. We are planning to accommodate fair values computed using other models in our software, but ultimately this seems to unfairly favor those companies that can afford to develop their own models. Smaller companies will be forced to rely on less accurate models. We feel this introduces a significant level of variability in fair value estimates that could adversely impact the comparability of the financial statements.

We also believe that the treatment of options and awards with graded vesting is unnecessarily complex. Requiring a separate fair value measurement for each vesting tranche is extremely onerous, especially for options that vest on a quarterly or monthly basis. Consider an option that vests as to 25% of the underlying shares on the anniversary of the grant date and then vests as to 1/48<sup>th</sup> of the underlying shares each month thereafter for a three-year period. Under the exposure draft, it is necessary to compute 37 separate values for this option. In a very simplified binomial model with only 10 steps and constant volatility and dividend yield, there would be 66 nodes in the lattice for just one vesting period. Multiplying this by the number of vesting periods results in over 2,000 computations for just this one option. The report documenting these calculations could easily be over 50 pages long for just this one option. And this example is grossly over simplified. Most binomial models have at least 100 steps, some as many as 1,000 or 10,000 steps. As a software developer, we have serious concerns about the processing time and memory needed to perform these computations. For some of our larger clients, running the existing reports that compute expense using the Black-Scholes model, can take up to eight hours. Consequently, the report can only be generated once during a standard workday. If there are errors in the report, a new report cannot be generated until the next day. It could be a week before the results are finalized. With the accelerated filing deadlines for 10-Q statements going into effect next year, we have concerns about increasing the computer processing time required for these calculations.

We also are concerned that, from a practical standpoint, it will not be possible to fully audit these calculations. We believe that companies should be permitted to compute a single fair value for each option, regardless of the vesting schedule associated with the option. No matter how many computations are performed, the fair value is ultimately an estimate. We believe that an average computation for the entire option is a sufficiently accurate estimate of value and that the benefits of computing a separate fair value for each vesting tranche are far outweighed by the administrative costs associated with this approach. We have concerns about the ability of companies to accurately track and account for the value of each individual vesting tranche, especially with regards to the tax accounting required under the standard and the earnings per share computations. We feel the complexity introduced by requiring a separate value for each vesting tranche increases the likelihood of errors occurring in these calculations and decreases the transparency and auditability of them. Ultimately this could result in less accurate financial statements.

#### **Attribution Method**

We believe that requiring companies to treat each vesting tranche as a separate option or award also makes the expense attribution unnecessarily complex. One concern we have identified is modifications to the vesting requirements that result in a different number of vesting tranches. For example, if an award that originally vested in three annual increments is changed to vest in four annual increments, how does this impact the expense attribution for the award? Is it now treated as four awards?

We have also identified a number of questions relating to estimation of forfeitures. The examples provided in the exposure draft assume that all options are granted on a single day and have the same vesting schedule. In our experience, this is not realistic. Generally options are granted when employees are hired, resulting in many different grant dates throughout any given financial period. Even if all options are granted on a single date, vesting is often based on the individual optionee's hire date, creating a unique service period for each grant. Many companies assign a variety of vesting schedules and often assign unique vesting requirements to options granted to executives. We have encountered a number of difficulties in trying to apply the guidance in Illustration 4 of Appendix B to scenarios involving multiple grant dates and vesting requirements. If the options in this scenario are granted on different days, resulting in varying amounts of expense per share, and all have unique service periods, a different rate of forfeiture applies to each individual option. How is the aggregate expense adjusted for estimated forfeitures if a different forfeiture rate applies to each individual option? Is it acceptable to use a weighted average rate? If an average rate is used, when is the estimate reconciled to actual forfeitures, assuming the company continues to grant options indefinitely? Should the forfeiture estimate be applied to each option separately? If the forfeiture estimate is applied separately for each option, when is the estimate adjusted for actual outcome? Is it necessary to wait until the end of the service period for the option or can the adjustment occur at the time the optionee terminates?

Illustration 4 does not address changes in the vesting schedule such as an interruption of vesting due to a leave of absence, a deceleration of vesting due to a change to part-time status, or an acceleration of vesting applied to a single option. How do these changes, often included in the original terms of the option, impact the attribution of expense and the forfeiture estimate. In the case of a deceleration or interruption of vesting, is the service period of the award extended? If yes, does this change the estimate of forfeiture for the option? When is the expense adjusted for actual outcome?

Illustration 4 also does not address the impact the estimated forfeitures have on diluted earnings per share. Under the Treasury Stock Method, any unamortized expense is considered a source of proceeds that is used to repurchase the company's stock. For awards granted, exercised, or cancelled within the period, all proceeds associated with the award must be weighted based on the length of time the award is outstanding. Consequently, it is necessary to know how much unamortized expense is associated with each award. Should the assumed rate of forfeiture be applied to the unamortized expense computed for each award for diluted earnings per share purposes? If yes, how is this amount calculated for each award when the service period for each award is unique and the expense has been adjusted in aggregate? Should companies apply the weighted average rate or the rate specific to each individual award?

Illustration 4 does not address the complexities involved in the tax accounting. Assume that the awards involved in the illustration have been granted on different days, so that they result in varying amounts of expense, and are subject to varying service periods, so

that when individual employees terminate, the amount of the service period that has been completed differs for each award. Also assume that some of the employees who received the awards reside in other countries, where the corporate tax rates vary (and some employees may even have transferred to various countries with differing corporate tax rates throughout the service period). To accurately calculate the additional tax expense resulting from these forfeitures, it is necessary to compute the exact amount of the deferred tax asset recorded for each individual award. It is unclear how this would be accomplished when adjustments for forfeitures are at an aggregate level. How much of the aggregate deferred tax asset is attributable to each individual award? Should this be computed using the weighted average rate or the specific rate applicable to the forfeited award? Is the additional tax expense recognized only at the end of the service period or should it be recognized in the period when forfeiture occurs?

We believe that these issues significantly increase the complexity associated with the attribution method proposed under the exposure draft. This complexity increases the likelihood of errors occurring. We also feel that treating each vesting tranche as if it is a separate award is not intuitive to the users of financial statements. Based on our conversations with our clients, we have found that this approach is confusing even to people who are familiar with stock compensation and SFAS No. 123. For the users of financial statements, many of whom are not familiar with stock compensation, we feel this approach will be even more confusing. We recommend that the standard require expense to be attributed on a straight-line basis over the entire term of the service period, without treating each vesting increment as a separate award. We also recommend that the standard allow estimation of forfeiture only for vesting that is contingent upon performance conditions. If estimation of forfeiture is allowed for service-based vesting, we feel the estimated forfeiture rate must be applied at the individual award level and that reconciliation for actual outcome should occur at the time of forfeiture, not at the end of the service period.

#### **Tax Accounting**

We have significant concerns about the tax accounting required under the exposure draft. For stock compensation that entitles the company to a tax deduction, the exposure draft requires the company to record a deferred tax asset based on the expense for the award and then to compare the actual tax benefit realized at the time of settlement to the previously recorded deferred tax asset. If the actual tax benefit exceeds the deferred tax asset, the excess is treated as paid in capital. If it is less than the previously recorded deferred tax asset, the shortfall is treated as additional tax expense.

For non-qualified stock options, this requires a comparison of the expense computed for the option, which may vary by vest tranche, to the actual tax deduction realized upon exercise. We believe that for stock options that are subject to graded vesting, the requirement to treat each vesting tranche as a separate option and then to determine which vesting tranche was exercised using a first-in-first-out methodology makes the calculations required for this accounting unnecessarily complex. While it might be

straightforward to do this allocation for options that vest in relatively few increments, for options that vest in monthly or quarterly increments, where optionees also tend to exercise in smaller increments, the calculations will be very involved. We also have concerns about being able to correctly account for a vesting schedule that has been subject to adjustment (perhaps due to a leave of absence). This is another reason why we recommend against treating each vesting tranche as a separate option.

This calculation also requires that the company be able to adequately track varying corporate tax rates. For companies where most of their employees reside in the US, where corporate tax rates are not expected to vary significantly, this may be feasible. But for companies that have a large number of employees located outside of the US, corporate tax rates can vary significantly. The corporate tax rate applicable to a particular subsidiary may vary from year to year, and will certainly vary from subsidiary to subsidiary. The deductibility of stock compensation is also likely to vary from subsidiary to subsidiary. In addition, employees themselves may cause the applicable corporate tax rate to vary by moving from one country to another during the life of the option. We expect that for many of our clients, accurately tracking the corporate tax rate that applies during the service period of the award and at the time of settlement will be difficult if not impossible. We currently are not planning any functionality in the software to assist with tracking varying corporate tax rates; we have determined that including such functionality would prevent us from updating the software in time for our clients to comply with the standard.

Finally, we disagree with treating excess benefits as equity while recognizing shortfalls in the income statement. We feel that this penalizes companies when tax benefits are less than anticipated without providing a commensurate benefit when tax benefits exceed anticipations. This seems inconsistent to us and we believe it will be confusing for the users of the financial statements. In fact, in conversations with our clients, we have found that very few people understand the tax accounting proposed in the exposure draft. At a minimum, we believe that all differences (whether an excess or a shortfall) in actual versus expected tax benefits should be treated as equity. We also encourage the Board to consider ways of simplifying the accounting required, especially for multi-national companies.

#### **Modifications**

We do not feel that the illustrations provided in the exposure draft are sufficient, particularly for service-based awards. We recommend that Illustration 12(c) be updated, or that an additional illustration be included, to clarify the effect of estimating forfeitures on modifications of service-based awards. It is also unclear to us how forfeitures should be treated after a modification that involves both reducing the price and extending the service period of service based awards, particularly those forfeitures that occur after the original service period has been met. We feel it would be helpful for the illustrations included in the standard to address this.

### **Employee Stock Purchase Plans**

We believe there should be a scope exclusion for employee stock purchase plans that are qualified for preferential tax treatment under Section 423. These are broad-based, non-discriminatory plans and the amount of stock that can be acquired under them is severely limited. As such, we do not believe these plans should be treated as compensation. The discounts offered under the plans are similar to the discounts a company might offer its employees on its own products and services. Just as these discounts are not intended as compensation but are to encourage employees to use the company's own products, the discounts offered under a Section 423 qualified employee stock purchase plan are designed to encourage widespread ownership of the company's stock among employees, not as compensation.

We do not believe that investors and other users of the financial statements are concerned about the cost or dilution associated with these plans. In 2003, 53 public companies submitted proposals to their shareholders relating to employee stock purchase plans. 100% of these proposals passed, clearly indicating that shareholders support these plans.

If expensing is required for any employee stock purchase plans, we do not believe that increases in contribution rates should be treated as a modification, as currently required under Staff Technical Bulletin 97-1. Where changes in contribution rates are allowed under the terms of the plan, we feel that such changes are pursuant to the original terms of the option and, as such, should not be considered a modification.

### **Disclosures**

For stock options, the proposed disclosures seem to require disclosure of the options' expected term, even where a lattice model has been used for valuation purposes. The expected term is generally not an input to lattice models, therefore, to determine the expected term, companies will need to first compute the option value using the lattice model, and then input the computed value into the Black-Scholes model to solve for the expected term. We feel it is burdensome to expect companies to apply both a lattice model and the Black-Scholes model to their stock options. We also feel that it would be more meaningful for companies that use a lattice model to disclose the suboptimal exercise factor and expected post-vesting termination behavior that were assumed for valuation purposes.

Paragraphs B191d and B191d(a) require that for fully vested options and share options expected to vest by the end of the financial period, the company should disclose the number of shares and other related data for options outstanding. This requirement is confusing to us; we would expect this disclosure requirement to relate to the total number of options outstanding, regardless of vested status, yet the wording of these paragraphs seems to limit it to just those options that are vested or expected to vest before the end of the financial period. The company could have many options that are not yet vested that are outstanding. In addition, this seems to be duplicative of the disclosure required under paragraph B191d(2). For the options that are fully vested or expected to vest by the end

of the financial period, the number of shares outstanding is likely to be equal to the number of shares exercisable. We encourage the FASB to provide further clarification on this area of the disclosures.

#### **Effective Date**

We have significant concerns about the effective date of the proposed standard, especially if the final standard is issued late in the fourth quarter or if it differs from the exposure draft.

Our software development process for a compliance change begins with detailed research to arrive at a thorough understanding of the new regulation or standard. Outside experts, including auditing firms, are consulted, and we attempt to reach consensus as to the new requirements. Market research is conducted with client companies to obtain their input on proposed functionality and possible interfaces as well. A market requirements document is drafted outlining the new software features, and then functional specifications are developed to meet the requirements. The user interface is designed to collect any newly essential data and reports are scoped to provide the necessary data mining. The project team, including development, quality assurance, and documentation, then reviews the functional specifications and any feedback is incorporated into the documents. In some cases, issues are identified that require us to do further research, consult outside experts or clients, or redesign certain functions. This process can continue throughout the development lifecycle, so that even after the functional specifications have been handed off to development, we frequently have to revise them to address new issues that have been identified and often also have to consult with outside experts on these issues.

To effectively identify issues that can impact design, our development team (specifically our engineers and quality assurance personnel) must understand stock compensation and the accounting standards that apply to it. As a result, when faced with a regulatory change such as this, we generally must complete development with the level of personnel that we have, we cannot simply hire more personnel on a contract basis. It generally takes up to two months before newly hired personnel are fully productive and even then they are typically assigned less complex functions to work on. Also, during their training period, our development process is typically slower because our experienced development staff must assist with training the new hires.

Once the specifications are finalized, the documents are handed off to the development, quality assurance, and documentation groups. The development group creates design documents detailing the technical changes required. The quality assurance group bases its testing plans and scenarios on the functional details provided. Reviews for all the documents are again held and feedback is incorporated. The developers begin coding individual features and reports, adjusting the design as necessary for implementation.

Once coding is completed for each new feature, testing begins. The new functionality is methodically tested, but of critical importance, the entire software package must be tested

to ensure that any previously existing functionality still operates as designed. We rarely, if ever, are able to eliminate functionality. Because our clients may continue to have historical reporting needs, the software must continue to support the requirements of APB Opinion No. 25 and SFAS No. 123 even after the proposed standard goes into effect. This requires us to test this functionality in addition to testing the new functionality included to support the proposed standard. Issues discovered are reported to development, corrected and retested. Any significant corrections require that the entire affected feature be retested. In some cases, testing identifies issues that were not addressed in the functional specifications or the design documents, requiring additional research. Once functional testing is complete, installation testing must be performed on all the many supported platforms, including different client and server operating systems, hardware configurations and supporting software versions (internet browsers, etc.). Clients are then recruited to perform "beta" testing on their own sites to augment the testing with additional scenarios.

Occasionally during the coding or testing process, a significant design flaw is discovered. In these cases, the specifications for the impacted features are reworked and the entire process begins again.

In parallel with the quality assurance process, user documentation is written describing the new functionality and instructing software users on its use. Extensive training of our support, education, and outsourcing groups must be conducted to ensure they are ready to respond to client inquiries. Once testing, documentation, and training are complete, the product is ready for release.

Our target date for completion of the updates necessary to comply with the proposed standard is December 31st, 2004. This target is based on the time we feel is necessary to give our corporate clients with calendar fiscal years enough time to install the software update and convert and reconcile their data prior to reporting for their quarter ending March 31<sup>st</sup>, 2005. However, that target date requires completion of the functional specifications by June 30<sup>th</sup>. Based on current estimates of the needed specifications and the resources available, the specifications are scheduled for completion in mid-September. Therefore, to meet our target date for completion, we would need to accelerate the latter parts of the schedule. It is unlikely that we will be able to reduce the time required for coding, therefore, if we do not extend the target completion date, we will be forced to choose between reducing the scope of the release or eliminating the beta test phase and curtailing our own quality assurance procedures. Shortening the quality assurance cycle increases the likelihood that there will be errors in the released version. This in turn increases the time our clients must spend reviewing the reports with their auditors and the likelihood of misstatements in their financial statements. Based on current estimates with a complete specification and testing cycle, if the final release does not vary from the exposure draft, our completion date would be February 28<sup>th</sup>, 2005 if we attempt to include all of the features necessary to support our clients' needs relative to the exposure draft.

Since we are uncomfortable with the risk of curtailing our quality assurance process, we would most likely need to divide the scope required to support the exposure draft into two separate releases if the effective date is not delayed. This would mean a significant increase in our development costs and overall timeline as the second release could probably not be completed until later in 2005. This two-phased approach would also result in two kinds of hardship for our clients. Not only would they be forced to undergo two complete upgrades of their software and their databases, each lasting up to eight weeks, but they would have to develop manual interim tracking and reporting processes for any exposure draft requirements included in the second release. We also must emphasize that we have only just begun drafting the functional specifications and do not expect to complete them until mid-September. Until the functional specifications are complete, we will not know the full impact to the software. The estimates provided herein are based on incomplete data and are subject to change.

Any changes to the proposed requirements in the final release will significantly delay the software release schedule. Even if the Board's decisions are announced prior to the final release, until the final text is completed and released, details of functionality cannot be finalized. A conservative estimate is that any change of substance would add two to three months onto the release cycle.

To meet our target, we have had to eliminate almost all of the features originally planned for this release of the software and a large amount of functionality we had hoped to include to comply with the proposed standard. Some of the areas of the proposed standard that we have determined we will not be able to support in our initial release include modification accounting, accounting for stock appreciation rights paid in cash, tax accounting for employee stock purchase plans, and accounting for options and awards granted to non-employees. We expect it will be six to nine months before we can offer support for these requirements.

We have also had to eliminate important enhancements planned to help our clients comply with other regulatory requirements. This includes additional audit functionality designed to help our clients identify discrepancies in their data and fraudulent transactions. This functionality is critical for our clients to establish the internal controls required under Section 404 of the Sarbanes-Oxley Act. We have also eliminated functionality designed to help our clients properly account for dividends paid on stock compensation and tax deferrals. Finally, the Internal Revenue Service is expected to release regulations on incentive stock options and employee stock purchase plans in the next month. While we expect these regulations to impact functionality in the software, it is currently unclear as to whether or not we will be able to address these regulations in the software before they go into effect.

Once the software update is released, clients must order the new version and have it shipped to them. In recent years, we have implemented a staggered release procedure

under which any new version is released to small groups of clients at a time. This enables us to manage the additional burden any new release creates for our software support and consulting teams. As a result, once the software is available for release, it still may be several weeks before we have distributed it to all of our clients.

For most of our medium to large clients, Information Technology (IT) resources must be scheduled to perform the software upgrade. On occasion IT resources are difficult or impossible to schedule and delays to the upgrade process can be lengthy. Many companies now require any new software to be installed in a test environment before it is installed in a production environment. This enables the IT team to assess the impact the software will have on the company's network and other systems, to determine if the software is interacting negatively with any other systems, and to complete some preliminary testing of the data conversion. The length of this process varies based on company policy and whether or not any issues are found during the test installation, but could be anywhere from several days to several weeks.

If any errors are encountered in the installation process, the client will contact the software support group which will attempt to resolve the issue remotely. It is not possible for us to test installation of the software in every possible user environment, therefore there are frequently issues that must be resolved during installation. These issues typically relate to conflicts with other programs installed in the user environment. On occasion issues cannot be resolved via phone support and our consulting group is obliged to visit the client site to resolve the issue.

Once the client software is installed on each user computer, the database is converted to the new schema. This often requires complicated and time-consuming logic to populate the database fields. For large databases, the conversion process can take several hours to complete.

Database reconciliation begins once the conversion completes. This entails comparing reports printed or exported from the pre-conversion database to the same reports printed after conversion. Any discrepancies must be located and reconciled, whether due to erroneous data, new software functionality, or user error. The reconciliation process is often the most time-consuming of the conversion processes as some users have hundreds of thousands of rows of data to examine for discrepancies. Further, in some cases, clients encounter hundreds or thousands of discrepancies that must be examined and explained.

Some clients also implement a test period where they continue to use the prior version of the software and duplicate all entries in the new version (which is installed in a test environment). This allows them to familiarize themselves with the new version and to assure themselves that the new version does not introduce any errors. Depending on the company's policy and level of confidence in the software, this test period could last anywhere from several days to several months.

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With a version such as this, which introduces a significant amount of new functionality, clients must also allot time for learning how to use the program. Our clients are geographically diverse and our training resources are limited, so generally the only formal training we provide is a short webinar demonstrating the new functionality. We also provide documentation which describes the new functionality. This approach to training is fairly standard across the software industry. The functions and reports that must be developed to comply with the proposed standard are highly complex, so much so that we do not expect to be able to adequately review them in a formal training environment. In addition, many of the concepts introduced in the standard are likely to be unfamiliar to our clients. Therefore, we expect that once they have installed the software, our clients will spend several weeks learning how to use the new functionality and reviewing the reports and computations performed by the software with their auditors. In light of the rigorous internal control requirements imposed under the Sarbanes-Oxley Act and other recent developments involving misstated financial information, we expect that the testing and review our clients will need to complete will be significantly more onerous than in the past.

We do not believe the effective date required under the exposure draft allows enough time for the extensive development, distribution, and installation processes required for software updates of this magnitude. Adding six, or preferably twelve months, to the effective date specified in the exposure draft would allow a more thorough and careful implementation of the new software features. It would allow our clients the time to educate themselves on the final release, and to do a less hurried and more meticulous analysis of historic data and other factors to arrive at inputs for the desired model. It would significantly reduce the likelihood of errors occurring during the transitional phase.

I thank you for your time and consideration. I would be happy to answer any further questions you might have regarding our comments.

Sincerely,

Colleen Moorehead  
Vice President, Corporate Services  
E\*TRADE FINANCIAL