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Suzanne Bielstein
Director of Major Projects
File Reference No. 1102-100
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Letter of Comment No: 6403
File Reference: 1102-100

Dear Ms. Bielstein:

Overview (Summary)

These are three written comments to the

**EXPOSURE DRAFT
Proposed Statement of Financial Accounting Standards
Share-Based Payment
an amendment of FASB Statements No. 123 and 95**

1. The lattice structure is excellent. The accuracy of the model, however, is quite dependent on the accuracy of the inputs. Estimating and representing the uncertainties of the future are, at best, difficult. Many companies would be better served by using a closed-form model.
2. Options use has two economic factors, the compensation cost and the financing cost. It is important to clearly present the economic impacts of the financing decisions somewhere in the financial reporting structure. At a minimum, these economic effects should be presented as notes to financial statements.
3. There exists an anomaly in the proposal, resulting in different accounting treatments for two alternatives that will always have exactly the same cash flows, risks, etc. This needs a resolution.

Framework

When options are used in compensation packages to employees, a company must decide on the terms of the options. Many parameters must be fixed (e.g. number of shares, duration, vesting period, exercise prices, service conditions, etc.).

Another major decision (set of decisions) facing the company is , **how is the option going to be financed?** This can be accomplished in many ways (e.g. cash settlement, buying the stock on the open market, issuing new stock). By using derivatives and market timing strategies, the company can dramatically change the risk (cost) characteristics of these alternatives.

Care should be taken to separately identify (and account for) the compensation costs and the financing costs of the options.

