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From: Moye, Melissa [MelissaMoye@AmalgamatedBank.com]
Sent: Monday, June 28, 2004 4:38 PM
To: Director - FASB
Subject: File Reference No. 1102-100

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June 23, 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:

On behalf of the Amalgamated Bank LongView Funds, I am pleased to have the opportunity to comment on the Financial Accounting Standards Board's (FASB) exposure draft regarding share-based payments that calls for expensing of all share-based payments to employees, including stock options.

The Amalgamated Bank LongView Funds are offered to pension fund investors who wish to invest in indexed products as part of their portfolios. As index funds, the LongView Funds make a long-term investment in the companies comprising these portfolios. The LongView Funds have $6 billion under management in the equities market.

Amalgamated Bank supports the proposed rules described in the exposure draft and urges the FASB to remain firm in the face of pressure from powerful groups opposing the proposal. Investors need financial reporting standards focused entirely on providing the most relevant, comprehensive information about a company's financial condition. As a manager of retirement fund assets, we think it is important to support a reform that has the potential to increase the credibility of financial statements, rationalize the measurement of executive compensation and promote a more comparable international reporting system.

Reliable, Comparable Financial Statements
Audited financial statements are the primary source of information available to guide and monitor investment decisions. Yet, under current rules, some publicly-traded companies expense options while others do not. And, since the adoption of the current rules, the use of share-based payment has expanded. We believe your proposed reform of the rules would result in more reliable estimates of the cost of these stock-based compensation arrangements and contribute to making financial statements more readily comparable.

Some critics of expensing options point to the central role that options have had in compensating managers of high-growth sectors. However, we would agree with the IASB when it said in its rule proposal that, "the role of accounting is to report transactions and events in a neutral manner, not to give 'favorable' treatment to particular transactions to encourage entities to engage in those transactions."

Furthermore, in the current disclose-or-expense context, computations of option valuation of publicly-traded companies are not consistently available across the market in publicly-available filings. Some institutional investors, including Amalgamated Bank, actively monitor portfolio companies' executive compensation packages relative to company performance. In order to access reliable data on option valuation to compare executive compensation across an index or an industry, we have had to purchase a specialized database. Though we may also choose in the future to continue to subscribe to a database using the same method and assumptions for all companies, the ability to look at published valuations that utilize best practice approaches as overseen by FASB fulfills a good portion of our need for data. And, for those smaller shareholders for whom the costs of a specialized database cannot be justified, the new rules would provide a basis for making total compensation comparisons that are now unavailable. The current bifurcated approach to reporting creates an unfair disparity between large investors who can invest in a specialized service and smaller investors who lack comparable resources and are left to their own devices.

Treatment Comparable to Other Compensation
We think that stock options granted to employees, directors and non-employees should be treated like other compensation, which is included as an expense on companies' reported income statements and disclosed in valuation assumptions.

From the compensation perspective, current rules allowing companies to either disclose or expense have effectively provided a loophole for portfolio companies to understate the cost of compensation to senior executives, who disproportionately benefit from stock options. All else being equal, excluding options from income statements positively affects earnings. This can result in the overuse of options for executive compensation and substantial dilution.

There is also another problem of twisted incentives that results from how the current accounting system for options distinguishes fixed options (in which the number of shares and the exercise price are known on the grant date) from variable options (in which either the number of shares or exercise price are unknown on the grant date). The odd result of the distinction is that fixed awards do not have to be expensed, while variable ones do. Amalgamated Bank has been a strong advocate of executive compensation packages that are linked to outperforming a peer group. Several of the elements commonly used in these performance-based compensation packages are types of variable options. The accounting bias favoring fixed options (which currently result in zero expense) over variable options (including those that are performance-indexed) works against adoption of performance-based pay reforms by some companies. The FASB's new proposal would eliminate the basis for the distinction between fixed and variable options, thereby eliminating the accounting bias.

Information on Number, Value and Method
We recognize that estimates of fair value are just that--estimates--as are the estimated values used for various items in financial statements, including depreciation, amortization, pension and inventory calculations. However, the FASB proposal has provided for a reasonable framework to be used for valuation and proper disclosure of assumptions. One suggestion we would offer is to consider expanding the disclosure of volatility to include three years of historical volatility data, using a consistent standard. This would enhance the ability of investors to assess the volatility measure used by a company in its valuation model.

We find that the proposed disclosures provide investors with meaningful information about the number and value of share-based payments and the methodology used to value the awards. This information should improve the ability to evaluate cost and potential for dilution represented by these awards.

In conclusion, Amalgamated Bank applauds the FASB and the careful work that this proposal clearly represents. We believe your proposal, if fully adopted, will aid managers' effectiveness and improve the functioning of U.S. financial markets. Thank you for this opportunity to comment--please contact me if you have any questions.

Sincerely,

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