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Letter of Comment No: 5819
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From: Kelly, Maria [MKelly2@harleysvillegroup.com]
Sent: Wednesday, June 30, 2004 5:24 PM
To: Director - FASB
Subject: Comments: Mandatory Expensing of Options Proposal
Importance: High

Dear Ms. Bielstein:

On behalf of the Harleysville Insurance Companies, a multi-state property/casualty insurance organization headquartered in Harleysville, Pennsylvania with operations in 32 states and represented by more than 1,900 independent agencies and 2,450 employees, I appreciate the opportunity to comment and express concerns regarding the mandatory expensing of options. I understand that the Financial Accounting Standards Board (FASB) has proposed a change to accounting standards that would require companies to count this discount as an expense against its earnings. I respectfully request that the FASB reconsider this proposal and not require expensing of the discount allowed in ESPPs. Elimination of the favorable accounting treatment would have a significant impact on rank-and-file employees, as companies would be likely to discontinue Employee Stock Purchase Plans if such legislation passes.

Broad-based stock option plans foster innovation. Options have proven to be a valuable tool to increase jobs and grow the U.S. economy, enabling companies across all industry sectors to attract talent and more closely align interests of employees with those of the companies. Mandatory expensing will discourage use of options, thus discouraging entrepreneurship and business development. More than an accounting issue, it is an economic issue that would have far-reaching negative consequences on many U.S. industries, not only hurting rank and file workers, but also competitiveness and innovation.

As proposed, the FASB plan will not improve corporate governance and will not help investors gain a complete understanding of a company's finances. No valuation model for options is considered to be reliable, consistent or comparable. Stock options are very different from market-traded options. It is impossible to create an accurate value, and expensing based on available methodologies would in fact undermine the credibility of financial statements.

As such, I strongly urge FASB to consider the negative impact the proposed rule would have on the nearly 16 million workers in companies across the United States and eliminate the expensing requirement for ESPP discounts in the final rule. Once again, thank you for the opportunity to comment and for your attention and consideration.

Sincerely,

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