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Letter of Comment No: 5590
File Reference: 1102-100

From: William_Morin@amat.com
Sent: Tuesday, June 29, 2004 6:08 PM
To: Director - FASB
Subject: File Reference 1102-100: Accounting for Stock Options and ESPPs

I write to express my opposition to the Financial Accounting Standards Board's (FASB) changing the accounting treatment for stock options and employee stock purchase plans (ESPPs). The expensing of stock options and ESPPs as described in the Exposure Draft ("Proposed Statement of Financial Accounting Standards -- Share-Based Payment, an amendment of FASB Statements No. 123 and 95") will almost certainly produce significant distortions to financial statements and will reduce the accuracy, clarity and comparability of financial information. Moreover, it is misguided public policy that will inflict unnecessary harm on rank-and-file employees who benefit from employee stock option and stock purchase plans. For the reasons expressed below, I believe this is a "treatment" far worse than whatever disease it purports to cure.

Accuracy. A few years ago, SAB 101 was issued to clarify when companies could properly recognize revenue. In mandating the expensing of stock options, it appears that FASB is doing exactly the opposite here: forcing companies to expense potential or contingent costs *before* they are realized (and, in the case of unvested or underwater options, expense costs that will *never* be realized). It is illogical to mandate an expense to the grantor until a real cost has been incurred. To the extent that stock options do represent potential costs to shareholders in the form of dilution, this impact has always been accounted for using the treasury stock method of computing earnings per share.

Clarity. The tax implications of mandatory expensing will introduce a level of complexity most investors will not understand. In cases where the earnings charge for options exceeds the amount ultimately deductible, the incremental difference is charged to the income statement. In the reverse situation, the difference bypasses the income statement and is credited to additional paid-in capital. The resulting "true-up" of the deferred tax asset as the result of the difference between estimated and actual compensation could lead to unanticipated volatility in the effective tax rate.

Comparability. Most employee stock options are not actually stock options until they vest and are not transferable to anyone at any time (except for limited transfers to personal family estate planning trusts). As a result, the proposed modeling methodology is unsuitable for most types of employee stock options and would likely lead to dramatic swings that would make financial statements incomparable at best and wildly misleading at worst.

Process. Although there is no evidence that the current footnote disclosure mechanism does not work, FASB is determined to plunge ahead with this unproven scheme. Yet, incredibly, FASB is mandating these drastic changes without the benefit of any field testing. In fact, FASB has actively *opposed* any field testing of the proposed standards. Surely, this cannot be the standard of prudence, professionalism and conscientiousness that FASB wants to set.

Public Policy. While cloaked as a technical amendment to accounting standards, it is no secret that FASB's efforts to revive this flawed idea are a popular response to corporate shenanigans over the past few years. Instead of focusing on the real issues -- executive malfeasance and illegal behavior -- FASB and others have attacked stock options, which had nothing to do with what happened at Enron, Worldcom, Tyco and others. Unfortunately, it is rank-and-file employees who will pay the price for this misguided attack.

Many companies will be forced to eliminate their employee stock options programs, which have proved highly successful in attracting talent and rewarding employees for their risk-taking and dedication. This is particularly true for America's high-tech companies -- those very companies that have produced the technologies underlying so much of this country's economic growth, prosperity and productivity. Also suffering collateral damage from FASB's ill-advised effort will be the millions of other American workers who participate in their employers' ESPPs.

FASB's concern is accounting standards. In developing its standards, however, FASB cannot be unmindful of the context in which it operates and the impact its decisions have on markets, companies and individuals. By almost any standard, the proposed rules are deeply flawed public policy and should not be implemented. To impose the mandatory expensing rules would not only do a disservice to established accounting standards, but would also have a very harmful effect on American companies and workers who are the backbone of our country's economic strength.

I respectfully request that FASB withdraw its exposure draft and leave this exceedingly bad idea to its richly deserved fate --

6/30/2004

oblivion.