Letter of Comment No: 3233 File Reference: 1102-100

## Financial Accounting Standards Board Director of Major Projects

File reference no. 1102-100

## Director:

This letter is regarding the exposure draft dealing with share-based payments that was posted on March 31, 2004.

I appreciate the opportunity to comment on this exposure draft, because it is a topic that I have written papers about and even had a debate about with a fellow classmate at my college, Otterbein College, which is located in Westerville, Ohio. I appreciate the efforts of the Financial Accounting Standards Board to attempt to simplify the accounting standards, but in the case of share-based compensation, I believe that simplification is not the answer.

I agree with the FASB's position on the APB Opinion #25. It should not be used to value the amount of expense that stock options can entail. But I don't believe that the fair value method is appropriate either. I believe that there is a fundamental flaw in the use of stock options as a form of compensation for employees. The fact is that share-based compensation has very little, if any, actual expense. If the company needs to buy back shares from the market, then this would obviously have an expense associated with it, but giving these shares or new shares to an employee is an expense that bypasses the company. If there is any party that is expending resources to compensate these employees, it would be the shareholders and not the company. The dilution effect of the issuance of these shares to employees takes away a percentage of the ownership from each of the shareholders, and dilutes earnings per share, but the company's resources are not touched.

I do understand that the employees are being compensated for their service to the company, and that the shareholder's have a right to know all of the compensation that is being dealt out in whatever form. I also understand that the comparability between companies can be hindered by the expensing of one form of compensation in one company, while the other company chooses not to expense their compensation because of their use of stock options. But should a company be forced to expense a form of compensation that does not fit the definition of "expense" for the sake of comparability?

This is my concern. I believe that accounting standards should be in place to record the actual economic events of a company. They should represent the business' transactions and position to the stockholders, management and all the users of the financial statements. In my opinion, FASB 123 and the proposed exposure draft is the epitome of accounting based on uneconomic factors, and intends to promote equity among different companies

for equality's sake. When a company expenses stock options, the income statement shows an expense that had no effect on the company whatsoever. The services of the employee are an asset, and it is used up as it is given, but just because an employee is given something of value to them, doesn't mean that we need to record as an expense whatever value they place on it. The market value of the equity instrument that is given up does not equate to an expense to the one giving it.

It is evident to me that the FASB's intention to expense stock options is because it is a type of compensation to employees. I assume this, because of the provision in section "e" of the summary of the exposure draft which states, "Employee share purchase plans would not be considered compensatory if the terms of those plans were no more favorable than those available to all holders of the same class of shares and substantially all eligible employees could participate on an equitable basis." I interpret this to mean that share-based plans should be considered compensatory only if they are offered as compensation to particular employees. This tells me that FASB decided to force the expensing of these instruments because of their use in the business, instead of their underlying attributes. I disagree with this treatment, because it shows the company in a worse position than they actually are.

Through the entire exposure draft the term "valuable equity instrument" is used. There is no question that the employee views the stock option as valuable (most of the time), but the value they put on that, and their willingness to exchange their services for such an instrument doesn't mean that the company has incurred an expense by giving it to an employee.

I don't expect you to listen to me, or even to read this, but from my limited knowledge of accounting, I view this as a flaw.

Respectfully,

Andrew Mathias Westerville, OH