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> Letter of Comment No: 5843 File Reference: 1102-100

June 30, 2004

Ms. Suzanne Bielstein Director of Major Projects and Technical Activities Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Re: File Reference No. 1102-100

Dear Ms. Bielstein:

We are pleased to comment on the Financial Accounting Standards Board's (the Board's) exposure draft of a Proposed Statement of Financial Accounting Standards, *Share-Based Payment*, dated March 31, 2004 (the Exposure Draft or the Proposed Standard). We have the following detailed comments concerning several of the Exposure Draft's Issues:

Income Taxes

Issue 11: This proposed Statement changes the method of accounting for income tax effects established in Statement 123 as originally issued. Paragraphs 41-44 of Appendix A describe the proposed method of accounting for income tax effects and paragraphs C128-C138 describe the Board's rationale. That method also differs from the one required in International Financial Reporting Standard (IFRS) 2, Share-based Payment. Do you agree with the method of accounting for income taxes established by this proposed Statement? If not, what method (including the method established in IFRS 2) do you prefer, and why?

We agree with the view that employee share-based payments consist of two components: a transaction in which employees render services as consideration for share-based awards and an equity transaction. As such, we agree that the tax benefit recognized in the income statement should be based on compensation cost recognized in the income statement. However, we disagree with the Exposure Draft's method of accounting for tax benefit shortfalls. We believe that both excess tax benefits and shortfalls generated by realized tax benefits should be an adjustment of additional paid-in capital as the excess or shortfall derives from the equity component.

Paragraph 44 of the Exposure Draft requires the tax impacts of share-based payments to be calculated and accounted for at the individual employee level versus the portfolio approach allowed in Statement 123. If this method is required in a final standard, it would require significant effort to build and maintain systems capable of tracking tax and cash flow impacts at the individual employee level. Such a requirement would place a significant operational burden on companies with multi-national, broad-based programs and would not result in financial statements that are more meaningful.

Disclosures

Issue 12: Because compensation cost would be recognized for share-based compensation transactions, the Board concluded that it was appropriate to reconsider and modify the information required to be disclosed for such transactions. The Board also decided to frame the disclosure requirements of this proposed Statement in terms of disclosure objectives (paragraph 46 of Appendix A). Those objectives are supplemented by related implementation guidance describing the minimum disclosures required to meet those objectives (paragraphs B191-B193). Do you believe that the disclosure objectives set forth in this proposed Statement are appropriate and complete? If not, what would you change and why? Do you believe that the minimum required disclosures are sufficient to meet those disclosure objectives? If not, what additional disclosures should be required? Please provide an example of any additional disclosure you would suggest.

The proposed disclosures include extensive information about the intrinsic values of outstanding awards. Given that the proposed Statement would require awards to be expensed at fair value, we believe that intrinsic value disclosures are unnecessary and should be eliminated.

Cash Flows

Issue 16: For the reasons discussed in paragraphs C139-C143, the Board decided that this proposed Statement would amend FASB Statement No. 95, Statement of Cash Flows, to require that excess tax benefits, as defined by this proposed Statement, be reported as a financing cash inflow rather than as a reduction of taxes paid (paragraphs 17-19). Do you agree with reflecting those excess tax benefits as financing cash inflows? If not, why not?

We understand that the Board's rationale for requiring excess tax benefits to be included as a financing cash inflow is consistent with its view that share-based payments should be accounted for as two transactions, with the exercise of an

option representing an equity transaction. However, we disagree with reflecting excess tax benefits as a financing cash inflow. Such a provision would require entities to bifurcate the amount paid for taxes between operating and financing activities and would result in non-cash amounts being reflected in cash flows. We are unaware of any other instance where the cash flow statement is "grossed up" for items that do not reflect actual cash flows.

We believe that our position is consistent with the following excerpt from paragraph 92 of the Basis for Conclusions of FASB Statement No. 95, Statement of Cash Flows:

"...allocation of income taxes paid to operating, investing, and financing activities would be so complex and arbitrary that the benefits, if any, would not justify the costs involved."

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Thank you for the opportunity to comment on the Exposure Draft. Should you have any questions regarding our letter, please feel free to contact Tony Coughlan by electronic mail at anthony.g.coughlan@accenture.com or by phone at (312) 693-

4567.

Sincerely,

Anthony G. Coughlan
Corporate Controller