

Letter of Comment No: 5787 File Reference: 1102-100

June 30, 2004

Ms. Susan Q. 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 1102-100 - Proposed Statement of Financial Accounting Standards, Share-Based Payment

## Dear Ms. Bielstein:

Wachovia Corporation is pleased to have the opportunity to comment on the Proposed Statement of Financial Accounting Standards ("Statement"), Share-Based Payment ("the Exposure Draft"). We strongly support the Board's efforts to re-visit Statement 123 and to require that all companies recognize the cost associated with share-based payment arrangements in their income statement. We believe that share-based payments are a form of compensation and that the expense associated with all types of compensation arrangements should be reflected in the income statement. We recognize the limitations of the methods currently available for valuing employee stock options; however, the open-ended valuation models that the Exposure Draft characterizes as preferable appear to result in a reasonable value for stock options when viewed in the context of an employee's total compensation package.

We believe in the fair value model so strongly that in 2002 Wachovia adopted the Statement No. 123 fair value method of accounting for stock options and has been using the Black-Scholes-Merton method to value the options.

We agree with the provisions of the exposure draft as they relate to public companies with the exception of the proposed attribution method for options with graded vesting, as addressed below. This is Issue 9 in the list of issues on which the Board specifically solicited comments.

## **Attribution Model for Graded Vesting**

The Exposure Draft considers an award with a graded vesting schedule to be in substance a series of separate awards and requires that compensation cost for each award be measured separately and recognized over the requisite service period for that individual award. Under that method, much more of the expense would be recognized in the early years of the vesting period, for example, nearly half of the expense would be recognized in year one of a five-year award that vests ratably over the five years. For an award with cliff vesting, the expense would be recognized evenly over the vesting period. Using the example of a five-year award, 20 percent of the expense would be recognized in each year of a cliff-vesting award.

We strongly disagree with these provisions of the Exposure Draft. We do not view an award with graded vesting as a series of separate awards. Rather we view it as one arrangement structured to reward the employee for each additional year that they remain in the employment of the company. Under each of these two scenarios – graded vesting and cliff vesting – the requisite service period is the same. The only difference between the two arrangements is the outcome in the event that the employee leaves before the end of the period covered by the award, not the value of the employee's service while they are employed. There is no difference in the value of the employee service to the company in each year. Further, in a graded vesting scenario, the tranches subsequent to the first are intended to compensate the employee for staying one more year.

A comparison to a cash award with graded vesting may bring even more clarity to the issue. Assume an award with a five-year graded vesting schedule. Assume further that this is the majority of the compensation paid to the employee. We do not believe that it is representationally faithful or transparent to recognize as expense anything other than a ratable amount of the award in each year of the vesting schedule.

We recommend that FASB revise these provisions of the Exposure Draft to require that the attribution method mirror the pattern in which the services are rendered.

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We would be pleased to address any questions you may have regarding the comments in this letter or to discuss our position in more detail at your convenience. I can be reached at 704-383-6101 or by email at david.julian@wachovia.com.

Sincerely,

David M. Julian
Executive Vice President and Controller