

Karen Salmar

From: Director
Sent: Saturd
To: Karen
Subject: FW: R

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-----Original Message-----

From: FHJIII@aol.com [mailto:FHJIII@aol.com]
Sent: Saturday, February 01, 2003 1:11 AM
To: Director - FASB
Subject: Refrence # 1102-001

To Whom it may concern:

Debating the merits of FASB 127 Vs those of the IASB proposed IFRS may be as useful and misdirected as the debate on how many angles can dance on the head of a pin. Each debate may be an interesting intellectual exercise but in the end of no practical value. I say this because the underling premise of both 123 and the IFRS are fatally flawed.

Both FASB and IASB assume that employee option grants are payment of fair value for services rendered and therefor need to be expensed at time of issue since, it is further assumed, that they are granted in recognition of services received. These assumptions are wrong. All options that I have received or have been involved in granting is for a future payment of value depending on future stock appreciation which should be attributional to the success or future performance of the recipient to whom granted. Option Grants are commonly referred to as "incentive" compensation because they are intended to motivate the grantee in the future, and since laying out an incentive after the fact would be folly, options cannot be (and are not) considered compensation for services already rendered. Therefore options granted and subject to restriction are in fact a form of employment contract for payment given certain contingencies. The Net present value of employment agreements are not (according to GAAP) expensed when they are entered into but are accrued for over the life of the contract subject to the terms of the contract.

Just this week the Securities & Exchange Commission filed a civil suit of fraud against Xerox auditor KPMG because they allowed for acceleration into income future cash flow from contracts (i.e., leases) in to the period the contracts were entered into. I suggest that if it is fraud to allow into income the net present value of lease contracts, then it would be inconsistent to allow the expensing of future payments under option agreements under similar methodologies.

I realize that most of the above comments are not welcome under this invitation to comment, but to give any method any credence by not acknowledging their inherent flaws would be hypocritical.

Therefor which is the lesser of the two evils? In my opinion financial statements should be as close to truth and fact as can be reasonably achieved. Therefore all methodologies used to report financial results should allow for the corrections of previous estimates buy actual results once realized. Since both methodologies use estimates to determine the expense of the

option granted there should be a way for these estimates to be corrected with real information during the period such information is available. As I understand the IASB proposal the expense reported at the time of granting is never adjusted in future periods when the options are exercised or expire and their true cost is known. If this is the case than the proposal would be inconsistent with every other standard that I am aware of and would be perpetually misleading to the financial statement user.

Several decades ago when I was a student of Accounting, the two things I was taught was to always be consistent and to be conservative. Since then I am afraid that the profession has forgotten these two cardinal rules and has become progressively inconsistent in their rule making. This has cost the industry its credibility and has facilitated the decline of faith in the market place.

In my opinion neither of these methods are of high quality or provide transparency or enhance the understanding of financial statements but will in fact further cloud and confuse the users of financial statements. Financial statements need to be as objective as possible the more subjective they become the less value they will have.

Respectfully Submitted
Fred H. Johnson III