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Letter of Comment No: 5484
File Reference: 1102-100

From: Morris, Ben [Benjamin.Morris@Williams.com]
Sent: Tuesday, June 29, 2004 3:22 PM
To: Director - FASB
Subject: Comment Letter - File Reference No. 1102-100

June 29, 2004

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

File Reference No. 1102-100-Proposed Statement of Financial Accounting Standards - Share-Based Payment, an amendment of FASB Statements No. 123 and 95

We support the principle concepts behind the Exposure Draft as we believe it represents a significant improvement to APB Opinion No. 25, *Accounting for Stock Issued to Employees*, (APB 25) and related guidance, and a significant improvement to the disclosure alternative provided in FASB Statement No. 123, *Accounting for Stock-Based Compensation*, (FASB 123). We believe that equity instruments awarded to employees are a form of compensation for their services and should be recognized as an expense at fair value in a company's results of operations.

Regarding certain provisions of the Exposure Draft, we have comments on several matters as discussed below.

Fair Value Measurement

We support the measurement of fair value using an option pricing model that also considers features unique to share-based payment arrangements. We recognize that the determination of fair value for share-based arrangements will require a number of important subjective judgments and we believe that the Board has provided sufficient guidance regarding the assumptions critical to properly applying an option pricing model.

We believe that the Board should not indicate that one option pricing model (the lattice) is preferable (or possibly required) relative to another model. We believe that a company should have flexibility in selecting an option-pricing model considering the costs and benefits of all available models and a company's unique circumstances. In addition, the Exposure Draft is not clear if the Black-Scholes model can be used regardless of circumstances or whether a company is required to undertake a reasonable effort to obtain the information needed to apply a lattice model. We believe the Board should clarify this point.

Income Taxes

We do not support the proposed accounting for the income tax effects of share-based payments. We support the portfolio approach in FASB 123 as it eliminates variability in the results of operations that would result from recording only certain events (shortfall in tax benefits) in the provision for income taxes, while not recording other events (excess tax benefits). The income tax benefit recognized in results of operations for share-based awards should be consistent with the amount recognized as compensation expense. In fact, we would not limit the tax benefit shortfall recognized in equity to the amount of prior excess tax benefits. We agree that the granting of a share-based award is a compensation transaction while the exercise of the award is an equity transaction. Consistent with the view that changes in the market price of the grantors stock subsequent to the award represents an equity event then both excesses and shortfalls in tax benefits should be recorded in equity.

Transition

We agree with the Board's transition method assessment that a retrospective application of the change in accounting principle would be impracticable. However, we believe the Board should also allow a prospective transition method for companies not currently applying FAS 123 for awards granted, modified or settled after the effective date. These companies recognizing compensation expense after the effective date utilizing a consistent fair value measurement and expense attribution method to share-based awards is the most appropriate method in our opinion. Absent a retrospective application, we see no reason for companies currently not applying FAS 123 to account in 2005 for the unvested portion of transactions that occurred prior to the effective date.

Awards with Graded Vesting Schedule

We believe the proposal should allow either the attribution method contained in the proposal or a straight-line attribution method. We believe the expense recognition pattern should be consistent with the pattern that benefits are received by the company. Given that employees' services are rendered evenly over the vesting period (regardless of vesting terms), we believe that the ratable attribution pattern allowed under SFAS No. 123 is an appropriate approach for awards with a graded vesting schedule.

Effective Date

We are concerned with the timing of the release of the final standard and the proposed effective date for calendar year end public companies. We believe that the Board should select an effective date that considers not only the need to issue standards in a timely manner, but also allows sufficient time for implementation. Under the proposed timing for the release of the final Standard, preparers will have a limited time to consider the complexities of the new Standard, including fair value issues arising from a lattice model, as well as developing the processes required to record compensation cost and the income tax effects of individual share-based awards.

Please feel free to contact me at 918-573-2832 if you wish to discuss our comments.

Sincerely,

Gary R. Belitz
Controller