Karen Salmansohn

From: Director - FASB

Letter of Comment No: \ 59

Sent: Monday, February (

File Reference: 1102-001

Subject: FW: File Reference

Date Received: 7-1-03

Karen, log this in as AICPA/PCPS.

Karen Salmansohn

Len

To:

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

From: Linda Volkert [mailto:lvolkert@optonline.net]
Sent: Saturday, February 01, 2003 4:05 PM

To: Director - FASB

Cc: lvolkert@aicpa.org

Subject: File Reference 1102-001-Stock Compensation ITC

On behalf of Steve McEachern, Chair of the PCPS Technical Issues Committee (TIC), I am pleased to submit TIC's comments on the agenda decision relating to stock-based compensation as discussed in the FASB Invitation to Comment, Accounting for Stock-Based Compensation: A Comparison of FASB Statement No. 123, Accounting for Stock-Based Compensation, and Its Related Interpretations, and IASB Proposed IFRS, Share-based Payment.

January 31, 2003

Ms. Suzanne Q. Bielstein, CPA
Director – Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: 11/18/02 FASB Invitation to Comment: Accounting for Stock-Based Compensation: A Comparison of FASB Statement No. 123, Accounting for Stock-Based Compensation, and Its Related Interpretations, and IASB Proposed IFRS, Share-Based Payment (File Reference No. 1102-001),

Dear Ms. Bielstein:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to act as an advocate for all local and regional firms and represent those firms' interests on professional issues, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC understands that the first priority in this project is to consider whether FASB should propose changes to the U.S. accounting standards on stock-based compensation. After reviewing the above-referenced Invitation to Comment (ITC), TIC has decided to limit this comment letter to its views on this broad question so that the Board may obtain the feedback it needs as soon as possible. TIC plans to send a follow-up letter in the near future to discuss the committee's views on the specific issues raised in the ITC.

TIC believes that the Board should add a project to its agenda that would re-consider existing standards on stock-based compensation. The current U.S. accounting model is conceptually flawed because it allows companies to choose between an intrinsic accounting model and a fair value model. While the intrinsic model in APB Opinion 25 is a practical expedient for many companies, TIC acknowledges that having two very different measurement models for the same set of transactions is not theoretically sound and dilutes the quality of U.S. accounting standards.

In principle, TIC advocates a fair value model for measuring stock-based compensation. After reading the ITC, TIC believes that some of the concepts in FASB Statement No. 123 should be re-deliberated and some of the concepts in the Proposed International Financial Reporting Standard merit further consideration. A new U.S. agenda project would seem both necessary and prudent to promote continued international convergence on a very important topic.

Our most critical concern is the applicability of option pricing models to stock-based compensation issued by nonpublic companies. TIC believes more research is needed to

find an appropriate methodology for use by nonpublic companies that is cost effective and that represents a reasonably reliable measure of fair value that takes into account the unique environment in which nonpublic companies operate. TIC is confident that this additional effort will produce a new standard that is more representationally faithful than existing standards and that will be truly "generally accepted."

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience and would be happy to assist the Board in its research or in any other aspect of the project.

Sincerely,

Stephen M. McEachern, Chair PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees