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Letter of Comment No: 835
File Reference: 1102-100

From: Keith Yedlin [mcby51@hotmail.com]
Sent: Sunday, April 25, 2004 11:34 PM
To: Director - FASB
Subject: File Reference No. 1102-100

Dear Sir/Madam;

I am troubled that the FASB is recommending that employee stock options be treated as an accounting expense. By doing so, FASB seems to be disregarding 3 fundamental issues.

First, Employee options are not freely tradable. I don't see how something which does not have any value at the time it is awarded has any value? How is it that one can set a value for something with out a market, and how do you price something if it's not for sale? Seems the answer is that you can't. There is no accurate way to value options without an open market or if you are unable to exercise them at the time of receipt.

Second, employee stock options are almost certainly subject to lengthy holding and vesting periods; typically 4 - 5 years. If the employee changes jobs before the options vest, they are forfeited. I then assume that any company which had expensed options can then declare them as income in the event of forfeiture. How would they then be valued? It is not stock. They have no market.

Finally, employee stock options will be exercised only if the stock price rises above the strike price. How does one predict future stock prices and any degree of certainty? There are entire industries dedicated to attempting to do this very thing, yet no one is able to predict with any certainty what a stock price will be over a given length of time.

By putting forth this proposal, the FASB is making it harder for industries based in the US to compete with completitors in Asia and beyond. Entrepreneurs in china, Sinapore and India will not just continue to focus on S/W development or other low-tech industries. They will create global economic powerhouses which will be listed on those stock markets. In the latest 5 year economic plan, the Chinese government explicitly calls for broader use of stock options to attract and retain key talent in China.

It is ironic that a communist country, the People's Republic of China, is encouraging the wider use of stock options, while in the U.S. the FASB wishes to make option grants to employees much more difficult and expensive.

This FASB proposal will harm the ability of Americans to innovate and drive our nation towards second tier economic status.

Keith Yedlin

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