

Mr. Lawrence W. Smith
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference Proposed FASB Staff Position on EITF Issue No. 03-6-a, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities"

Dear Mr. Smith:

IBM appreciates the opportunity to provide our views on the Proposed FASB Staff Position on EITF Issue No. 03-6-a, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (the "Proposed FSP"). We understand the Board's intent to improve transparency in financial reporting and provide more representationally faithful information about reporting entities' basic earnings per share (EPS). However, we do not support the Proposed FSP as currently drafted.

We believe that the Proposed FSP does not represent an improvement in financial reporting, primarily due to its inconsistency with U.S. GAAP, the limited use of basic EPS by financial statement users and the increased complexity of financial statement presentation that will result from this guidance.

As defined in par. 8 of FASB Statement No. 128, Earnings per Share (Statement No. 128), the objective of basic EPS is to "measure the performance of an entity over the reporting period." The objective of diluted EPS, as defined in par. 11 of Statement No. 128, is consistent with that of basic EPS, while "giving effect to all dilutive potential common shares that were outstanding during the period." The spread between basic and diluted EPS provides information about an entity's capital structure by disclosing a reasonable estimate of how much potential dilution exists. Financial statement users consider diluted EPS as the true measure of an entity's performance over the reporting period, rather than basic EPS or a combination thereof.

We believe that the expansion of the definition of participating security to include certain unvested share-based payment awards, as defined in the Proposed FSP par. 5, would be inconsistent with the Board's intention that basic EPS should include only those shares for which consideration has been received, as stated in par. 92 of Statement No. 128. No consideration has been received for non-vested shares granted in share-based payment transactions until they vest.

Implementation of the provisions of the Proposed FSP will require entities to alter their current process of calculating EPS. We do not believe that the costs of implementing the Proposed FSP are justifiable at this time for the perceived benefits of financial statement users, given the ongoing deliberations on the Exposure Draft on Earnings per Share, an Amendment of FASB Statement No. 128 (the "Exposure Draft"). The Proposed FSP will result in changes to the presentation of EPS in quarterly and annual filings, including potential multiple restatements of historical EPS data.

According to FASB Concepts Statement No. 1, Objectives of Financial Reporting by Business Enterprises, the objectives of financial reporting are to provide transparent information that allows investors to make rational investment, credit and similar decisions. The Board stated, in its 2002 Proposal on a Principles-Based Approach to U.S. Standard Setting, that principles-based standards will provide less complexity and more transparency in financial reporting. We feel that issuance of the Proposed FSP will increase the complexity of both EPS computation and presentation and, consequently, reduce the transparency of financial reporting.

While we do not support the Proposed FSP, if the Board proceeds with its issuance, we offer the following comment and recommendation:

The Board included in its agenda a redeliberation of the Exposure Draft as well as a project to provide constituents with guidance on the computation of diluted EPS under the two-class method in situations in which an entity's capital structure includes common stock, participating securities and potential common stock. Accordingly, we recommend that the Board consider issuing the final FSP EITF 03-6-a, the final Exposure Draft and the FSP related to the computation of diluted EPS under the two-class method at the same time, to avoid potential multiple restatements of historical financial statements.

<u>Recommendation:</u> the Board should consider an identical effective date for FSP EITF 03-6-a, the FSP related to the computation of diluted EPS under the two-class method and the ratified Exposure Draft.

We appreciate the opportunity to provide our views on the Proposed FSP and are available to meet with you in person or telephonically to discuss these issues further. You may reach me at (914) 499-5260 or Gregg Nelson at (914) 766-0850.

Sincerely,

Richard J. Carroll IBM Chief Accountant