American Federation of State, County and Municipal Employees  
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EMPLOYEES PENSION PLAN

Pension Committee  
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June 23, 2004

Director of Major Projects  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, Connecticut 06856-5116

Re: File Reference No. 1102-100

Dear FASB:

The American Federation of State, County and Municipal Employees ("AFSCME") is the nation's largest public service employees' union representing more than 1.4 million members. Most of our members participate as plan beneficiaries in over 150 public pension systems whose assets total $1.5 trillion. The AFSCME Employees Pension Plan is a long-term shareholder that manages $600 million in assets for its participants, who are staff members of AFSCME. We write in response to the Financial Accounting Standards Board's (the "Board") request for comment on the Exposure Draft, Share-Based Payment, an amendment of FASB Statements No. 123 and 95 (the "Proposed Rules").

We strongly support the Proposed Rules that require that share-based awards should be recognized as compensation expense. Expensing options more accurately reflects the costs of such awards to a company and encourages companies to use them judiciously. Increased transparency and the removal of incentives to misuse options or manipulate earnings are in the interest of shareholders. Options are a form of non-cash compensation with value to the recipient and a cost to the company that should be reflected in the income statement.

Shareholders have been speaking clearly in support of expensing options through majority votes at annual meetings. In 2003, thirty-one shareholder resolutions calling on companies to expense options won majority votes. This year the trend continues, as majority votes for expensing have been recorded at many of the tech, financial and health companies lobbying against this measure. Majority shareholders votes were recorded at companies including Adobe, Intel, Hewlett-Packard, Raytheon, Texas Instruments, and Wells Fargo. The AFSCME Employees Pension Plan was the proponent of expensing proposals at PeopleSoft, MBNA, and UnitedHealth this season; each proposal received support from a majority of shareholders.
The Board’s Proposed Rules would set the high standard of transparency and corporate governance best practices that are critical to investor confidence. Already recognizing the need for reform, 576 companies have announced their intention to expense stock options as of April 29, 2004, according to Bear, Stearns & Co. These companies include 41 percent of the S&P 500 based on market capitalization and include American International Group, Bank of America, Citigroup, Coca-Cola, General Electric, Exxon-Mobil, Microsoft, Proctor & Gamble, and Wal-Mart.

When the Board tried to implement expensing of option in 1994, the proposed rules were ultimately abandoned in the face of intense lobbying. Options became the primary vehicle of executive compensation because they are unfairly incentivized by their accounting treatment. In 2001, some 80 percent of management compensation were in the form of stock options. In addition, the large percentage of options contributing to CEO compensation creates incentives to manage numbers for short-term gain and to manipulate CEO pay as opposed to creating long-term shareholder-value. We believe that expensing stock options will correct any overuse by companies that see them as “free money” while at the same time removing potential conflicts to manage earnings.

Further, expensing fixed stock option awards should eliminate disincentives to award indexed options, which tie compensation more closely to company rather than market or industry performance and which must be expensed. The Conference Board’s Commission on Public Trust and Private Enterprise recommended that companies be required to expense fixed option awards in order to level the playing field among forms of equity-based compensation. Shareholders understand that the variable v. fixed accounting treatment makes no sense in design of compensation schemes, which seek to align the interests of executives with shareholders.

In conclusion, we reiterate our support for the Proposed Rules and appreciate the opportunity to provide the Board with our comments on an issue of major importance to shareholders.

Sincerely,

[Signature]

GERALD W. McENTEE
International President