Dear Director:

We represent some of the largest foreign institutional shareholders\(^1\) and are jointly submitting this letter to endorse the Financial Accounting Standards Board’s exposure draft regarding share-based payments, which calls for the expensing of all share-based payments, including stock options, awarded to employees. As large institutional investors, we have a significant financial stake in the US markets. Accuracy and credibility of financial statements is of great importance, and we believe that expensing of stock options is required if financial statements are to present an accurate picture of a company’s financial condition.

We support the proposed rules detailed in the exposure draft and applaud the FASB’s courage in championing this controversial and much-needed reform. International investors have collectively lost billions from recent U.S. corporate scandals, including ones resulting from fraudulent and misleading financial statements. We firmly believe that financial reporting standards should be shaped solely by what provides the most relevant, comprehensive information about a company’s financial condition—not by what results in the most attractive reported numbers.

We also strongly disagree with many of the claims put forward by opponents to this proposed reform. First, FASB is only requiring that companies reflect the cost of employee compensation and is not taking a position on whether or not companies should issue options. Second, the fair value of an option can be measured just as accurately as other items currently measured under the accrual accounting method. In fact, we can see no rational reason not to treat options as an expense like other forms of compensation such as salaries, cash bonuses, restricted stock and benefits. We

---

\(^1\) Stichting Pensioenfonds ABP (Netherlands), Asset Super (Australia), Association of British Insurers (UK), Baillie Gifford & Co (UK), Care Super (Australia), Cbus (Australia), Co-operative Insurance Society (UK), Henderson Global Investors (UK), Hermes Pensions Management Ltd (UK), ISIS Asset Management (UK), London Pensions Fund Authority (UK), Morley Fund Management (UK), National Association of Pension Funds (UK), Newton Investment Management (UK), Ontario Teachers’ Pension Plan (Canada), RAILPEN Investments (UK), Shell Pensions Management Services Limited (UK), Standard Life Investments Limited (UK), Storebrand Livsforsikring as (Norway), Timber Industry Superannuation Scheme (Australia), Tredje AP-fonden (Sweden), UniSuper Limited (Australia), Universities Superannuation Scheme Ltd (UK)

*The total value of funds represented is approx US$3.5 trillion*
believe that requiring all options to be expensed, along with meaningful disclosure of relevant assumptions, will result in high-quality, comparable financial statements.

If the exposure draft is not adopted as proposed, the United States will be out of line with standards and practices being adopted in other markets which give shareholders more accurate reporting of these practices. In February 2004, the IASB issued International Financial Reporting Standard 2 Share-based Payment (IFRS 2) on accounting for share-based payment transactions, including grants of share options to employees. In April 2004, the UK’s Accounting Standards Board (ASB) issued FRS 20 ‘Share-based Payment’ requiring companies to recognise an expense, measured at fair value, in respect of their employee share option plans, share purchase plans, and other share-based payments. This will be mandatory in the UK for accounting periods beginning on or after 1 January 2005 for listed entities and 1 January 2006 for all other entities. As a result, FASB’s proposed rule would be another important step toward global convergence of accounting standards.

In closing, as international institutional investors with a solid stake in the US financial markets, we strongly support the FASB Expensing Stock Options Exposure Draft and urge you to act in the best interest of international capital markets, global investors, the existing accounting standards setting process and the public interest.

Yours sincerely

Jean M.G. Frijns
Chief Investment Officer
Stichting Pensioenfonds ABP
Netherlands

Michael Dwyer
General Manager
ASSET Super.
Australia

Peter Montagnon
Head of Investment Affairs
Association of British Insurers
UK

Richard Burns
Chief Investment Officer
Baillie Gifford & Co
UK

Julie Lander
Chief Executive Officer
CARE Super
Australia
Ralph Willis  
Chair  
Cbus  
Australia

Chris Hirst  
Executive Director, Investment Management  
Co-operative Insurance Society  
UK

Rob Lake  
Head of Corporate Engagement  
Henderson Global Investors  
UK

Peter Butler  
Corporate Focus Director  
Hermes Pensions Management Limited  
UK

Richard Singleton  
Director, Corporate Governance  
ISIS Asset Management  
UK

Peter Scales  
Chief Executive Officer  
London Pensions Fund Authority  
UK

Iain Richards  
Head of Governance and Public Policy  
Morley Fund Management  
UK

Geoff Lindey  
Strategic Advisor, Corporate Governance  
National Association of Pension Funds  
UK

Jeff Munroe  
Chief Investment Officer  
Newton Investment Management Limited  
UK

Claude Lamoureux  
President and Chief Executive Officer  
Ontario Teachers’ Pension Plan Board  
Canada
Frank Curtiss  
Special Projects Officer  
RAILPEN Investments  
UK

Giles Craven  
Managing Director  
Shell Pensions Management Services Limited  
UK

Guy Jubb  
Investment Director  
Head of Corporate Governance  
Standard Life Investments Limited  
UK

Frederic Ottesen  
Chief Financial Officer  
Storebrand Livsforsikring as  
Norway

David John Goodear  
Chief Executive Officer  
Timber Industry Superannuation Scheme  
Australia

Sven Askenberger  
Chief Executive Officer  
Tredje AP-fonden  
Sweden

Ann Byrne  
Chief Executive Officer  
UniSuper Limited  
Australia

Peter Moon  
Chief Investment Officer  
Universities Superannuation Scheme Ltd  
UK
PRESS RELEASE:

Global Investors collaborate to support the Financial Accounting Standards Board’s (FASB) proposals on expensing stock options

A group of 23 institutional investors from Australia, Canada, Netherlands, Norway, Sweden and the UK, representing approximately US$3.5 trillion of assets, have called on FASB to remain steadfast in proceeding with their proposals for the expensing of all share-based payments, including stock options, awarded to employees.

In a joint submission to FASB, the signatories refer to the billions of US dollars collectively lost by foreign investors through recent US corporate scandals, including ones resulting from fraudulent and misleading financial statements. The investors, with a significant financial stake in the US markets, believe that expensing of stock options is required if financial statements are to present an accurate picture of a company’s financial condition. Highlighting growing convergence of capital markets globally, the group takes a strong interest in promoting good governance and responsibility practice in that market.

The institutional investors applaud FASB’s courage in championing the controversial yet much-needed reform and take issue with some of the claims being put forward by FASB’s opponents. In particular, they could see no rational reason not to treat options as an expense like other forms of compensation such as salaries, cash bonuses, restricted stock and benefits.

If the proposals are not adopted, the co-signatories warn that the United States will be out of line with standards and practices being adopted in other markets which give shareholders more accurate reporting of these practices. They therefore urge FASB to act in the best interest of international capital markets, global investors, the existing accounting standards setting process and the public interest. They also advocate rejection of legislation currently pending in the US Congress that would limit FASB’s authority to require expensing of options.

This joint submission to the FASB is the latest in a series of joint actions by institutional investors internationally.

Notes to editors:
1. For further information, please contact:

2. The signatories to the letter are: Stichting Pensioenfonds ABP (Netherlands), Asset Super (Australia), Association of British Insurers (UK), Baillie Gifford (UK), CARE Super (Australia), Cbus (Australia), Co-operative Insurance Society (UK), Henderson Global Investors (UK), Hermes Pensions Management Ltd (UK), ISIS Asset Management (UK), London Pensions Fund Authority (UK), Morley Fund Management (UK), National Association of Pension Funds (UK), Newton Investment Management (UK), Ontario Teachers’ Pension Plan (Canada), RAILPEN Investments
3. **International standards:** In February 2004, the IASB issued International Financial Reporting Standard 2 Share-based Payment (IFRS 2) on accounting for share-based payment transactions, including grants of share options to employees. In April 2004, the UK’s Accounting Standards Board (ASB) issued FRS 20 ‘Share-based Payment’ requiring companies to recognise an expense, measured at fair value, in respect of their employee share option plans, share purchase plans, and other share-based payments. This will be mandatory in the UK for accounting periods beginning on or after 1 January 2005 for listed entities and 1 January 2006 for all other entities.

4. **Background:** On March 31 2004, The Financial Accounting Standards Board released an exposure draft that would change accounting rules to require companies to expense all equity-based awards, including stock options, granted to employees. If adopted, the rules would take effect for awards granted by public companies for fiscal years after Dec. 15 2004. The proposal marks the second time in ten years that FASB has proposed requiring that all option awards be expensed.

5. **Additional information:**
   - According to Bear Stearns, at least 576 US companies have already decided to voluntarily expense stock options.
   - Canada has already required that its companies expense options
   - A recent Broadgate Consultants survey found that 80% of portfolio managers and buy-side research professionals support expensing
   - The Association for Investment Management and Research (AIMR) has called for expensing of employee stock options
   - A 2002 McKinsey & Company survey found that 83% of institutional investors worldwide would prefer to have stock options expensed
   - The Big 4 accounting firms have all come out in favour of expensing
   - Shareholder resolutions asking companies to expense options have already received majority votes this year at Intel, IBM, Hewlett-Packard, Apple Computer, Novell and Adobe Systems
   - Though use of stock options is encouraged under FASB’s current accounting rules, they are a very inefficient form of compensation compared to restricted stock. A recent Watson Wyatt survey found that employees discount the value of options by 30 – 50 percent compared to actual stock awards;
   - Goldman Sachs, UBS Investment Research, Merrill Lynch, and Credit Suisse First Boston Equity Research have evaluated and all rejected claims that expensing stock options will have a significant negative market impact.