

ikon

Letter of Comment No: 6497
File Reference: 1102-100

From: Dave Tuttle [Dtuttle@smc-cpas.com]
Sent: Thursday, July 08, 2004 4:51 PM
To: Director - FASB
Cc: arthur.korn@calcpa.org
Subject: File Reference #1102-100

Our comment letter regarding the Share-Based Payment exposure draft is included herein.



July 8, 2004

Director of Major Projects
Financial Accounting Standards Board
Sent by email to: director@fasb.org

RE: Share-Based Payment
File Reference #1102-100

The Accounting Principles and Auditing Standards Committee of the California Society of Certified Public Accountants (the Committee) has discussed the above-referenced exposure draft (ED) and is pleased to provide our comments.

The Committee is the senior technical committee of our state society. The Committee is comprised of 45 members, of whom 9% are from national CPA firms, 58% are from local or regional firms, 22 percent are sole practitioners, 7% are in industry and 4% are in academia.

Overall, subject to the following comments on certain specific issues, we are in substantial agreement with the proposed new standards.

Issue #4

With respect to fair value measurement, there was some confusion among committee members whether a particular valuation technique, namely the lattice method, was indeed required. Much of the confusion stems from an apparent conflict between paragraphs B9 and B10 of the Implementation Guidance. Paragraph B9 suggests that several methods might be appropriate while paragraph B10 appears to suggest that the lattice method is essentially required.

Our committee is opposed to specifying any specific valuation technique to measure fair value of an equity award. In the interest of harmonization with applicable international financial reporting standards, we believe the proposed new standards should be more principles-based by making clear that a particular method is not required. In any case, we believe the FASB should clarify whether this standard indeed requires a particular technique.

Drawing an analogy with business valuation, we recommend that the most appropriate valuation method should be used based on existing facts and circumstances. Among other things, the availability of relevant valuation models, which might include valuation methodologies to be developed in the future, should be considered by the reporting entity. Accordingly, we do not recommend specifying the model to be used to estimate fair value.\

Issue #5

7/9/2004

When it is not possible to reasonably estimate the fair value of an equity instrument, the committee believes that the principles set forth in APB 29 (non-monetary transactions) should be used to estimate fair value – namely, the value should be established based on the fair of the compensation or other services received. Competent independent compensation consultants are available to evaluate and assess compensation arrangements for key employees. In such circumstances, we believe that such market-driven information should be used to estimate fair value reasonably. We do not believe that the intrinsic method should be an alternative except in those unusual circumstances when a reasonable estimate of the fair value of the services exchanged for the equity instruments cannot be made. The intrinsic method that is required by this statement seems particularly punitive and is in conflict with the grant date approach to measuring compensation, accordingly the committee believes it should only be used as a last resort.

Issues #14 and #15

The committee believes that non-public entities and small business issuers should be subject to the same accounting measurement guidance for share-based payment. We incorporate our preference, stated above, that the intrinsic value should not come into play merely because the entity cannot reliably determine the fair value of the equity instrument. We believe that the intrinsic method should not be used unless the fair value of the compensation exchanged also cannot be reliably determined.

We thank you for the opportunity to comment on the exposure draft. We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Very truly yours,

David P. Tuttle, Chair
Accounting Principles and Auditing Standards Committee
California Society of Certified Public Accountants