WACHOVIA

Letter of Comment No: 56
File Reference: 1101-001
Date Received: 11/5/02

November 4, 2002

Ms. Suzanne Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

RE: File Reference No. 1101-001, Proposed Statement, *Accounting for Stock-Based Compensation – Transition and Disclosure*

Dear Ms. Bielstein:

Wachovia Corporation ("Wachovia") is pleased to comment on the Proposed Statement, *Accounting for Stock-Based Compensation – Transition and Disclosure*, issued October 4, 2002. As we have previously communicated to the Financial Accounting Standards Board (FASB) in a letter dated August 6, 2002, we feel very strongly that all companies should be required to adopt the fair value method of accounting for stock options. Continuing to allow companies a choice of accounting methods is not appropriate in light of the concerns of the investing community about accounting and financial reporting and in our opinion impairs the credibility of our system. We also believe that an amendment to Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*, ("Statement 123") to provide additional transition methods is not necessary or appropriate.

Wachovia is the nation's fourth largest banking company based on market capitalization and is a leading provider of financial services throughout the United States. In July 2002, we announced the adoption of the fair value method of accounting for stock options under the provisions of Statement 123. We made the decision to adopt Statement 123 in view of our belief that expense recognition is the preferable method of accounting for stock options and represents a best practice in corporate governance.

The attached letter dated August 6, 2002, was submitted to the FASB and communicates our strong belief regarding a requirement that all companies adopt the fair value method of accounting. We believe it is very clear that stock options are a form of compensation and that compensation arrangements are a form of expense.

As to transition methods, we support the current provisions of Statement 123. The choices provided in the exposure draft, in addition to the existing choice of accounting method, do not allow for comparability among companies. This will result in further confusion to the users of financial statements regarding presentation of compensation expense. The proposed disclosures that attempt to have all companies present pro forma information as if the fair value accounting method was used for all periods are not significantly different than the existing disclosures. Clearly, the investing community does not accept the existing disclosures as meaningful. We do not believe that using disclosures as the manner to provide comparability is appropriate or will be successful.

To the best of our knowledge, the current transition provisions, which were implemented in 1995, have not been subject to debate until now. With the current trend of many companies electing to adopt the fair value method of accounting, the investing community is beginning to understand the impact of the "ramp-up" effect. The current transition provisions also reduce the impact on debt covenants of companies that elect to change their method of accounting, eliminating a potential barrier to voluntary adoption.

We elected to adopt the fair value method of accounting in the third quarter. Many other companies have made similar elections, and some elected during the second quarter of this year. All of these companies are using the current transition provisions. Because of the timing of this project, any of these companies that choose to elect one of the two additional transition provisions provided by the exposure draft would subject their financial statements (and the users thereof) to yet another change during the year. This would result in three different accounting methods for stock-based compensation in the same year, which can only cause unnecessary confusion.

On a related note, we continue to believe that the Black-Scholes model is not an appropriate measurement of the fair value of employee stock options. The Black-Scholes model is not able to take into consideration the unique features of an employee stock option – their long-term nature, the related vesting periods, and the illiquidity and lack of transferability of these options. We encourage the FASB in its further deliberations on stock-based compensation to seriously reconsider the guidance on valuing stock options.

We would be pleased to address any questions you may have regarding the comments in this letter, or to discuss our position in more detail, at your convenience. Please feel free to call me at 704-383-2555, or David Julian, Corporate Controller, at 704-383-6101.

Sincerely,

Robert P. Kelly
Senior Executive Vice President and
Chief Financial Officer

cc: David M. Julian, Senior Vice President and Controller

Attachment

WACHOVIA

August 6, 2002

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

Subject: Transition provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*

Dear Board Members:

In July, Wachovia Corporation announced the adoption of the fair value method of accounting for stock options under the provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("Statement 123"). We made the decision to adopt Statement 123 in view of our belief that expense recognition is the preferable method of accounting for stock options and represents a best practice in corporate governance. Further, it is consistent with the direction that the International Accounting Standards Board is taking on this same issue, and we believe that it is in the best interests of the United States and the global capital markets to harmonize accounting standards as soon as possible.

In accordance with the transition provisions in paragraph 52 of Statement 123, we will adopt the expense recognition provisions retroactive to January 1, 2002, and will only include awards granted after that date. Accordingly, since our stock option awards generally vest over three years, the expense we recognize in 2002 (approximately one-third of the fair value of the 2002 award) will not necessarily be representative of the typical run rate assuming that we continue to award stock options as has been our practice in the past. Our expected run rate would include the expense related to the current year award as well as the prior two years. We will address this issue with the appropriate disclosures in our Form 10-Q. Statement 123, paragraphs 269-270, refers to this anomaly as the "ramp-up" effect.

It is our understanding that the FASB plans to consider adding to its agenda a limited scope project on the Statement 123 transition provisions in response to the number of companies that have recently announced the adoption of the fair value method. Further, we understand that at least part of the motivation for undertaking such a project is the perceived problems associated with the "ramp up" effect.

While there were many complex issues surrounding the original deliberations on Statement 123, not the least of which was significant pressure from various constituencies who were against expense recognition, it is clear that the FASB addressed the issue of transition and weighed the feasibility of retroactive application versus the potential for "misleading implications" of the "ramp-up" effect.

We are convinced that the fair value method of accounting should be a requirement under United States GAAP because it is very clear that stock options are a form of compensation, and there is no basis to argue that compensation arrangements are anything other that an expense to a company. With that said, however, we support the current transition provisions of Statement 123. We do not think that it is appropriate for the FASB to reconsider these provisions mainly because it may discourage other companies from adopting this preferential method of accounting. The transition provisions have been in effect since the issuance of Statement 123 in 1995, and to the best of our knowledge, have until now not been the subject of any debate. As the FASB is well aware, there are always compromises in developing a comprehensive accounting model and the FASB adequately weighed the alternatives during the deliberations on the exposure draft that lead to the issuance of Statement 123.

Even with a fast-track, limited-scope project, it is difficult to envision that an amendment to Statement 123 could be issued until late in the year meaning that calendar year-end companies may be faced with recording the adoption of the fair value method in one quarter and an amendment to Statement 123 in a subsequent quarter. That could be confusing for investors and other users of financial statements. The issues that apparently are leading the FASB to consider a project on the transition provisions of Statement 123 can be very adequately addressed with the appropriate disclosures in the notes to the financial statements and in Management's Discussion and Analysis (MD&A).

Further, some companies may have issues with respect to debt covenants if Statement 123 is amended such that additional expense (eliminating the "ramp-up" effect) is required to be recognized in 2002. We would expect that a fourth quarter amendment to Statement 123 could leave such companies with little time to negotiate the appropriate changes to debt agreements.

In conclusion, we strongly recommend that, rather than address the transition provisions of Statement 123, the FASB undertake a fast-track project to amend the recognition provisions of Statement 123 and require that all companies adopt the fair value method by the end of 2002. Any issues with the transition provisions can be solved with more robust MD&A disclosures.

Should you have any questions regarding the views expressed in this letter, please feel free to call me at 704-383-2555, or David Julian, our controller, at 704-383-6101.

Sincerely,

Robert P. Kelly
Senior Executive Vice President and
Chief Financial Officer

cc: David M. Julian, Senior Vice President and Controller