new york state society of
NYSSCPA
certified public accountants
530 fifth avenue, new york, ny 10036-5101
www.nysscpa.org

June 25, 2004

Addressed to Members of Congress from New York

Dear _____:

The New York State Society of Certified Public Accountants, the oldest state accounting association, represents approximately 30,000 CPAs involved in the preparation and audits of financial statements. The society also participates actively in the process of developing financial accounting standards through informal meetings with and formal comments to the Financial Accounting Standards Board (FASB).

Over a long span of years, the society has supported the initiatives of the FASB to appropriately account for employee stock option plans. In light of the House of Representatives vote to pass H.R. 3574, Stock Option Accounting Reform Act, the society would like to bring your attention our general support for the FASB's proposed standard. Attached is a copy of our most recent comment letter to the FASB on employee stock option accounting. If you would like to discuss this accounting standard, or any other accounting standard issue, with members of the society, please contact Robert H. Colson at (212) 719-8350, who can arrange a meeting with appropriate society members.

Sincerely,

John J. Kearney
President

Attachment

new york state society of
NYSSCPA
certified public accountants

530 fifth avenue, new york, ny 10036-5101
www.nysscpa.org

June
25, 2004

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

By email: director@fasb.org

Re: File Reference 1102-100

Exposure Draft: Proposed Statement of Financial Accounting Standards, *Share-Based Payment, an amendment of FASB Statements No. 123 and 95*

Dear Ms. Bielstein:

The New York State Society of Certified Public Accountants, the oldest state accounting association, represents approximately 30,000 CPAs that will implement the provisions proposed in the captioned exposure draft. NYSSCPA thanks FASB for the opportunity to comment on its exposure draft.

The NYSSCPA Financial Accounting Standards Committee deliberated the exposure draft and prepared the attached comments. If you would like additional discussion with the committee, please contact Robert A. Dyson, chair of the Financial Accounting Standards Committee, at (212) 842-7565, or Robert Colson, NYSSCPA staff, at (212) 719-8350.

Sincerely,

John J. Kearney
President

Attachment

new york state society of
NYSSCPA
certified public accountants
530 fifth avenue, new york, ny 10036-5101
www.nysscpa.org

NEW YORK STATE SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON FASB EXPOSURE DRAFT

DRAFT

Proposed Statement of Financial Accounting Standards, *Share-Based Payment, an amendment of FASB Statements No. 123 and 95*

File Reference No. 1102-100

June 25, 2004

<u>Principal Drafters</u>

Mark Mycio
Margaret A. Wood

NYSSCPA 2004 - 2005 Financial Accounting Standards Committee

Robert A. Dyson, Chair
Margaret A. Wood, Vice Chair
Patricia A. Crecco
J. Roger Donohue
Roseanne T. Farley
Robert Fener
Hashim Ghadiali
Fred R. Goldstein
Abraham E. Haspel
Edward P. Ichart
Linda Lam
Joseph E. Manfre
John J. McEnerney
Stephan R. Mueller
Mark Mycio
Raymond A. Norton
John J. O'Leary
Michael P. Reilly
Steven Rubin
Joseph F. Schick
Lewis Shayne
Leonard J. Weinstock
Barry Wexler
Eddie C. Wong
Jay B. Zellin

NYSSCPA 2004 - 2005 Accounting & Auditing Oversight Committee

Paul D. Warner, Chair
Gary E. Carpenter
Joseph W. Duggan
Robert A. Dyson
David J. Hasso
Elliot L. Hendler
Michele M. Levine
Thomas O. Linder
Eugene D. Mahaney
Robert S. Manzella
Mark Mycio
Eric J. Rogers
Mitchell Rosendorf
Steven Rubin
Ira M. Talbi
George I. Victor
Robert N. Waxman
Paul J. Wendell
Margaret A. Wood

NYSSCPA Staff

Robert H. Colson

COMMENTS ON FASB EXPOSURE DRAFT

Proposed Statement of Financial Accounting Standards, *Share-Based Payment, an amendment of FASB Statements No. 123 and 95*

File Reference No. 1102-100

Recognition of Compensation Cost

Issue 1

We agree with the Board's conclusion that employee services received in exchange for equity instruments give rise to recognizable compensation cost. Employee services are used in the entity's operations, which ordinarily result in the recognition of an expense.

Issue 2

We concur that pro forma disclosures are not a substitute for recognition of compensation cost in the financial statements.

Measurement Attribute and Measurement Date

Issue 3

We agree that measurement should occur at the grant date of the equity instruments. We also agree that fair value is the relevant measurement attribute. Nonetheless, as discussed in Issue 4 below, additional guidance on determining volatility is warranted.

Fair Value Measurement

Issue 4(a)

The overall guidance for determining the inputs into the option modeling calculation is sufficient for reasonable consistency in application. The guidance for how to determine volatility, the most troublesome of the inputs and the input having the potential to cause the widest variations in the estimated expense, should be supplemented with several detailed examples.

Issue 4(b)

We agree that the fair value of employee share options can be determined with sufficient reliability.

The lattice model appears preferable, but the Committee collectively has no experience in applying it. Accordingly, the Committee requests that the Board include examples of applying this model in the final standard.

Issue 4(c)

We agree that a single method for estimating expected volatility should not be required. Given the subjectivity in arriving at such estimates, however, the final standard should include several detailed examples of determining volatility.

Issue 4(d)

We agree that the standard adequately addresses the unique characteristic of employee stock options.

Issue 5

We agree that the method proposed is a practical alternative when it is not possible to estimate fair value at the grant date.

Employee Stock Purchase Plans

Issue 6

Employee stock purchase plans should not be deemed compensatory if they provide a discount that approximates broker commissions ordinarily charged to the reporting entity.

Attribution of Compensation Cost

Issue 7

We agree that compensation cost should be recognized over the requisite service period.

Issue 8

The guidance for determining the requisite service period is sufficient.

Issue 9

We agree that awards with graded vesting should be accounted for as separate awards and compensation cost attributed over each award's requisite service period.

Modifications and Settlements

Issue 10

We agree that the principles for award modification and settlement are appropriate.

Income Taxes

Issue 11

We agree with the proposed statement's method of accounting for income taxes.

Disclosures

Issue 12

Except for the recommendations below, we agree that the disclosure objectives are appropriate.

The disclosure requirements in paragraph B191 require an extensive amount of data. It is not clear how each item relates to the disclosure objectives. The standard itself should explain the relationship of the proposed disclosures to these objectives. Disclosures whose sole purpose is to provide users the ability to re-compute amounts are not helpful or appropriate.

Given the highly subjective nature of the estimates used in determining the fair value of the stock based compensation, we suggest that disclosure of the pro forma effects of assuming different volatility factors may be helpful to financial statement users. Such disclosure could be similar to the disclosure of certain effects of a one-percentage-point increase in the assumed health care cost trend rates, which is required by FASB Statement 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*.

Transition

Issue 13

We recommend that small issuers as defined by footnote 19 of FIN 46(R), *Consolidation of Variable Interest Entities*, be given additional time to develop assumptions required by the lattice method and to address other implementation issues. Obtaining information required for the preferred lattice method poses creates issues for small issuer similar to their applications of FIN 46(R) for the first time. With this exception, we agree with the transition guidance.

Nonpublic Entities

Issue 14 (a)

We agree that the intrinsic method should be allowed for non-public companies. The Committee, however, notes an apparent inconsistency between the proposed standard and existing standards. The proposed standard, paragraphs 20A (in Appendix F) and B183, prohibits the restatement of existing awards, originally valued using the intrinsic method, after the reporting entity adopts the fair value method. Paragraph 29 APB Opinion 20, *Accounting Changes*, permits such restatements of financial statements issued in conjunction with an initial public offering. The Committee requests that the Board resolve this discrepancy. In doing so, the Board should determine whether the prohibition of restating the value of awards granted prior to the date of change from the intrinsic method to the fair value method unfairly penalizes entities entering the public market for the first time.

Issue 14 (b)

Private companies whose securities are not traded will generally be required to obtain appraisals to determine a market value for their equity when using the intrinsic method. Because such appraisals can be costly, many entities may be reluctant to obtain them more frequently than they consider necessary. The final standard should discuss when appraisals more than one year old are appropriate in determining current values. If appraisals older than one year are appropriate, the final standard should indicate considerations necessary to adjust such appraisals to reflect subsequent events.

Small Business Issuers

Issue 15

The Committee opposes different measurement standards for small public companies. The loss in comparability, coupled with a potential perception that "little GAAP" is inferior, could cause the market to penalize small issuers that use such different standards. As noted in our response to Issue 13, however, the Committee requests a delayed effective date for small issuers to facilitate their understanding and implementation of the proposed standard.

Cash Flows

Issue 16

The Committee disagrees with the proposal's requirement to report excess tax benefits as a financing cash flow rather than a reduction of taxes paid.

Understandability of the Proposed Statement

Issue 18

The Committee found this proposal very difficult to understand and anticipates that it will be difficult to apply. Certain concepts are introduced for the first time in the appendices, including the implementation guidance. As a result, certain concepts necessary for implementing the proposed standard are not clearly presented. For example, the appendices refer to “suboptimal exercise factor.” This term is not included in the glossary and is defined in footnote 27 of paragraph B60. Given the importance of this concept in the implementation guidance, the definition and explanation of this term should be given greater prominence.

Our suggestions for additional computational examples, embodied in some of the comments above, would also be helpful in understanding and implementing the standard.