COMMENT LETTER

November 4, 2002

Letter to FASB on Stock Option Disclosure Proposal, November 2002

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

Re: Accounting for Stock Based Compensation – Transition and Disclosure
File Reference No. 1101-001

Dear Ms. Bielstein:

The Investment Company Institute[1] is pleased to respond to the Board's request for comment on proposed amendments to FASB Statement No. 123, Accounting for Stock-Based Compensation. The proposal would require more prominent disclosures about the method of accounting for stock options and the effect of the method used on reported results in both annual and quarterly financial statements. In addition, the proposal would provide companies voluntarily electing to expense stock options with additional methods to implement the transition to expense treatment. Institute member firms, as investors in more than $4 trillion in U.S. equity and corporate fixed-income securities on behalf of millions of individual investors, have a significant interest in the Board's proposal.

The Institute supports the proposal's requirement that all issuers include a tabular presentation displaying the effects of expensing stock options on income, compensation expense, and earnings per share in the summary of significant accounting policies. We believe the prescribed tabular format will increase comparability across issuers, regardless of whether, when or how they elect to expense stock options. Disclosure of this information in the summary of significant accounting polices, typically the first footnote to the financial statements, will increase its prominence and ensure that it is not "buried."

The Institute also strongly supports the proposal's requirement to include the tabular presentation in quarterly condensed financial statements. Disclosure in interim condensed financial statements will provide investors with more timely access to this information as compared to the current annual disclosure requirement.

The proposal provides companies electing to expense stock options with three alternative methods to implement the transition to expense treatment:

Prospective – options granted in the current year are expensed;

Modified Prospective – previously granted unvested options, as well as options granted in the current year are expensed; and

Retroactive – both previously granted unvested options and options granted in the current year are expensed and further, prior periods are restated.

As a general matter, the Institute urges the Board to adopt standards that prescribe uniform treatment for like transactions so as to promote comparability across issuers. However, we understand the Board's decision to provide issuers with alternatives in this instance in an effort to encourage voluntary adoption of expense treatment. While the availability of alternative implementation methods will create comparability concerns in reported income and earnings per share for issuers electing to adopt expense treatment, these concerns will be mitigated by the tabular presentation included in the summary of significant accounting policies (which assumes expense treatment is applied to all awards granted in fiscal years beginning after December 15, 1994). Accordingly, we view the tabular presentation as a critical element of the Board's proposal.

The Institute has previously urged the Board to adopt a new accounting standard that would (1) require issuers to treat stock options as an expense and (2) ensure uniformity in how stock options are valued for this purpose.[2] We continue to believe that mandatory expense treatment is necessary in order to ensure full and fair disclosure of issuers' results of operations and financial position.

We appreciate the Board's consideration of our comments. If you have any questions, please contact the undersigned at 202/326-5851.

Sincerely,

Gregory M. Smith
Director–Operations/
Compliance & Fund Accounting

Endnotes

1 The Investment Company Institute is the national association of the American investment company industry. Its membership includes 8,982 open-end investment companies ("mutual funds"), 513 closed-end investment companies and 6 sponsors of unit investment trusts. Its mutual fund members have assets of about $6.373 trillion, accounting for approximately 95% of total industry assets, and over 90.2 million individual shareholders.

2 See Letter from Matthew P. Fink, President, Investment Company Institute, to Robert H. Herz, Chairman, FASB, dated August 21, 2002.