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Comptroller General
of the United States

United States General Accounting Office
Washington, DC 20548

June 28, 2004

Director of Major Projects
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 1102-100

Subject: *Financial Accounting Standards Board's Proposed Statement on Share-Based Payment*

This letter is in response to the Financial Accounting Standards Board's (FASB) March 31, 2004, exposure document on a proposed Statement, *Share-Based Payment, an Amendment of FASB Statements No. 123 and 95*, which addresses the accounting for compensation to employees in the form of equity shares, including stock options. The FASB's proposed Statement would generally eliminate the ability to account for share-based services using the intrinsic method and would require instead the use of a fair-value-based method, which would generally result in companies treating stock options granted to employees as an expense.

We support the concepts behind FASB's current proposed Statement requiring companies to record share-based payment as an expense. In our view, stock options and other forms of share-based payment have economic value and represent a form of compensation expense. Therefore, we believe that the economic substance of such transactions should be reflected as compensation expense in the calculation of a company's net income to accurately portray its financial results. The current standard, which permits companies to choose between two methods, allows companies to select the impact on net income. It also creates a barrier to comparable financial information, both domestically and internationally, because the choice of methods used will result in differences in reported amounts across companies due to the different methods of accounting. We believe that a requirement to expense stock options and other share-based payment will provide additional transparency, clarity, and comparability in financial reporting.

We also support the four principal reasons FASB cited for issuing the new proposal: (1) addressing concerns of users and others that the use of the intrinsic value method results in financial statements that do not faithfully represent economic transactions, which can distort the financial condition and operations of the issuer; (2) improving the comparability of reported financial information through the elimination of alternative accounting methods; (3) simplifying U.S. generally accepted accounting principles by requiring the use of a single method of accounting for share-based payment; and (4) enabling international convergence and greater international comparability in the accounting for share-based payment.

We appreciate your consideration of our comments and would be pleased to further discuss these issues at your convenience.

A handwritten signature in black ink, appearing to read "D. M. Walker", followed by a horizontal line extending to the right.

David M. Walker
Comptroller General
of the United States