

Frederic W. Cook & Co., Inc.

New York • Chicago • Los Angeles

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**IASB ANNOUNCES PROJECT TO CHANGE
ACCOUNTING STANDARDS FOR STOCK OPTIONS**

**-- Likely Outcome is a Proposal to Expense
The "Fair Value" of Options Measured as of the Vesting Date --**

The International Accounting Standards Board announced its agenda of nine technical projects on August 2. Included in its "leadership" projects is a review of stock option and other equity grant accounting, which it calls "Accounting for Share-Based Payments."⁽¹⁾ In this release, the IASB said with respect to stock option accounting:

"Share-based compensation plans are becoming more prevalent worldwide. Few countries have standards for recognition and measurement of share-based payment and many believe that those standards that do exist are inadequate or outdated. The IASB has the opportunity to provide leadership and a basis for convergence. This project will seek to develop a standard on all aspects of accounting for share-based payments to employees (including employee stock options and their repricing), suppliers, creditors, and others."

The IASB decided to go ahead with this stock option project despite the advice of some members of its Advisory Council, notably the U.S.-based Financial Executives International, who argued that stock option accounting under U.S. GAAP had been extensively and contentiously debated, and now having been settled, would not be easily changed.

The likely direction of any proposed change in stock option accounting is toward a requirement that the "fair value" of an option grant, as determined by an option-pricing model (e.g., Black-Scholes), be measured as of the vesting date and accrued over the vesting period.⁽²⁾ Leaders of accounting standards bodies in other nations noted that they would not adopt "fair value" accounting for stock options unless the U.S. did, because it would place their companies at a disadvantage in global competition for people and capital.

Companies concerned with this development should contact the IASB Chairman (Sir David Tweedie – iasb@iasb.org.uk), the FASB Chairman (Mr. Edmund L. Jenkins -- eljenkins@fasb.org), and their accounting firm.

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This letter is intended to "alert" compensation professionals to a development that could affect their companies. Companies interested in more specific information should contact their accounting representatives. General questions may be addressed to Fred Cook at 212-986-6330 or fwcook@fwcook.com. Copies of this letter and other published materials are available on our website, www.fwcook.com.

⁽¹⁾ See our earlier letter of June 22, 2001, for background information which will not be repeated here

⁽²⁾ See special report produced by the IASB's predecessor body, "Accounting for Share-Based Payment," by Kimberly Crook, July 2000