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March 7, 2003

Sir David Tweedy
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

Re: Proposed IFRS, *Share-Based Payment*

Dear Sir David,

I am writing to comment on the Proposed International Financial Reporting Standard, Share-based Payment (Proposed IFRS). The Electronic Industries Alliance, which represents 2,500 electronics manufacturers, respectfully opposes the Proposed IFRS in its current form on the following grounds: it mandates expensing of stock options at the time they are granted, rather than when they are exercised, and it fails to recognize that options represent a contingent liability to companies.

Grant Date vs. Exercise Date

As we have witnessed in the past three years, a company's stock price can drop significantly after options are granted, making them virtually worthless and unlikely to ever be exercised. We believe it would be better to recognize an expense if and when the options are actually exercised. Similar to the U.S. income tax treatment of options, the expense recognized at that time would be the spread, or the difference between the grant price and the exercise price.

While this has the potential to be a very large expense for companies, it would be incurred only if the stock price goes up and only if the options are exercised. We believe this is a more accurate reflection of the true economic cost of a stock option and better recognizes the actual cost to the company.

Options as a Liability

In truth, stock options represent a liability to the company that grants them – or, more accurately, a contingent liability. Although option pricing models can be used to estimate the value of option instruments at the time they are granted to an employee, the company has not given up anything of real value and will not complete the transaction until the options are exercised. There are so many unknowns at the grant date that the option represents merely something that *could* be a cost to the company at some point in the future. This strikes us as a liability that might or might not have a cost to the company, depending on many variables. We do not believe that an asset of value changes hands at the time an option is granted, but rather that a contingent liability arises and that the accounting should record it as such.

We believe stock options have provided many companies – particularly high-tech companies in recent years – with a valuable tool for employee motivation. Evidence shows that a broad cross-section of employees at high-tech companies has been afforded a greater ownership stake, promoting an attitude of commitment and motivation. We would hate to see that tool weakened by regulations that discourage the distribution of employee options.

On behalf of the Electronic Industries Alliance, I respectfully recommend that the IASB consider the points outlined above when making a decision on the Proposed IFRS.

I appreciate the opportunity to comment.

Respectfully,

Dave McCurdy

Dave McCurdy
President

cc: Kimberley Crook, Project Manager, IASB