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Ms. Kimberly Crook
Project Manager
International Accounting Standards Board
30 Cannon Street, London EC4M 6XH
United Kingdom

Dear Ms. Crook,

Alcon, Inc. appreciates the opportunity to comment on the IASB's Exposure Draft *ED* 2 - *Share-based Payments*. We would like to express the opinion that we disagree with the position that equity-settled share-based payments, in particular employee stock options, should be expensed based on the fair value on the date the option is granted. We disagree based on the following.

- **There is no expense to the corporation for stock options granted with an exercise price equal to the market price on the date of issuance. The value of the option is in the possible appreciation in the market price of the underlying stock and an efficient market will have factored the presence of stock options into the appreciating or declining market price.**

  At the date the option is issued, the value of the option is zero in that there is no current intrinsic value that accrues to the option holder. Value only accrues to the option holder as the market price for the underlying stock increases in response to the future operations of the company issuing the option.

  Clearly, stock options are issued in anticipation of some increase in value of the underlying stock. However, the appreciation in market value of the underlying stock is tempered by the probability that some additional shares will be issued at a price that is at a discount to the then current market price.

  In other words, an efficient market will anticipate the exercise of stock options and will factor any discounted shares into the market price. In this manner, the shareholders directly absorb the cost of options as a reduction in the appreciation of stock value.

- **If new shares are issued for the exercise, there is no cost basis gain or loss to the corporation for the exercise of an option.**

In the event that the corporation issues new stock to satisfy an option that is exercised, there is no income impact. Cash is received upon exercise and stockholders equity should be increased by the amount received.

- **If treasury shares are issued for the exercise, there is no cost basis gain or loss to the corporation for the exercise of an option.**

  In the event that treasury stock is used to satisfy the option, shares are reissued from the treasury stock holdings. Treasury stock transactions do not give rise to earnings or losses under existing accounting authorities.

- **Comparable compensation methods do not have an income impact.**

  An alternative to the issuance of stock options would be the sale of common stock financed by a ten year loan from the corporation. The loan would be secured by the common stock and if not paid by the ten year maturity date would be satisfied by the surrender of the common stock.

  At the time the stock is issued, the entry would be:

Employee loan receivable	xxx	
Stockholders' equity		xxx

At the end of the ten years on the maturity date:

a) If the market price exceeds the initial issue price of the stock, the employee pays off his loan to free the lien on the shares. The Company records:

Cash	xxx	
Employee receivable		xxx

No gain or loss is recognized other than the interest income on the loan.

or

b) If the market price is below the initial issue price of the stock, the employee surrenders his common shares to satisfy the loan. The Company records:

Treasury stock or Common stock	xxx	
Employee receivable		xxx

The Company writes off its interest receivable for a net income (or loss) impact over the ten years of zero.

This transaction would result in no gain or loss to the Company (other than minor interest income on the note). Why, then, should stock options be recorded any differently?

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We would not argue that no economic value is exchanged in the grant of stock options. However, a number of economic values are not reflected in traditional cost-based financial statements. For instance, the economic benefits of value increases in fixed assets and inventories are not reflected. As long as the costs of long-lived assets are "recoverable", impairments are not recognized. Debt instruments are not written up to the fair values. Likewise, we believe that the subjective future economic value of stock options should not be included in paid-in capital.

Stock options are issued to align the interest of the employee with that of the corporation and, as such, represent that employee's share of the growth in the value of the company. Once issued, the market will factor this share of the growth into the price per share. In effect, the "cost" of these options is incurred directly by the other shareholders in the form of a reduced share in the increase in value of the company with the holder's of stock options and are reflected in the diluted EPS calculation. To reflect an expense on the part of the corporation is to double-effect the earnings per share of the Company's shareholders.

Very truly yours,

Jeff Stratton
Director, Group Accounting & Reporting