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October 17, 2001

The Honorable Michael G. Oxley
Chairman
Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Oxley:

Along with all the IASC Foundation Trustees and members of the International Accounting Standards Board, I was delighted you could be with us at dinner on Monday. Your interest and support for our effort to achieve consistent accounting standards is much appreciated.

In our conversation, we could only touch briefly on the particular issue raised in your letter of October 12. Consequently, I'd like to respond more specifically.

As your letter emphasized (with liberal quotations from my own testimony!), success in our effort to achieve convergence toward a single, high-quality, and global set of accounting standards will require "support from governments and industry generally, and most important within the United States". I am, of course, aware of the strength of the views in this country about stock options and the conclusions of FASB reached after much controversy. But the fact remains that the IASB is an international organization. That is inherent in the entire effort, with the clear implication that the United States cannot simply dictate either the agenda or the conclusions.

As it happens, other countries, and particularly in Europe, have no similar standard for stock options. Indeed, current international standards and few individual countries have addressed the issue squarely.

That situation is changing. The U.K., Germany, Norway and Denmark among others, are in the process of developing standards for all share-based payments. Among other considerations, there are concerns about the

increasing use in Europe and elsewhere of such payments for a variety of suppliers and service providers.

In these circumstances, as a practical matter the IASB would sooner or later be forced to take a position on proper accounting treatment of such arrangements. Indeed, without full review of these concerns, the effort to reach convergence on a single set of high quality standards would lack intellectual integrity.

All that is a long way from suggesting any particular conclusion about an extremely complex issue. There are both conceptual difficulties and large practical questions of measurement if stock options are to be considered as an expense. We Trustees are enjoined not to comment or opine on such "technical issues" before the Board. It is our responsibility, however, to assure that on this, as on other issues, a fair and deliberate decision-making process is followed.

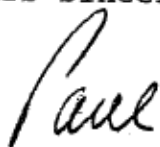
I am entirely confident the Board itself understands the complexity of evaluating share-based payments and contemplates careful review of various approaches. That review will, as it must, include extensive consultation with those potentially affected. I have no doubt that, in the process, the relative merits of the current FASB approach will be strongly advanced by many in industry. I think, too, that the consultative and deliberative process will necessarily take considerable time. That consideration, together with the efforts underway in other countries to establish new and potentially conflicting standards, was I suspect, a factor in the Board's decision to place the issue on its agenda at this time.

I am sure you appreciate that stock options and share-based payments generally are but one of the important issues on the Board agenda that will potentially affect business practices.

One thing is certain: specific Board decisions will not be uniformly popular. Nor can the Board impose its decisions with respect to individual standards on the United States, or any other country. Rather, as a product of a careful consultative process and convincing reasoning, the aim must be an outcome that will command broad respect around the world as the legitimate result of an independent standard setting process.

As you know, I look forward to maintaining contact with you and the Committee as this work proceeds.

Yours sincerely,

A handwritten signature in cursive script that reads "Paul".

Paul A. Volcker

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U.S. House of Representatives
Committee on Financial Services
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October 12, 2001

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CHIEF COUNSEL AND STAFF DIRECTOR

The Honorable Paul A. Volcker
610 5th Avenue
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New York, NY 10020

Dear Paul:

I am writing to follow up on your fine testimony of June 7, 2001, before the Capital Markets Subcommittee, particularly as it relates to the "Accounting for Share Based Payments" project upon which the IASB has now embarked. I am concerned that this project will do great harm to the objective you articulated during your testimony and which I share: achieving a single set of high quality accounting standards that are applied around the world.

As you rightly noted in your testimony, the development of global financial markets "has greatly reinforced the desirability of - indeed now demands - international consistency in accounting standards and auditing approaches." You underscored the need to ensure that "the same economic transactions are accounted for in the same manner across various jurisdictions." You also testified that the goal of harmonized standards should have "strong support among governments and industry generally, and most important within the United States itself" and that international standards must be "able to command support around the world by virtue of their highest professional quality."

Because I agree with these important points, I was surprised that the stock option project appeared on the IASB's agenda. In my view, it is likely that this project will not only fail to meet the standards you articulated but also will, in fact, undermine these standards.

As you know, the issue of stock option accounting was considered here in the U.S. in 1993 and 1994. It was the subject of vigorous debate and, indeed, led to the active involvement by numerous Members of Congress, an unusual occurrence in connection with the work of the FASB. The original FASB proposal, along the general lines of the current IASB proposal, would have required companies to expense stock options. Many affected constituents, and, a number of Members, raised significant concerns with this approach, including technical issues as well as issues involving the impact of the proposal on economic growth, employment, the use of stock options as an engine of innovation, and capital formation. In addition, some questioned FASB's process, including the fact that it appeared to some that an expense approach was preordained. After considerable debate and discussion, the FASB ultimately decided - very wisely, in my view - to adopt a disclosure standard.

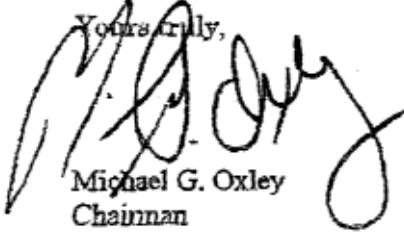
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This disclosure standard - embodied in Statement of Financial Accounting No. 123 (SFAS 123) - was adopted in 1995. It has proven to be a workable and effective standard. The FASB has not indicated that there have been problems with this approach, and I am unaware of any demand that the FASB revisit it

In the meantime, the use of stock options has proliferated. One report suggests as many as 10 million American workers, including middle management and rank-and-file employees, receive stock options. These options are a vital tool in our economy.

For these reasons, and to secure the long-term vitality of the IASB, I would urge that steps be taken to focus the IASB on other projects that are more likely to promote convergence and respect or, alternatively, to move the IASB toward a disclosure approach like that reflected in SFAS 123.

Thank you for your consideration of this important matter

Yours truly,

Michael G. Oxley
Chairman

MGO/jd