

April 22, 1992

The Honorable Richard C. Breeden
Chairman
Securities and Exchange Commission
450 5th Street N.W.
Washington, D.C. 20549

Dear Richard:

Following our discussion last week, I was concerned to hear that Walter Schuetze had made certain remarks at an ABA luncheon in which he stated that he had reached a conclusion on the stock compensation accounting issue. I understand that Walter indicated that he had decided that compensation expense should be recorded when stock options are granted, and that under certain circumstances he might intervene and require this accounting treatment for SEC registrants while the FASB continues its deliberations.

I am concerned that comments of this nature subvert the private sector standard-setting process. While the preparer community has certain issues with the FASB as I mentioned to you last week, we nevertheless are still strongly committed to keeping standard-setting in the private sector and subject to the type of due process which has been developed by the FASB. Putting aside the issue of the technical merit of Walter's accounting position, I think that the more pressing issue that is now emerging is whether the SEC will continue to support the FASB as the primary accounting standard setting body in the United States. I think that it would be a serious mistake to undermine the FASB's position in this way.

As you are aware, there is overwhelming support for the current accounting treatment of stock compensation in the preparer community; and I think that this highly-charged issue would best be handled through the FASB's due process rather than through intervention by the public sector.

Very truly yours,

John S. Reed, Chairman
Accounting Principles Task Force

cc: Drew Lewis, Chairman, The Business Roundtable
William L. Lurie, President, The Business Roundtable
H. Bruce Atwater, Jr., Chairman and CEO, General Mills, Inc.
Members of the Business Roundtable Accounting Principles Task Force