

Mr. Jeff Mahoney
General Counsel
Council of Institutional Investors
Suite 500
888 17th Street, NW
Washington, DC 20006

February 23, 2007

Dear Mr. Mahoney:

Thank you for your February 5, 2007 letter regarding the use of market instruments for the purpose of estimating the appropriate amount of stock compensation cost to be recorded pursuant to FASB Statement No. 123R, Share-Based Payment.

As you point out in your letter, the FASB concluded in Statement 123R that the best evidence of fair value for employee stock options is observable market prices of identical or similar instruments in active markets. The FASB did not provide detailed guidance on how one might comply with this principles-based objective.

In September 2005, Chairman Cox and my predecessor, Donald Nicolaisen, issued statements encouraging private sector efforts to design market instruments that have the potential to accurately reflect the value of employee stock option grants. In his statement, Mr. Nicolaisen encouraged interested parties to continue to provide us with any further thoughts they have on this issue. We continue to welcome public input on this important matter.

As noted in my January 25, 2007 letter to Zions Bancorporation, which is available on our website at <http://www.sec.gov/info/accountants/staffletters/zions012507.pdf>, the propriety of using a market instrument for financial reporting purposes is dependent upon the design, implementation, and marketing of the instrument. A company and its auditor will need to carefully analyze the results of each sale transaction, ensuring that a market pricing mechanism and credible information plan are present (both of which were discussed in a September 2005 memorandum issued by our Office of Economic Analysis). The factors that would need to be considered to ensure that the auction process results in the sale of market instruments at what can truly be deemed market prices include, but are not limited to, the size of the offering relative to market demand, the number and characteristics of participants (bidders), the functionality of the technology, and purchaser perceptions concerning costs of holding, hedging, or trading the instrument.

The Commission is committed to ensuring that high quality information about compensation is reported to investors. I do believe that bringing market forces to bear on the valuation of employee stock options has the potential to improve the quality of financial reporting in this area. I would like to take this opportunity to extend an invitation to you and other representatives of the investor community to share your thoughts and insights with me and my staff. Please contact Joe Ucuzoglu (202-551-5301) in my office if you have further questions or would like to meet with the staff to discuss these issues.

Best regards,

Conrad Hewitt
Chief Accountant

<http://www.sec.gov/info/accountants/staffletters/cii022307.htm>