

United States Senate

OFFICE OF THE MAJORITY LEADER

WASHINGTON, DC 20510-7010

September 29, 2004

The Honorable William H. Donaldson
Chairman
U.S. Securities & Exchange Commission
450 Fifth Street, N.W., Room 6000
Washington, DC 20549

Dear Mr. Chairman:

Thank you for your August 19, 2004, letter regarding employee stock options.

As you know, one of the real challenges on this issue is developing an accurate, reliable, and transparent means to value employee stock options. I know that supporters and opponents of expensing alike have filed comments with the Financial Accounting Standards Board on the critical issue of valuation, and that many have raised significant concerns with the methods that the Board has proposed to date.

I was particularly interested in the discussion at the conclusion of your letter about the possible need for the SEC to issue guidance, safe harbors, or a delay in the implementation date. I would hope that the SEC would use these tools, and take the appropriate time necessary, to fully flesh out the many critical issues surrounding the implementation of a valuation standard.

Devising an accurate valuation model is critical to our economy, the investing public, and the more than 14 million American workers who hold stock options. I feel strongly that options are vital to preserving American innovation and entrepreneurship, but I also recognize that we must ensure that investors receive accurate, reliable, and transparent financial information. Given your ultimate authority over financial reporting and accounting standards, the SEC is best suited to conduct appropriate testing and determine the best method or methods to value employee stock options.

Thank you again for your letter. I look forward to continuing to work with you on this critically important issue.

Sincerely yours,



William H. Frist, M.D.
Majority Leader
United States Senate