January 29, 2007

Ms. Nancy M. Morris, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-9303

File No. S7-03-06
Interim Final Rule: Executive Compensation Disclosure
Release Nos. 33-8765; 34-55009

Dear Ms. Morris:

The SEC Regulations Committee of the American Institute of Certified Public Accountants (AICPA) is pleased to respond to the Securities and Exchange Commission's (the "SEC" or the "Commission") request for comments on its interim final rule, *Executive Compensation Disclosure* (the "Interim Final Rule"). The AICPA is the largest professional association of certified public accountants in the United States, with more than 340,000 members in business, industry, public practice, government and education. The AICPA SEC Regulations Committee consists of representatives of registered public accounting firms (small, medium and large), as well as members from industry, academia and the analyst community. Included below are comments on two aspects of the Interim Final Rule.

Statement 123R Transition Method

The adopting release for the Interim Final Rule instructs a registrant to provide disclosures under Item 402 of Regulation S-K assuming the adoption of FASB Statement No. 123(Revised), Share-Based Payment ("Statement 123R") using the modified prospective transition method, regardless of the method of adopting Statement 123R for financial reporting purposes. However, as discussed further below, we are concerned that for many registrants that adopted Statement 123R using the prospective method it would be impractical, if not impossible, to prepare Item 402 disclosures on the basis of the modified prospective transition method, which would require those companies to determine the fair value of awards granted prior to the adoption of Statement 123R. In our view, a registrant should provide its Item 402 disclosures on a consistent basis with its accounting under Statement 123R, including the method of adoption, which would be the most practical, efficient and understandable way to provide disclosures about executive and director compensation.

Most nonpublic companies (as defined by Statement 123R) used the minimum value method to value awards prior to adopting Statement 123R. For example, prior to an initial public offering, a previously nonpublic company could use the minimum value method under Statement 123 either in its financial statement accounting or for purposes of its pro forma disclosures. Similarly, many debt-only registrants, which are defined as nonpublic companies by Statement 123R, used the minimum value method. Because the minimum value method omits volatility, the resulting compensation cost does not represent a fair value measurement. To create a fair value measurement, such a company would need to go back and construct an estimate of the expected volatility of its stock price as of the grant dates of the awards. The FASB was concerned about the practicability of a nonpublic company making such estimates, as well as the related uncertainty as to how such a retrospective estimate would have compared to a contemporaneous estimate as of the grant date. For this reason, Statement 123R requires companies that previously used the minimum value method to use the prospective transition method of adopting SFAS 123R. Under the prospective transition method, compensation cost is recorded in accordance with SFAS 123R only for awards granted or modified after the Statement 123R adoption date while awards granted prior to the Statement 123R adoption date are accounted for using the company's previous accounting policy (i.e., either the intrinsic value method under Accounting Principles Board Opinion No. 25 or the minimum value method permitted by Statement 123). We recommend that the Commission revise the instruction to indicate that stock-based compensation should be reported under Item 402 using the prospective transition method when Statement 123R required the registrant to adopt under that method. In those circumstances, the Item 402 disclosures should note the method(s) the registrant used to determine reported values for awards made prior to the adoption of Statement 123R.

Pensions/Postretirement Benefits

By aligning Summary Compensation Table (SCT) reporting with Statement 123R recognition and measurement principles, the possibility now exists for "negative amounts" to be reported in the SCT, as well as the Director Compensation Table (DCT). Negative amounts might result from, among other things, the remeasurement of liability awards, forfeitures of awards with service-based vesting conditions, and changes in the probability of meeting any performance-based vesting conditions of awards. A negative amount also might result from a decrease in the actuarial present value of accumulated pension benefits (e.g., as a result of increases in the discount rate). However, as part of the 2006 amendments to Item 402 of Regulation S-K, the SEC introduced Instruction 3 to Item 402(c)(2)(viii), which instructs an issuer to exclude from the SCT and DCT any negative amount arising from a decrease in the actuarial present value of accumulated pension benefits. In order for the SCT and DCT to consistently report any negative amounts, we recommend that the SEC rescind this instruction.

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The AICPA SEC Regulations Committee appreciates the opportunity to comment on the release. We would be pleased to discuss these comments with you at your convenience.

Sincerely,

/s/ John E. Wolfson

John E. Wolfson
Chair
AICPA SEC Regulations Committee

cc: Chairman Christopher Cox
Commissioner Paul S. Atkins
Commissioner Roel C. Campos
Commissioner Kathleen L. Casey
Commissioner Annette L. Nazareth
Mr. John W. White