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### **Accounting: FASB Plans to Consider Revising Rules On Stock Options in February or March**

NORWALK, Conn.--The Financial Accounting Standards Board plans to decide in the latter half of the first quarter whether it will formally embark on a project to reconsider the current accounting rules for stock-based compensation.

If it starts such a comprehensive rulemaking effort, a course described in a Dec. 31 news release, FASB is virtually certain to consider whether the value of stock option awards should be expensed, a view to which a critical mass of board members appears to be leaning.

The prospect of counting options' value as a cost against earnings led to vocal opposition from Silicon Valley and broad segments of the U.S. business community in the early 1990s, when FASB last took up the topic broadly.

In late 1994, after congressional lawmakers approved legislation that effectively undercut FASB's authority, the accounting panel retreated from its proposal to require expensing. Instead, it issued rules (FASB Statement No. 123) that allowed footnote disclosure of the pro forma effects of recording expenses from stock-based compensation under a fair value-based method.

Edmund Jenkins, chairman of the accounting board from July 1997 through June 2002, said the credibility of FASB as an independent institution was damaged by the episode.

#### **Post-WorldCom Shifts to Expensing Options**

Since that time, and in the wake of the Enron and WorldCom accounting scandals, scores of U.S. companies have voluntarily shifted to expensing the value of stock options that they award or have announced plans to do so. Beginning last summer, such giants as Coca-Cola and General Electric Co. issued news releases announcing the options expensing route as a way to help regain investor confidence.

In London, the International Accounting Standards Board--which includes two members who, as FASB members, were proponents of stock options expensing--published in November draft rules on share-based payment that propose expensing the fair value of such compensation at grant date. IASB plans to complete its standard-setting on stock compensation by the end of this year.

FASB's overarching goal of achieving global convergence of accounting standards led it to issue an invitation to comment late last year seeking responses to IASB's planned course in rulemaking.

The U.S. board's plans to decide whether "to undertake a more comprehensive reconsideration of the accounting for stock options" were announced in a news release on its publication of guidance for companies that voluntarily shift to the expense recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation.

In the new set of rules, Statement No. 148, FASB provided a choice of three methods of transition to the prescriptions of the 1995 standard. The new document also required more prominent and more frequent footnote disclosures about the effects of stock compensation, according to the release.

Statement No. 148 is a response to company concerns about a so-called "ramp-up effect" experienced in the first few years after the firms adopted the preferred fair value-based expensing course set in Statement No. 123. Applying that accounting prospectively, as prescribed in the 1995 rules, "caused concern for companies and investors because of the lack of consistency in reported results," according to the release.

#### Recent Public Comments by FASB Members

In speeches last month, FASB Chairman Robert Herz and Michael Crooch, a board colleague, both commented on prospects for the panel taking up stock options accounting in the early part of this year.

Repeating words he first offered in a November speech, Herz Dec. 12 tied the topic to convergence and to providing for better financial reporting. He noted that other national standard-setters are "going through a similar exercise on this whole subject"--that is, floating the IASB proposal on share-based payment for comment in countries that participate in the international board's rulemaking. Herz voiced a hope that in 2003 "we can all decide on a common approach. "But, again, the overriding goal is not just convergence but sound accounting and informative disclosure," continued the FASB chairman, who served on IASB as a part-time member as the international board began to consider stock compensation accounting.

For FASB, he said, the issue is not whether expensing options would have negative effects on capital formation or employee ownership. It also is not about promoting better corporate governance and curbing abuses of "excessive executive compensation," he added.

Rather, "it's about getting to the right accounting. So, in summary, we are going to have one more look at this area, try to make a decision, and then move on," Herz told accountants gathered at an annual conference of the American Institute of Certified Public Accountants in Washington.

"As important as the subject is, I hope you will agree that there already has been enough emotional, political and economic capital spent on it," he said, repeating words he had said in a speech at a November conference of Financial Executives International.

#### FEI Objections

FEI's president, Philip Livingston, has been one of the more vocal critics of IASB's intended path of expensing stock-based compensation. FEI is a member of an international stock options accounting coalition that opposes expensing. The coalition's lobbying work is led by high-technology companies and their trade groups.

Crooch, speaking Dec. 13 at the AICPA conference, predicted at that time the U.S. board "will put stock comp on the agenda" in early 2003.

He said he hopes there will not be debate on whether stock compensation represents an expense and whether grant date is the right time at which the value of stock-based compensation should be measured for recognition purposes. IASB spent ample time on those questions, Crooch said.

Copies of FASB Statement No. 148 can be obtained by calling the board's order department at 800-748-0659 or by placing an order at FASB's Web site at <http://www.fasb.org>.