

MINUTES



To: Board Members
From: Maffei, Ext. 273
Subject: Minutes of March 12, 2003 Board Meeting **Date:** March 13, 2003
cc: Bielstein, Smith, Petrone, Leisenring, Team, Mahoney, Thompson, Sutay, Gabriele; Swift and Polley (FASAC); Allen, Bean, and Patton (GASB); FASB Intranet

Topic: Agenda Decision to Reconsider the Accounting for Stock-Based Compensation

Basis for Discussion: Staff Memorandum dated March 4, 2003

Length of Discussion: 9:00 a.m. to 9:45 a.m.

Attendance:

Board members present: Herz, Crooch, Foster, Schieneman, Schipper, Trott, Wulff

Staff in charge of topic: Tovey

Other staff at Board table: Bielstein, Maffei

Summary for ACTION ALERT:

The Board reviewed and discussed the comment letters received in response to the FASB Invitation to Comment, *Accounting for Stock-Based Compensation: A Comparison of FASB Statement No. 123, Accounting for Stock-Based Compensation, and Its Related Interpretations, and IASB Proposed IFRS, Share-based Payment*. The Board also discussed issues relating to whether a project on stock-based compensation should be added to its agenda.

The Board decided to add a project on stock-based compensation to its agenda. The Board also decided that the project should be undertaken in cooperation with the IASB in order to achieve maximum convergence to a single, high-quality accounting standard on stock-based compensation. (Decisions were unanimous.)

Matters Discussed and Decisions Reached:

Mr. Tovey explained that as of February 28, 2003, the FASB had received 293 comment letters responding to the Invitation to Comment, with the majority coming from the preparer constituent group. He stated that the staff had analyzed the comment letters for purposes of recommending an agenda decision, but he noted that many of the letters contain information that would be valuable for the analysis of specific issues if the Board decided to add the project to its agenda.

Mr. Tovey described general and issue-specific observations made by the staff in the analysis of comment letters on the Invitation to Comment. He stated that comment letters on the Invitation to Comment and other current events provide a reasonable basis for the Board to add a project on stock-based compensation to its agenda.

Mr. Trott said that he views the Invitation to Comment responses as a collection of mixed views, rather than as a majority backing a particular stance; he stated further that those views need to be deliberated and explored. Mr. Herz pointed out that many of the comment letters do not address the specific questions included in the Invitation to Comment, but instead offer their opinions on whether the FASB should mandate the expensing of employee stock options. He also noted that letters from financial statement users are generally in favor of mandating expensing but that letters from financial statement preparers are generally opposed.

Mr. Tovey described four alternative courses of action the Board could take. He explained that the staff recommends adding a project on stock-based compensation undertaken in cooperation with the IASB because that alternative would (a) address the high level of user concern and interest relating to this issue, (b) reduce the amount of noncomparability that currently exists because of

the alternative acceptable accounting treatments, and (c) capitalize on an opportunity to maximize international convergence on this issue.

Ms. Schipper added that the existing treatment alternatives allowed under FASB Statement No. 123, *Stock-Based Compensation*, and APB Opinion No. 25, *Accounting for Stock Issued to Employees*, result in guidance that is voluminous and complex and further exacerbates noncomparability, which is another indication that a project addressing this issue is warranted.

Board members generally agreed with the staff recommendation to undertake a project on stock-based compensation in cooperation with the IASB. Some Board members stated that maximum convergence requires that the FASB and IASB take advantage of the opportunity to cooperate on this project in order to develop a single high-quality accounting standard.

Ms. Schipper said that in order to achieve maximum convergence, the FASB project needs to address all facets of stock-based compensation, as does the IASB project. She also noted that because the IASB has not been subject to the same level of scrutiny on certain measurement issues as the FASB, the FASB would have to focus more attention on those issues.

Regarding respondents' concerns about possible social consequences of an accounting standard, Mr. Foster explained that if employee stock option plans are important to companies as drivers of growth, companies would not be willing to eliminate those plans. He added that changes in behavior that result from the availability of better information should not deter the Board from pursuing the best accounting solution. Mr. Trott stated that this project should not focus on corporate governance issues related to stock-based compensation but that, rather, the project should focus on conceptual and technical issues to arrive at the highest quality standard. Mr. Trott further stated that the issue is not a matter of good or evil, but a matter of accurately reflecting the economics of transactions.

Mr. Foster noted that the differences between the Boards' conceptual approaches (that is, Statement 123's focus on the grant of the award versus the IFRS's focus on the promise to grant an award) are significant and that those differences will need to be resolved in order to converge on a single standard.

Mr. Schieneman also supports the staff recommendation, stating that a broader reconsideration would allow the Board time to address other issues, such as the lack of sufficient cash flow information related to stock-based compensation programs.

Mr. Wulff stated that he prefers a project approach that would rescind the Opinion 25 election because that option would be the most expedient and would address at least some of the users' concerns. He noted that that approach does not pose significant operational concerns because Statement 123 has proven to be operational since its issuance. However, Mr. Wulff stated that he does not object to the approach recommended by the staff.

Mr. Wulff expressed concern that decisions reached in the liabilities and equity project (Phase 2) might require the Board to readdress the stock-based compensation issues. Other Board members stated that the measurement and attribution issues relating to stock-based compensation are separable from the issues to be addressed in the liabilities and equity project and would need to be addressed regardless of the decisions made in that project.

Some Board members suggested that certain issues relating to stock-based compensation (such as measurement date, measurement method, and attribution for employee stock options) should be resolved before addressing other issues (such as employee stock ownership plans, employee stock purchase plans, and awards to nonemployees). Mr. Tovey stated that he believes that the sequence in which issues are addressed is important but that

the objective should be to address all the relevant issues in a single Exposure Draft.

Mr. Crooch said that a single document addressing all issues offers the best chance to achieve maximum convergence but that it is most important to converge on the issue of employee stock options. Mr. Herz stated that there is a sense of urgency stemming from users' concerns and the IASB's moratorium on issuing new standards beginning in April 2004. He said that he hopes an Exposure Draft would be issued this year and that a final Statement would be effective for 2004.

Follow-up Items:

Mr. Tovey is to prepare a detailed project plan.

General Announcements:

None.