



News Release

Financial Accounting Standards Board

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FASB PROPOSES STANDARDS FOR STOCK OPTION ACCOUNTING

NORWALK, CT, June 30, 1993--The Financial Accounting Standards Board issued a proposal today that would establish standards for stock-based compensation plans. Comments on the proposal are requested by December 31. The Board will hold public hearings on the issues early in 1994. During the comment period, the Board, in conjunction with KPMG Peat Marwick, will be conducting a field test of its proposal.

The Board's proposal would require companies to recognize an expense for all stock-based compensation awards, including stock options, granted after December 31, 1996. The expense would be measured as the fair value of the award at the grant date and would be recognized over the vesting period of the award. Beginning in 1994, companies would be required to provide note disclosures, including disclosures of the effect on net income and earnings per share, as if the new recognition requirements had been adopted. The proposal does not specify the type of option-pricing model to be used in determining the fair value of the option, but does provide guidance to help in selecting the assumptions to be used with the model.

FASB Chairman Dennis R. Beresford explained the Board's rationale behind the proposal: "The Board believes that stock options have value, and that value is

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compensation to the employee. Like other forms of compensation, this cost should be recognized in the income statement," he said. "An accounting standard that does not require costs to be recognized produces financial statements that are neither credible nor representationally faithful."

Diana Willis, an FASB project manager, said that the goal of the proposal is to standardize the accounting for stock options. "Depending on the type of option granted, current accounting practice produces inconsistent results. For example, current accounting requirements usually result in recognition of compensation costs for performance-based options, but no costs for fixed option plans. The Board believes that compensation costs should be recognized for both types of options."

Mr. Beresford noted that the delay in the recognition provisions of the proposal are meant to help employers become accustomed to using option-pricing models and for financial statement users to become accustomed to the new information. Also, he said, "it will give employers time to consider whether to change their stock-based compensation plans, the design of which may have been heavily influenced by current accounting requirements."

One copy of the proposal, "Accounting for Stock-Based Compensation." is available without charge until December 31 from the FASB Order Department, 401 Merritt 7, P.O. Box 5116, Norwalk, CT 06856-5116.

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