



FASB Causes Confusion with Grant Date Under FAS 123R

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The Financial Accounting Standards Board (FASB) met with the four major accounting firms to *clarify* [sic] that an equity award is not an equity award until there is a mutual understanding as to the key terms and conditions of the stock option or stock award. Simply stated, as the price of an equity award changes between the time a Board (or Compensation Committee) makes an award and when an employee is notified and agrees to the terms, any change in cost must be recorded.

Clearly, this new process is fraught with practical problems. Consider, for example, that companies may be forced into disclosing grants before they are approved by the Board. What power, or desire, would a Board have to not award an option to an executive recommended by the CEO that had been discussed with an executive? So much for Board independence!

Then, there is “when” and price. Suppose that a grant was made yesterday by the Board and communicated today when the price has gone down. Lest we forget, discounted stock options are not permitted by most shareholder approved equity plans. Again, so much for independent oversight and control by the Board!

This change in long standing practice was promulgated without public notice and debate. We suspect that the FASB will be under enormous pressure to reverse their poorly conceived position on this matter before FAS 123R becomes effective January 2006.