

CHRONOLOGY OF RECENT DEVELOPMENTS AND PROPOSED CHANGES

- **July 2002:** Several major U.S. corporations announce that they plan to begin expensing stock options. The IASB plans to issue a proposal requiring fair-value measurement with expense recognition over the vesting period of options.
 - **August 2002:** FASB reviews transition rules for recognizing stock option expenses. SFAS 123 prohibits expensing any portion of awards granted in prior years except for grants that have been modified or settled. FASB decides to allow several methods of expensing options: 1) prospectively (SFAS 123); 2) retroactively; or 3) prospectively, plus the unvested portion of previous awards. If a method other than SFAS 123 is used, companies must show pro forma net income and earnings per share.
 - **October 2002:** FASB issues an exposure draft, *Accounting for Stock-Based Compensation—Transition and Disclosure*, calling for all companies adopting SFAS 123 to report the full effect of options immediately. It also asks for better and more frequent (interim reporting) disclosure on stock options.
 - **December 2002:** SFAS 148, *Accounting for Stock-Based Compensation—Transition and Disclosure: An amendment of SFAS 123*, is issued. The statement provides alternative methods of reporting during transition, and disallows the prospective method after December 15, 2003. Additional disclosure is also required in the “Summary of Significant Accounting Policies,” and a specific tabular format is proscribed for pro forma disclosure.
 - **March 2003:** Fifteen U.S. senators urge FASB to reconsider expensing. They claim that FASB has simply assumed that expensing is correct and has prematurely moved ahead to the next step of proscribing format. FASB adds the expensing project to its agenda. In light of Enron and other scandals in which investors were harmed by insufficient information, the board believes that expensing should be mandatory, the approach should converge with global accounting standards, and that measurement should be improved.
 - **April 2003:** FASB votes unanimously to require expensing. Apple Computer announces that it will begin expensing option costs.
 - **May 2003:** FASB agrees to allow companies to reverse expenses previously recognized in the case of forfeitures.
 - **June 2003:** The Broad-Based Stock Option Plan Transparency Act is introduced in the House of Representatives. The bill would require enhanced disclosures and call for a three-year moratorium on new expensing rules. It has 44 sponsors.
 - **July 2003:** FASB continues to work on option valuation issues with its advisory board. This remains the most controversial issue for recognition. Microsoft announces that it will stop granting employee stock options.
 - **August 2003:** FASB defines modifications in stock option awards as any change in terms or conditions occurring as a result of the employment relationship. Any incremental value should be regarded as compensation.
 - **September 2003:** FASB decides that valuation should be based on the fair value of the option at the grant date. Option pricing models should take into consideration, at minimum, the six factors previously employed. Contractual life and the effect of early exercise should be factored into the formula. Changes in the expected forfeitures (prior to vesting) should be recognized immediately. The issuance of any rules is pushed back nine months. Over 350 companies indicate that they plan to expense options.
 - **October 2003:** FASB considers attribution rules and decides to retain the SFAS 123 rule that “recognized compensation cost related to vested, unexercised awards that expire not be reversed.” FASB meets with the IASB and AcSB to discuss convergence on share-based compensation income-tax effects and value measurement for options with reload features. They agree that tax effects should be allocated between the income statement and equity. Awards granted under reload features will be treated as new awards.
 - **October 2003:** FASB decides that disclosures should communicate:
 - The fair value of the award;
 - The effect of expensing on the income statement;
 - Cash flows related to options; and
 - Effect of options on dilution.
- The effective date for the proposed statement will cover grants, modifications, or settlements effective for the first fiscal year beginning after December 15, 2004. Transition reporting will apply a modified prospective method (expensing fair value for all grants awarded, modified, or settled during the period).
- **March 2004:** FASB issues Exposure Draft 1102-100, *Share-Based Payment*, with a comment deadline set for June 30, 2004. The proposed statement would require compensation costs for options granted to be recognized in financial statements using the fair value at the grant date. Excess tax benefits would be reported in the Statement of Cash Flows as cash flows from financing activities.
 - **April 2004:** The U.S. House of Representatives holds subcommittee hearings to delay the FASB action. Representative Richard Baker promotes a bill limiting option expensing to the top five highest-compensated company executives.
 - **May 2004:** SEC Chairman William Donaldson urges the House to drop legislation regarding option expensing. He points out that the Sarbanes-Oxley Act of 2002 reaffirmed FASB’s independence, and he believes that rule setting should be left to the board.
 - **May 2004:** H.R. 3574, the Stock Option Accounting Reform Act, is agreed to by a voice vote in the House of Representatives. It would limit option expensing to top executives, exempt small businesses from expensing rules, and allow newly public companies to delay expensing for the first three years. The Financial Accounting Foundation expresses concern that, if enacted, this act would hamper international convergence of standards.
 - **June 30, 2004:** 4,807 comment letters on the exposure draft have been logged. The majority of the letters are from employees of large companies (e.g., Cisco, Intel) and oppose expensing for fear it will cause companies to discontinue offering options. Letters from investors tend to urge expensing to improve financial information in statements.
 - **December 2004:** FASB issues SFAS 123 (Revised), *Share-Based Payment*, effective the first interim or annual reporting period beginning after June 15, 2005 (December 15, 2005, for small businesses).
 - **April 14, 2005:** The SEC delays the effective date for large companies. Expensing of options is required for the fiscal year beginning after December 15, 2005. For companies issuing interim financial statements, this could begin as early as the third quarter of 2005.