

August 26, 1996

**FASB APPROVES
"REPAIRS AND MAINTENANCE" PROJECT
ON OPINION 25 -- ACCOUNTING FOR STOCK
ISSUED TO EMPLOYEES**

The Financial Accounting Standards Board (FASB) met on August 21 and decided to add a project to its agenda to address various issues that have arisen over the years in interpreting APB Opinion 25, "Accounting for Stock Issued to Employees."

Adopted in 1972, Opinion 25 governs expense on the income statement for company stock and stock options granted to employees. FAS 123, "Accounting for Stock-Based Compensation," was issued in October 1995 as an alternative to Opinion 25 for expense-recognition purposes and to provide expanded disclosure of equity grants to employees and their related costs.

Opinion 25 remains the standard of choice for recognizing stock-based compensation expense in financial statements, primarily because it results in no compensation expense for plain-vanilla stock options granted at market price to employees. However, a number of issues have accumulated over the years as to how Opinion 25 should be applied to evolving forms of grants and practices. The following are some of the issues that will be considered in the new project.

1. Should companies continue to account for stock or options granted to outside directors under Opinion 25?
 - Opinion 25 is limited to employees
 - Company directors are technically not employees
2. When grants are made under a plan which has not yet been approved by shareholders and such grants are conditioned on that approval, when is the measurement date for fixing compensation expense -- the grant date or the approval date?
3. How should dividends on restricted stock awards be accounted for?

In the early stages of the project a full list of open issues will be developed, perhaps with input from the business community. However, FASB will not be reviewing the whole subject of Opinion 25 accounting for stock options so soon after issuing FAS 123. They are committed not to reopen the basic measurement-date and measurement-method principles of Opinion 25. Nonetheless, we would expect the FASB, in resolving Opinion 25 issues, to narrowly construe the scope of the Opinion and fixed-grant applications.

The timing of project completion is uncertain because the FASB also added other projects to its agenda at the August 21 meeting.

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Questions specific to a company's existing practices should be addressed to the company's accounting staff. General questions may be addressed to Fred Cook at (212) 986-6330. Other alert letters containing information on accounting for employee stock plans and other compensation issues may be accessed at our web site, <http://www.FredericWCook.Com>.