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For Immediate Release

FASB Issues Final Statement on Accounting for Share-Based Payment

Norwalk, CT, December 16, 2004—Today, the FASB published FASB Statement No. 123 (revised 2004), *Share-Based Payment*. Statement 123(R) will provide investors and other users of financial statements with more complete and neutral financial information by requiring that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. This Statement is the result of a two-year effort to respond to requests from investors and many others that the FASB improve the accounting for share-based payment arrangements with employees.

Said Michael Crooch, FASB Board member and Board collaborator on the project, “Recognizing the cost of share-based payments in the financial statements improves the relevance, reliability, and comparability of that financial information and helps users of financial information to understand better the economic transactions affecting an enterprise and supports resource allocation decisions.”

Public entities (other than those filing as small business issuers) will be required to apply Statement 123(R) as of the first interim or annual reporting period that begins after June 15, 2005. Public entities that file as small business issuers will be required to apply Statement 123(R) in the first interim or annual reporting period that begins after December 15, 2005. The FASB decided to provide nonpublic entities additional time to prepare for the implementation of Statement 123(R). Those entities will not be required to apply Statement 123(R) until the beginning of the first annual reporting period after December 15, 2005.

Statement 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans.

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In addition to the accounting standard that sets forth the financial reporting objectives and related accounting principles, Statement 123(R) includes an appendix of implementation guidance that provides expanded guidance on measuring the fair value of share-based payment awards. In developing that guidance, the FASB included several special measurement provisions for private companies designed to ease implementation. The implementation guidance also includes numerous examples illustrating the accounting for common types of share-based payment arrangements.

Statement 123(R) replaces FASB Statement No. 123, *Accounting for Stock-Based Compensation*, and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*. Statement 123, as originally issued in 1995, established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, that Statement permitted entities the option of continuing to apply the guidance in Opinion 25, as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair-value-based method been used. Although those disclosures helped to mitigate the problems associated with accounting under Opinion 25, many investors and other users of financial statements said that the failure to include employee compensation costs in the income statement impaired the transparency, comparability, and credibility of financial statements.

Currently, approximately 750 public companies in the U.S. are voluntarily applying Statement 123's fair-value-based method of accounting for share-based payments or have announced plans to do so. The International Accounting Standards Board, whose standards are followed by companies in many countries around the world, and the Canadian Accounting Standards Board have previously issued accounting standards requiring entities in their respective jurisdictions to recognize the cost of employee services received in share-based payment transactions in financial statements.

Since adding the project to its agenda in March 2003, the FASB held 60 public meetings, conducted field visits with companies and employee benefit consultants, held public roundtables, consulted with numerous valuation experts, companies, auditors, and many others, and reviewed thousands of comment letters from interested parties. Commenting on the Statement, FASB Chairman Robert H. Herz said "We recognize the significant level of interest in this subject and very much appreciate the many views and input that were shared with the Board during the past two years. This Statement is the outcome of a very extensive due process."

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The full text of the Statement and related appendices is currently available on the FASB's website. Copies of Statement 123(R) are scheduled to be available on December 22, 2004, through the FASB Order Department at 800-748-0659 or by placing an order on the FASB website at www.fasb.org.

About the Financial Accounting Standards Board

Since 1973, the Financial Accounting Standards Board has been the designated organization in the private sector for establishing standards of financial accounting and reporting. Those standards govern the preparation of financial reports and are officially recognized as authoritative by the Securities and Exchange Commission and the American Institute of Certified Public Accountants. Such standards are essential to the efficient functioning of the economy because investors, creditors, auditors, and others rely on credible, transparent, and comparable financial information. For more information about the FASB, visit our website at www.fasb.org.

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